

REFINITIV

# DELTA REPORT

## 10-Q

CARTER BANKSHARES, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1831
CHANGES	405
DELETIONS	750
ADDITIONS	676

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 **September 30, 2023** **March 31, 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**

(I.R.S. Employer Identification No.)

**1300 Kings Mountain Road**

**Martinsville**

**Virginia**

**24112**

(Address of principal executive offices)

(Zip Code)

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

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 **October 23, 2023** **April 30, 2024** there were **22,955,753** **23,015,086** 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)	September 30, 2023 (unaudited)	December 31, 2022 (audited)		March 31, 2024 (unaudited)	December 31, 2023 (audited)
<b>ASSETS</b>	<b>ASSETS</b>					
Cash and Due From Banks, including Interest-bearing Deposits of \$17,438 at September 30, 2023 and \$4,505 at December 31, 2022		\$ 55,398	\$ 46,869			
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						
<b>Total Cash and Cash Equivalents</b>		<b>55,398</b>	<b>46,869</b>			
Securities Available-for-Sale, at Fair Value (amortized cost of \$912,989 and \$945,707, respectively)		793,389	836,273			
Loans Held-for-Sale		—	—			
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 \$858,256 and \$870,546, respectively)						
Securities Available-for-Sale, at Fair Value (amortized cost of \$858,256 and \$870,546, respectively)						

Portfolio Loans			
Portfolio Loans			
Portfolio Loans	Portfolio Loans	3,410,940	3,148,913
Allowance for Credit Losses			
Allowance for Credit Losses	Allowance for Credit Losses	(94,474)	(93,852)
Portfolio Loans, net	Portfolio Loans, net	3,316,466	3,055,061
Bank Premises and Equipment, net			
Bank Premises and Equipment, net			
Bank Premises and Equipment, net	Bank Premises and Equipment, net	73,932	72,114
Other Real Estate Owned, net			
Other Real Estate Owned, net			
Other Real Estate Owned, net	Other Real Estate Owned, net	3,765	8,393
Federal Home Loan Bank Stock, at Cost			
Federal Home Loan Bank Stock, at Cost	Federal Home Loan Bank Stock, at Cost	27,361	9,740
Bank Owned Life Insurance			
Bank Owned Life Insurance	Bank Owned Life Insurance	57,762	56,734
Other Assets	Other Assets	124,095	119,335
Total Assets	Total Assets	\$4,452,168	\$4,204,519
LIABILITIES			
LIABILITIES			
LIABILITIES			
Deposits:			
Deposits:			
Deposits:			
Noninterest-Bearing Demand			
Noninterest-Bearing Demand			
Noninterest-Bearing Demand	Noninterest-Bearing Demand	\$ 661,454	\$ 703,334
Interest-Bearing Demand	Interest-Bearing Demand	469,904	496,948
Money Market	Money Market	426,172	484,238
Savings	Savings	487,105	684,287
Certificates of Deposit	Certificates of Deposit	1,511,554	1,261,526
Total Deposits	Total Deposits	3,556,189	3,630,333
Total Deposits			
Total Deposits			
Federal Home Loan Bank Borrowings			
Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	514,135	180,550
Federal Funds Purchased	Federal Funds Purchased	—	17,870
Reserve for Unfunded Commitments			
Reserve for Unfunded Commitments			
Reserve for Unfunded Commitments			
Other Liabilities	Other Liabilities	51,223	47,139
Total Liabilities	Total Liabilities	4,121,547	3,875,892
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			

Common Stock, Par Value \$1.00 per share, Authorized 100,000,000 Shares; Outstanding shares 22,955,753 at September 30, 2023 and 23,956,772 at December 31, 2022	22,956	23,957
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SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

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

Additional Paid-in Capital	Additional Paid-in Capital	90,254	104,693
Retained Earnings	Retained Earnings	310,971	285,593
Accumulated Other Comprehensive Loss	Accumulated Other Comprehensive Loss	(93,560)	(85,616)
Total Shareholders' Equity	Total Shareholders' Equity	330,621	328,627
Total Liabilities and Shareholders' Equity	Total Liabilities and Shareholders' Equity	\$4,452,168	\$4,204,519

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 September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
(Dollars in Thousands Except per Share Data)					
	2024				
	2024				
INTEREST INCOME					
INTEREST INCOME					
INTEREST INCOME	INTEREST INCOME				
Loans, including fees	Loans, including fees				
Loans, including fees					
Loans, including fees					
Taxable					
Taxable					
Taxable	Taxable	\$ 39,578	\$ 35,652	\$ 117,235	\$ 94,720

Non-Taxable	Non-Taxable	768	881	2,403	2,749
Non-Taxable					
Non-Taxable					
Investment Securities					
Investment Securities					
Investment Securities	Investment Securities				
Taxable	Taxable	7,793	5,466	22,874	13,650
Taxable					
Taxable					
Non-Taxable					
Non-Taxable					
Non-Taxable	Non-Taxable	160	170	488	524
Federal Reserve Bank	Federal Reserve Bank				
Excess Reserves	Excess Reserves	165	134	553	229
Federal Reserve Bank Excess Reserves					
Federal Reserve Bank Excess Reserves					
Interest on Bank Deposits					
Interest on Bank Deposits					
Interest on Bank	Interest on Bank				
Deposits	Deposits	6	—	33	28
Dividend Income	Dividend Income	416	24	971	66
Dividend Income					
Dividend Income					
Total Interest Income					
Total Interest Income					
Total Interest Income	Total Interest Income	48,886	42,327	144,557	111,966
Interest Expense	Interest Expense				
Interest Expense					
Interest Expense					
Interest Expense on Deposits					
Interest Expense on Deposits					
Interest Expense on	Interest Expense on				
Deposits	Deposits	15,328	4,469	34,629	13,280
Interest Expense on	Interest Expense on				
Federal Funds	Federal Funds				
Purchased	Purchased	107	23	354	27
Interest Expense on Federal Funds Purchased					
Interest Expense on Federal Funds Purchased					
Interest on Other Borrowings					
Interest on Other Borrowings					
Interest on Other	Interest on Other				
Borrowings	Borrowings	6,057	110	14,684	253
Total Interest Expense	Total Interest Expense	21,492	4,602	49,667	13,560
Total Interest Expense					
Total Interest Expense					
NET INTEREST INCOME	NET INTEREST INCOME	27,394	37,725	94,890	98,406
Provision (Recovery) for Credit Losses		1,105	(77)	2,605	2,367
NET INTEREST INCOME					
NET INTEREST INCOME					

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	(Recovery) Provision for Unfunded Commitments	(130)	157	314	190
Net Interest Income After Provision for Credit Losses	Net Interest Income After Provision for Credit Losses				
Net Interest Income After Provision for Credit Losses	Net Interest Income After Provision for Credit Losses				
NONINTEREST INCOME	NONINTEREST INCOME				
(Losses) Gains on Sales of Securities, net		(1)	(4)	(10)	48
NONINTEREST INCOME					
NONINTEREST INCOME					
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					
Service Charges, Commissions and Fees	Service Charges, Commissions and Fees	1,783	1,750	5,380	5,452
Debit Card Interchange Fees	Debit Card Interchange Fees				
Fees	Fees	1,902	1,788	5,941	5,570
Debit Card Interchange Fees					
Debit Card Interchange Fees					
Insurance Commissions					
Insurance Commissions					
Insurance Commissions	Insurance Commissions	868	876	1,550	1,713
Bank Owned Life Insurance Income	Bank Owned Life Insurance Income				
Insurance Income	Insurance Income	348	341	1,028	1,009
(Losses) Gains on Sales and Write-downs of Bank Premises, net		—	(4)	—	342
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	Commercial Loan Swap Fee Income	—	18	114	774
Other	Other	370	470	1,030	1,266
Other					
Other					
Total Noninterest Income					
Total Noninterest Income					

Total Noninterest Income	Total Noninterest Income	5,270	5,235	15,033	16,174
NONINTEREST EXPENSE	NONINTEREST EXPENSE				
NONINTEREST EXPENSE					
NONINTEREST EXPENSE					
Salaries and Employee Benefits					
Salaries and Employee Benefits					
Salaries and Employee Benefits	Salaries and Employee Benefits	13,956	13,520	41,257	37,721
Occupancy Expense, net	Occupancy Expense, net	3,547	3,412	10,548	10,060
Occupancy Expense, net					
Occupancy Expense, net					
FDIC Insurance Expense					
FDIC Insurance Expense					
FDIC Insurance Expense	FDIC Insurance Expense	1,368	543	2,711	1,540
Other Taxes	Other Taxes	846	848	2,436	2,471
Other Taxes					
Other Taxes					
Advertising Expense					
Advertising Expense					
Advertising Expense	Advertising Expense	363	368	1,133	874
Telephone Expense	Telephone Expense	500	448	1,339	1,390
Telephone Expense					
Telephone Expense					
Professional and Legal Fees	Professional and Legal Fees	1,512	1,310	4,005	3,731
Professional and Legal Fees					
Professional and Legal Fees					
Data Processing					
Data Processing					
Data Processing	Data Processing	1,076	833	2,854	2,516
Debit Card Expense	Debit Card Expense	816	797	2,066	2,089
Tax Credit Amortization		—	(764)	—	466
Debit Card Expense					
Debit Card Expense					
Other					
Other					
Other	Other	3,298	2,148	8,045	6,526
Total Noninterest Expense	Total Noninterest Expense	27,282	23,463	76,394	69,384
Total Noninterest Expense					
Total Noninterest Expense					
Income Before Income Taxes					
Income Before Income Taxes					
Income Before Income Taxes	Income Before Income Taxes	4,407	19,417	30,610	42,639
Income Tax Provision	Income Tax Provision	780	5,009	5,338	8,130
Income Tax Provision					
Income Tax Provision					



Net Income									
Net Income									
Net Income	Net Income	\$	3,627	\$	14,408	\$	25,272	\$	34,509
Earnings per Common Share	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	Basic Earnings per Common Share	\$	0.16	\$	0.59	\$	1.07	\$	1.38
Diluted Earnings per Common Share	Diluted Earnings per Common Share	\$	0.16	\$	0.59	\$	1.07	\$	1.38
Diluted Earnings per Common Share									
Diluted Earnings per Common Share									
Average Shares Outstanding – Basic & Diluted	Average Shares Outstanding – Basic & Diluted								
		22,946,179		24,265,075		23,407,071		24,827,143	
Average Shares Outstanding – Basic & Diluted									
Average Shares Outstanding – Basic & Diluted									

See accompanying notes to unaudited consolidated financial statements.

## CARTER BANKSHARES, INC.

### PART 1

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

#### CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Income	\$ 3,627	\$ 14,408	\$ 25,272	\$ 34,509
Other Comprehensive Loss:				
Net Unrealized Losses on Securities Available-for-Sale:				
Net Unrealized Losses Arising during the Period	(14,773)	(33,326)	(10,176)	(111,360)
Reclassification Adjustment for Losses (Gains) included in Net Income	1	4	10	(48)
Tax Effect	3,197	6,998	2,222	23,396
Net Unrealized Losses Recognized in Other Comprehensive Loss	(11,575)	(26,324)	(7,944)	(88,012)
Other Comprehensive Loss	(11,575)	(26,324)	(7,944)	(88,012)
<b>Comprehensive (Loss) Income</b>	<b>\$ (7,948)</b>	<b>\$ (11,916)</b>	<b>\$ 17,328</b>	<b>\$ (53,503)</b>

(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

Comprehensive Income	\$	7,454	\$	28,193
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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**

(Dollars in Thousands)	Three Months Ended September 30, 2023				
	Common	Additional	Retained	Accumulated	Total
	Stock	Paid-in	Earnings	Other Comprehensive Loss	Shareholders' Equity
<b>Balance at June 30, 2023</b>	\$ 23,372	\$ 95,506	\$ 307,344	\$ (81,985)	\$ 344,237
Net Income	—	—	3,627	—	3,627
Other Comprehensive Loss, Net of Tax	—	—	—	(11,575)	(11,575)
1% Excise Tax on Stock Buybacks	—	(60)	—	—	(60)
Repurchase of Common Stock (416,176 shares)	(416)	(5,587)	—	—	(6,003)
Forfeiture of Restricted Stock (590 shares)	—	—	—	—	—
Issuance of Restricted Stock (684 shares)	—	—	—	—	—
Recognition of Restricted Stock Compensation Expense	—	395	—	—	395
<b>Balance at September 30, 2023</b>	\$ 22,956	\$ 90,254	\$ 310,971	\$ (93,560)	\$ 330,621

(Dollars in Thousands)	Three Months Ended March 31, 2024				
	Common	Additional	Retained	Accumulated	Total
	Stock	Paid-in	Earnings	Other Comprehensive Loss	Shareholders' Equity
<b>Balance at December 31, 2023</b>	\$ 22,957	\$ 90,642	\$ 309,083	\$ (71,439)	\$ 351,243
Net Income	—	—	5,811	—	5,811
Other Comprehensive Income, Net of Tax	—	—	—	1,643	1,643
Forfeiture of Restricted Stock (5,658 shares)	(6)	(66)	—	—	(72)
Issuance of Restricted Stock (69,896 shares)	70	(70)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	441	—	—	441
<b>Balance at March 31, 2024</b>	\$ 23,021	\$ 90,947	\$ 314,894	\$ (69,796)	\$ 359,066

(Dollars in Thousands)	Three Months Ended September 30, 2022				
	Common	Additional Paid-in	Retained Earnings	Accumulated Other	Total Shareholders'
	Stock	Capital		Comprehensive Loss	Equity
<b>Balance at June 30, 2022</b>	\$ 24,577	\$ 113,975	\$ 255,576	\$ (59,986)	\$ 334,142
Net Income	—	—	14,408	—	14,408
Other Comprehensive Loss, Net of Tax	—	—	—	(26,324)	(26,324)
Repurchase of Common Stock (464,208 shares)	(464)	(7,252)	—	—	(7,716)
Forfeiture of Restricted Stock (2,098 shares)	(2)	2	—	—	—
Recognition of Restricted Stock Compensation Expense	—	306	—	—	306
<b>Balance at September 30, 2022</b>	\$ 24,111	\$ 107,031	\$ 269,984	\$ (86,310)	\$ 314,816

Nine Months Ended September 30, 2023					
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	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 January 1, 2023	\$ 23,957	\$ 104,693	\$ 285,593	\$ (85,616)	\$ 328,627
Net Income	—	—	25,272	—	25,272
Other Comprehensive Loss, Net of Tax	—	—	—	(7,944)	(7,944)
Cumulative Effect of the Adoption of ASU 2023-02	—	—	106	—	106
1% Excise Tax on Stock Buybacks	—	(153)	—	—	(153)
Repurchase of Common Stock (1,132,232 shares)	(1,132)	(15,284)	—	—	(16,416)
Forfeiture of Restricted Stock (4,284 shares)	(4)	(38)	—	—	(42)
Issuance of Restricted Stock (135,497 shares)	135	(135)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	1,171	—	—	1,171
Balance at September 30, 2023	\$ 22,956	\$ 90,254	\$ 310,971	\$ (93,560)	\$ 330,621

	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

	Nine Months Ended September 30, 2022				
(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2022	\$ 26,431	\$ 143,988	\$ 235,475	\$ 1,702	\$ 407,596
Net Income	—	—	34,509	—	34,509
Other Comprehensive Loss, Net of Tax	—	—	—	(88,012)	(88,012)
Repurchase of Common Stock (2,433,801 shares)	(2,434)	(37,697)	—	—	(40,131)
Forfeiture of Restricted Stock (12,751 shares)	(13)	(143)	—	—	(156)
Issuance of Restricted Stock (126,804 shares)	127	(127)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	1,010	—	—	1,010
Balance at September 30, 2022	\$ 24,111	\$ 107,031	\$ 269,984	\$ (86,310)	\$ 314,816

See accompanying notes to unaudited consolidated financial statements.

## CARTER BANKSHARES, INC.

### PART 1

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

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30,
---------------------------------

		Three Months Ended March 31,		Three Months Ended March 31,		
(Dollars in Thousands)	(Dollars in Thousands)	2023	2022	(Dollars in Thousands)	2024	2023
Net Income	Net Income	\$ 25,272	\$ 34,509			
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities					
Provision for Credit Losses, including Provision for Unfunded Commitments	Provision for Credit Losses, including Provision for Unfunded Commitments	2,919	2,557			
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	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	Origination of Loans Held-for-Sale	(5,524)	(7,017)			
Proceeds From Loans Held-for-Sale	Proceeds From Loans Held-for-Sale	5,614	7,399			
Depreciation/Amortization of Bank Premises and Equipment	Depreciation/Amortization of Bank Premises and Equipment	4,689	4,494			
Provision for Deferred Taxes	Provision for Deferred Taxes	256	1,697			
Net Amortization of Securities	Net Amortization of Securities	3,696	4,540			
Tax Credit Amortization	Tax Credit Amortization	1,438	466			
Gains on Sales of Mortgage Loans Held-for-Sale	Gains on Sales of Mortgage Loans Held-for-Sale	(90)	(154)			
Losses (Gains) on Sales of Securities, net	Losses (Gains) on Sales of Securities, net	10	(48)			
Gains on Sales of Loans Held-for-Sale	Gains on Sales of Loans Held-for-Sale					
Losses on Sales of Securities, net	Losses on Sales of Securities, net					
Commercial Loan Swap Derivative Income	Commercial Loan Swap Derivative Income	(90)	(738)			
Commercial Loan Swap Derivative Income	Commercial Loan Swap Derivative Income					
Commercial Loan Swap Derivative Income	Commercial Loan Swap Derivative Income					
Increase in the Value of Life Insurance Contracts	Increase in the Value of Life Insurance Contracts					
Increase in the Value of Life Insurance Contracts	Increase in the Value of Life Insurance Contracts					
Increase in the Value of Life Insurance Contracts	Increase in the Value of Life Insurance Contracts	(1,028)	(1,009)			
Recognition of Restricted Stock Compensation Expense	Recognition of Restricted Stock Compensation Expense	1,171	1,010			
(Increase) Decrease in Other Assets	(Increase) Decrease in Other Assets	(826)	694			
Decrease in Other Assets	Decrease in Other Assets					
Increase (Decrease) in Other Liabilities	Increase (Decrease) in Other Liabilities	1,348	(702)			

Net Cash Provided By Operating Activities	Net Cash Provided By Operating Activities	38,855	47,698
INVESTING ACTIVITIES	INVESTING ACTIVITIES		
Securities Available-for-Sale:	Securities Available-for-Sale:		
Proceeds from Sales		15,054	19,777
Securities Available-for-Sale:			
Securities Available-for-Sale:			
Proceeds from Maturities, Redemptions, and Pay-downs			
Proceeds from Maturities, Redemptions, and Pay-downs			
Proceeds from Maturities, Redemptions, and Pay-downs	Proceeds from Maturities, Redemptions, and Pay-downs	38,896	71,146
Purchases	Purchases	(24,938)	(135,634)
Purchase of Bank Premises and Equipment, Net	Purchase of Bank Premises and Equipment, Net	(7,979)	(4,191)
Proceeds from Sales of Bank Premises and Equipment, net		—	408
Purchase of Federal Home Loan Bank Stock, net		(17,621)	(840)
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	Loan Originations, net	(264,010)	(224,839)
Payments Received on Other Real Estate Owned	Payments Received on Other Real Estate Owned	299	320
Proceeds from Sales of Other Real Estate Owned		4,818	3,742
Net Cash Used In Investing Activities		(255,481)	(270,111)
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			
Net Cash Provided By (Used In) Investing Activities			
FINANCING ACTIVITIES	FINANCING ACTIVITIES		
Net Change in Demand, Money Markets and Savings Accounts	Net Change in Demand, Money Markets and Savings Accounts	(324,172)	123,118
Increase (Decrease) in Certificates of Deposits		250,028	(95,665)
Proceeds on Federal Home Loan Bank Borrowings, net		333,585	23,000
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			
Repayments on Federal Funds Purchased, net	(17,870)	—	
Repurchase of Common Stock	(16,416)	(40,131)	
<b>Net Cash Provided by Financing Activities</b>	<b>225,155</b>	<b>10,322</b>	
Net Increase (Decrease) in Cash and Cash Equivalents	8,529	(212,091)	
<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	Cash and Cash Equivalents at		
Beginning of Period	Beginning of Period	46,869	277,799
Cash and Cash Equivalents at	Cash and Cash Equivalents at		
End of Period	End of Period	\$ 55,398	\$ 65,708
<b>SUPPLEMENTARY DATA</b>	<b>SUPPLEMENTARY DATA</b>		
<b>SUPPLEMENTARY DATA</b>			
<b>SUPPLEMENTARY DATA</b>			
Cash Interest Paid			
Cash Interest Paid			
Cash Interest Paid	Cash Interest Paid	\$ 45,031	\$ 13,698
Cash Paid for Income Taxes	Cash Paid for Income Taxes	5,658	3,253
Transfer from Loans to Other			
Real Estate Owned			
Transfer from Fixed Assets to Other Real Estate Owned	1,388	1,584	
Right-of-use Asset Recorded in Exchange for Lease Liabilities	—	3,391	
Stock Repurchase Excise Tax Settled in Subsequent Period	(153)	—	
Loans Transferred to Held-for-Sale	—	1,513	

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, 2022](#) [December 31, 2023](#), filed with the Securities and Exchange Commission (“SEC”), on [March 10, 2023](#) [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. [Information](#)

available which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy, and changes in the financial condition of borrowers.

#### Accounting Standards Adopted in 2023

In March 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards ("ASU") No. 2023-02, Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method. The amendments in this ASU expands the use of the proportional amortization method of accounting, previously only allowable for Low Income Tax Housing Credits, ("LITHC") investments, to equity investments in other tax credit structures that meet certain criteria. This guidance is effective for public business entities for fiscal years including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted in any interim period. The Company reviewed its existing tax equity investment portfolios and evaluated the impact of the updated guidance on its Consolidated Financial Statements and elected to early adopt the amendments in this ASU as of June 30, 2023 on a modified retrospective basis, effective dated as of January 1, 2023. As a result, the Company recorded a transitional adjustment of \$0.1 million to retained earnings. 2024

The Company makes equity investments as a limited partner in various partnerships that sponsor historic tax credits ("HTC") as a strategic tax initiative designed to receive tax credits and other tax benefits, such as deductible flow-through losses. The Company has evaluated all of the proportional amortization method qualifying criteria and has elected to apply the proportional amortization method at the HTC program level. The Company records the investment in the HTC as a component of other assets and uses the proportional amortization method to account for the investments in the HTC partnerships. Amortization related to these HTC investments is recorded on a net basis as a component of the provision for income taxes on the Consolidated Statements of Income. Prior to the ASU adoption, amortization was recorded as a component of noninterest expense on the Consolidated Statements of Income. The amendments in this ASU did not materially impact our Consolidated Financial Statements. adopt any Accounting Standards Updates ("ASU") during the three months ended March 31, 2024.

#### Accounting Standards Issued but Not Yet Adopted

In March 2020, On March 29, 2024 the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation 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 Effects of Reference Rate Reform on Financial Reporting. 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 this 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.

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 optional guidance additional information for reconciling items meeting a limited period of time quantitative threshold, and to ease disclose certain selected categories within the potential burden in accounting for, or recognizing the effects of reference income tax rate reform on financial reporting. reconciliation. The ASU also provides optional expedients requires entities to disclose the amount of income taxes paid, disaggregated by federal, state and exceptions foreign taxes. The ASU is effective for applying GAAP 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 loan 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 lease agreements, derivative 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)

#### contracts, Recently Issued Disclosure Rules

In March 2024, the U.S. Securities and other transactions affected by 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 disclosure requirements will start to phase-in commencing with the anticipated transition away from the London Interbank Offered Rate ("LIBOR") toward new interest rate benchmarks. Modified contracts that meet certain scope guidance are eligible for relief from the modification accounting requirements in GAAP. The optional guidance generally allows for the modified contract to be accounted for as a continuation of the existing contract and does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. The amendments in this ASU are effective for all entities between March 12, 2020 and December 31, 2022. In December 2022, the FASB issued ASU No 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848. The amendments in this ASU defer the sunset date for applying the reference rate reform relief by two years to December 31, 2024, and can be adopted at any time during this period. The Company ceased originating new LIBOR based variable rate loans as of December 31, 2021 per the ARRC's guidance. The Company created an internal team in 2021 to identify and modify loans and other financial instruments with attributes that are either directly or indirectly influenced by LIBOR. The Company has selected one-month term Secured Overnight Financing Rate, ("SOFR"), (published by the CME Group) as the replacement benchmark for LIBOR based loans. The financial impact regarding pricing, valuation and operations of the transition has been evaluated and is not expected to be material in nature. The transition team has fully committed to working within the guidelines established by the United Kingdom's Financial Conduct Authority and the Federal Reserve System of New York's Alternative Reference Rate Committee to complete a smooth transition away from LIBOR. For existing LIBOR-based loans, remediation efforts were completed by September 30, 2023 Company's fiscal year beginning January 1, 2026.

CARTER BANKSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,		Three Months Ended March 31,	
		Three Months Ended March 31,			
(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)	2023	2022	2023	2022
Numerator for Earnings per Common Share – Basic and Diluted	Numerator for Earnings per Common Share – Basic and Diluted				
Numerator for Earnings per Common Share – Basic and Diluted					
Numerator for Earnings per Common Share – Basic and Diluted					
Net Income					
Net Income					
Net Income	Net Income	\$ 3,627	\$ 14,408	\$ 25,272	\$ 34,509
Less: Income allocated to participating shares	Less: Income allocated to participating shares	33	92	208	199
Less: Income allocated to participating shares					
Less: Income allocated to participating shares					
Net Income Allocated to Common Shareholders - Basic & Diluted					
Net Income Allocated to Common Shareholders - Basic & Diluted					
Net Income Allocated to Common Shareholders - Basic & Diluted					
Net Income Allocated to Common Shareholders - Basic & Diluted					
Net Income Allocated to Common Shareholders - Basic & Diluted	Net Income Allocated to Common Shareholders - Basic & Diluted	\$ 3,594	\$ 14,316	\$ 25,064	\$ 34,310
Denominator:	Denominator:				
Denominator:					
Denominator:					
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	Weighted Average Shares Outstanding, including Shares Considered Participating Securities	23,157,563	24,421,264	23,600,946	24,970,993



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.

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

REFINITIV CORPORATE DISCLOSURES | [www.refinitiv.com](http://www.refinitiv.com) | Contact Us

Asset Backed	Asset Backed				
Securities	Securities	151,788	—	(14,713)	137,075
Collateralized	Collateralized				
Mortgage	Mortgage				
Obligations	Obligations	178,559	—	(15,253)	163,306
States and	States and				
Political	Political				
Subdivisions	Subdivisions	279,302	—	(56,658)	222,644
Corporate	Corporate				
Notes	Notes	70,750	—	(13,226)	57,524
<b>Total Debt</b>	<b>Total Debt</b>				
<b>Securities</b>	<b>Securities</b>	<b>\$ 912,989</b>	<b>\$ 865</b>	<b>\$(120,465)</b>	<b>\$793,389</b>

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

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





U.S. Government Agency Securities	U.S. Government Agency Securities	6	5,562	(71)	14	16,450	(838)	20	22,012	(909)
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	—	—	—	43	97,562	(13,988)	43	97,562	(13,988)
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	3	846	(4)	50	19,192	(951)	53	20,038	(955)
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	1	1,844	(673)	8	19,260	(2,811)	9	21,104	(3,484)
Asset Backed Securities	Asset Backed Securities	2	2,535	(118)	52	134,540	(14,595)	54	137,075	(14,713)
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	—	—	—	85	163,306	(15,253)	85	163,306	(15,253)
States and Political Subdivisions	States and Political Subdivisions	1	1,190	(121)	160	221,254	(56,537)	161	222,444	(56,658)
Corporate Notes	Corporate Notes	—	—	—	21	57,524	(13,226)	21	57,524	(13,226)
<b>Total Debt Securities</b>	<b>Total Debt Securities</b>	<b>13</b>	<b>\$11,977</b>	<b>\$ (987)</b>	<b>437</b>	<b>\$742,192</b>	<b>\$(119,478)</b>	<b>450</b>	<b>\$754,169</b>	<b>\$(120,465)</b>

December 31, 2023										De
Less Than 12 Months										Less Than 12 Months or 12 Months or More
(Dollars in Thousands)										(Dollars in Thousands)
										Number of Securities
										Fair Value
										Unrealized Losses
										Number of Securities
										Fair Value
										Unrealized Losses
										Number of Securities
										Fair Value
										Unrealized Losses

December 31, 2022									
Less Than 12 Months				12 Months or More			Total		
Number				Number			Number		
of				of			of		
Fair				Fair			Fair		
Unrealized				Unrealized			Unrealized		
(Dollars in Thousands)	Securities	Value	Losses	Securities	Value	Losses	Securities	Value	Losses
U.S. Treasury Securities	3	\$ 14,080	\$ (789)	2	\$ 3,786	\$ (663)	5	\$ 17,866	\$ (1,452)

U.S. Treasury Securities	3	\$	14,080	\$	(789)	2	\$	3,786	\$	(663)	5	\$	17,866	\$	(1,452)
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U.S. Government Agency Securities	
U.S. Government Agency Securities	

U.S. Government Agency Securities	U.S. Government Agency Securities	6	5,337	(26)	9	15,576	(762)	15	20,913	(788)
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	6	7,601	(372)	37	96,084	(11,637)	43	103,685	(12,009)
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	7	7,843	(307)	49	15,675	(629)	56	23,518	(936)

Other	Other									
Commercial	Commercial									
Mortgage-Backed	Mortgage-Backed									
Securities	Securities	2	5,302	(617)	6	14,560	(1,980)	8	19,862	(2,597)
Asset Backed	Asset Backed									
Securities	Securities	13	42,173	(2,984)	41	97,210	(12,185)	54	139,383	(15,169)
Collateralized	Collateralized									
Mortgage	Mortgage									
Obligations	Obligations	35	66,362	(4,500)	50	110,260	(9,659)	85	176,622	(14,159)
States and	States and									
Political	Political									
Subdivisions	Subdivisions	73	112,564	(19,706)	91	115,382	(33,901)	164	227,946	(53,607)
Corporate	Corporate									
Notes	Notes	8	23,285	(2,965)	13	38,448	(6,052)	21	61,733	(9,017)
Total Debt	Total Debt									
Securities	Securities	153	\$284,547	\$ (32,266)	298	\$506,981	\$ (77,468)	451	\$791,528	\$(109,734)

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 **September 30, 2023** **March 31, 2024** or the year ended **December 31, 2022**. **The December 31, 2023 as the** Company did not have any **credit** 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 **September 30, 2023** **March 31, 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. **However, management may from time to time consider sales for strategic reasons that would be holistically beneficial to the bank.** The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread fluctuations, **on agency-issued mortgage-related securities**, general financial market uncertainty and 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 **September 30, 2023** **March 31, 2024**, **management believes** **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 nine** months ended **September 30, 2023** **March 31, 2024** and **2022**, **March 31, 2023**, the Company had no credit related **impairment**, **net investment impairment losses**.

#### NOTE 4 – LOANS AND LOANS HELD-FOR-SALE

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

(Dollars in Thousands)	(Dollars in Thousands)	September 30, 2023	December 31, 2022	(Dollars in Thousands)	March 31, 2024	December 31, 2023
<b>Commercial</b>	<b>Commercial</b>					
Commercial Real Estate	Commercial Real Estate					
Commercial Real Estate	Commercial Real Estate	\$1,688,947	\$1,470,562			
Commercial and Industrial	Commercial and Industrial	264,329	309,792			
<b>Total Commercial Loans</b>	<b>Total Commercial Loans</b>	<b>1,953,276</b>	<b>1,780,354</b>			
<b>Consumer</b>	<b>Consumer</b>					
Residential Mortgages	Residential Mortgages	738,368	657,948			
Other Consumer	Other Consumer	36,487	44,562			

Total Consumer Loans	Total Consumer Loans	774,855	702,510
Construction	Construction	377,576	353,553
Other	Other	305,233	312,496
Total Portfolio Loans		3,410,940	3,148,913
Loans Held-for-Sale		—	—
Total Loans	Total Loans	\$3,410,940	\$3,148,913
Total Loans			
Total Loans			

## Loan Restructurings

The Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are only for modifications that directly affect cash flows.

A loan that is considered a restructured loan may be subject to the individually evaluated loan analysis if the commitment is \$1.0 million or greater 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.

## CARTER BANKSHARES, INC.

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 4 – LOANS AND LOANS HELD-FOR-SALE (continued)

The following table shows the amortized cost basis as of September 30, 2022 for the There were no loans restructured during the three and nine months ended September 30, 2022 to borrowers experiencing financial difficulty disaggregated by portfolio segment:

(Dollars in Thousands)	Restructured Loans					
	Three Months Ended September 30, 2022			Nine Months Ended September 30, 2022		
	Number of Contracts	Amortized Cost Basis <sup>(1)</sup>	% of Total Class of Financing Receivable	Number of Contracts	Amortized Cost Basis <sup>(1)</sup>	% of Total Class of Financing Receivable
<b>Accruing Restructured Loans</b>						
Commercial Real Estate	—	\$ —	— %	1	\$ 326	0.02 %
Commercial and Industrial	—	—	— %	—	—	— %
Residential Mortgages	—	—	— %	—	—	— %
Other Consumer	—	—	— %	—	—	— %
Construction	1	137	0.04 %	1	137	0.04 %
Other	—	—	— %	—	—	— %
<b>Total Accruing Restructured Loans</b>	<b>1</b>	<b>\$ 137</b>	<b>0.04 %</b>	<b>2</b>	<b>\$ 463</b>	<b>0.03 %</b>
<b>Nonaccrual Restructured Loans</b>						
Commercial Real Estate	—	\$ —	— %	—	\$ —	— %
Commercial and Industrial	—	—	— %	—	—	— %
Residential Mortgages	—	—	— %	—	—	— %
Other Consumer	—	—	— %	—	—	— %
Construction	—	—	— %	—	—	— %
Other	—	—	— %	—	—	— %
<b>Total Nonaccrual Restructured Loans</b>	<b>—</b>	<b>\$ —</b>	<b>— %</b>	<b>—</b>	<b>\$ —</b>	<b>— %</b>
<b>Total Restructured Loans</b>	<b>1</b>	<b>\$ 137</b>	<b>0.04 %</b>	<b>2</b>	<b>\$ 463</b>	<b>0.03 %</b>

<sup>(1)</sup>Excludes accrued interest receivable of \$0.1 thousand and \$0.9 thousand at September 30, 2022 for restructured loans during the three and nine months ended September 30, 2022.

The Company had no loans that were restructured during the three and nine months ended September 30, 2023 March 31, 2024 or March 31, 2023. During the third quarter of 2022 the Bank modified a construction loan and considered it a restructured loan as a result of financial difficulty. The borrower is a single family home builder. The purpose of the loan was to finance the construction of a speculative home. The loan matured and was incomplete. The Bank extended the maturity and completion date for five (5) months in order to provide time to complete and sell the home. However, the Bank became aware of a mechanic's lien filed by one of the borrower's subcontractors. This issue was resolved and the loan was restored to accrual status on September 30, 2022. Subsequently, the home was sold and the Bank was paid in full on December 9, 2022. This loan was not considered significant and remained in the general pool of the Bank's ACL model for reserve purposes until it was paid in full. These loans are not considered significant and are included in the Bank's ACL model in the general pool of the construction and commercial real estate ("CRE") segments for reserve purposes.

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 the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, respectively, the Company had no modifications to borrowers experiencing financial difficulty to report.

At both September 30, 2023 March 31, 2024 and September 30, 2022 December 31, 2023, the Bank had no commitments to lend any additional funds on restructured loans. At both September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Bank had \$1.2 million \$0.9 million and \$2.0 million, respectively, of residential real estate loans in the process of foreclosure. We The Company also had \$20 \$37 thousand at September 30, 2023 March 31, 2024 and \$133 \$62 thousand at December 31, 2022 December 31, 2023 in residential real estate loans included in other real estate owned ("OREO").

## 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, 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 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

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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)**

rather than trading assets, and v) indirect liabilities of certain guarantees resulting from the nonpayment of a financial obligations. Management continuously assesses underwriting standards, but significantly enhanced these standards in 2018.

**Our 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 into 2023, 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 portfolio loan balances by year of origination and internally assigned risk rating for our portfolio segments as of the periods presented:

September 30, 2023																			
Risk Rating																			
March 31, 2024																			
March 31, 2024																			
March 31, 2024																			
Risk Rating										Risk Rating									
(Dollars in Thousands)	(Dollars in Thousands)	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Total Portfolio Loans	(Dollars in Thousands)	2024	2023	2022	2021	2020	2019 and Prior	Revolving	Total Portfolio Loans	
Commercial	Commercial																		
Real Estate	Real Estate																		
Pass																			
Pass																			
Pass	Pass	\$224,524	\$441,066	\$196,432	\$148,493	\$125,716	\$ 520,018	\$ 30,467	\$1,686,716										
Special	Special																		
Mention	Mention	—	—	209	—	—	77	—	286										
Substandard	Substandard	—	—	—	—	—	1,945	—	1,945										
Total	Total																		
Commercial	Commercial																		
Real Estate	Real Estate	\$224,524	\$441,066	\$196,641	\$148,493	\$125,716	\$ 522,040	\$ 30,467	\$1,688,947										
Total Commercial Real Estate																			
Total Commercial Real Estate																			
YTD Gross	YTD Gross																		
Charge-offs	Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —										
Commercial and Industrial	Commercial and Industrial																		
Commercial and Industrial																			
Commercial and Industrial																			
Pass																			
Pass																			
Pass	Pass	\$ 825	\$ 18,601	\$ 39,365	\$ 26,094	\$ 7,089	\$ 143,652	\$ 25,790	\$ 261,416										

Special Mention	Special Mention	—	—	—	2,838	—	—	—	2,838
Substandard	Substandard	—	—	—	25	28	3	19	75
Total Commercial and Industrial	Total Commercial and Industrial								
		\$ 825	\$ 18,601	\$ 39,365	\$ 28,957	\$ 7,117	\$ 143,655	\$ 25,809	\$ 264,329
Total Commercial and Industrial									
Total Commercial and Industrial									
YTD Gross	YTD Gross								
Charge-offs	Charge-offs	\$ —	\$ —	\$ 45	\$ —	\$ 6	\$ —	\$ —	\$ 51
Residential Mortgages	Residential Mortgages								
Residential Mortgages									
Residential Mortgages									
Pass									
Pass									
Pass	Pass	\$ 47,097	\$232,769	\$193,959	\$ 79,454	\$ 44,984	\$ 99,337	\$ 36,989	\$ 734,589
Special Mention	Special Mention	—	—	—	—	—	527	—	527
Substandard	Substandard	—	—	1,142	—	861	999	250	3,252
Total Residential Mortgages	Total Residential Mortgages								
		\$ 47,097	\$232,769	\$195,101	\$ 79,454	\$ 45,845	\$ 100,863	\$ 37,239	\$ 738,368
Total Residential Mortgages									
Total Residential Mortgages									
YTD Gross	YTD Gross								
Charge-offs	Charge-offs	\$ —	\$ —	\$ 136	\$ —	\$ —	\$ 67	\$ —	\$ 203
Other Consumer	Other Consumer								
Other Consumer									
Other Consumer									
Pass									
Pass									
Pass	Pass	\$ 23,004	\$ 5,419	\$ 2,989	\$ 4,430	\$ 43	\$ 201	\$ 359	\$ 36,445
Special Mention	Special Mention	—	—	—	—	—	—	—	—
Substandard	Substandard	—	15	24	—	—	3	—	42
Total Other Consumer	Total Other Consumer	\$ 23,004	\$ 5,434	\$ 3,013	\$ 4,430	\$ 43	\$ 204	\$ 359	\$ 36,487
Total Other Consumer									
Total Other Consumer									
YTD Gross	YTD Gross								
Charge-offs	Charge-offs	\$ 163	\$ 1,092	\$ 574	\$ 63	\$ 118	\$ 29	\$ —	\$ 2,039
Construction	Construction								
Construction									
Construction									
Pass									
Pass									
Pass	Pass	\$ 63,243	\$156,134	\$123,455	\$ 13,668	\$ 3,936	\$ 7,232	\$ 6,827	\$ 374,495
Special Mention	Special Mention	—	—	—	—	—	62	—	62

Substandard	Substandard	—	65	—	2,090	—	864	—	3,019
<b>Total</b>	<b>Total</b>								
<b>Construction</b>	<b>Construction</b>	\$ 63,243	\$156,199	\$123,455	\$ 15,758	\$ 3,936	\$ 8,158	\$ 6,827	\$ 377,576
<b>Total Construction</b>									
<b>Total Construction</b>									
YTD Gross	YTD Gross								
Charge-offs	Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 42	\$ —	\$ 42
Other	Other								
Other									
Other									
Pass									
Pass									
Pass	Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,320	\$ —	\$ 3,320
Special	Special								
Mention	Mention	—	—	—	—	—	—	—	—
Substandard	Substandard	—	—	—	—	—	301,913	—	301,913
<b>Total Other</b>	<b>Total Other</b>								
<b>Loans</b>	<b>Loans</b>	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 305,233	\$ —	\$ 305,233
<b>Total Other Loans</b>									
<b>Total Other Loans</b>									
YTD Gross	YTD Gross								
Charge-offs	Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total Portfolio	Total Portfolio								
Loans	Loans								
<b>Total Portfolio Loans</b>									
<b>Total Portfolio Loans</b>									
Pass									
Pass									
Pass	Pass	\$358,693	\$853,989	\$556,200	\$272,139	\$181,768	\$ 773,760	\$100,432	\$3,096,981
Special	Special								
Mention	Mention	—	—	209	2,838	—	666	—	3,713
Substandard	Substandard	—	80	1,166	2,115	889	305,727	269	310,246
<b>Total</b>	<b>Total</b>								
<b>Portfolio</b>	<b>Portfolio</b>								
<b>Loans</b>	<b>Loans</b>	\$358,693	\$854,069	\$557,575	\$277,092	\$182,657	\$1,080,153	\$100,701	\$3,410,940
<b>Total Portfolio Loans</b>									
<b>Total Portfolio Loans</b>									
Current YTD	Current YTD								
Period:	Period:								
YTD Gross	YTD Gross								
Charge-offs	Charge-offs	\$ 163	\$ 1,092	\$ 755	\$ 63	\$ 124	\$ 138	\$ —	\$ 2,335
<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, 2022	
Risk Rating	
December 31, 2023	
December 31, 2023	
December 31, 2023	

Risk Rating										Risk Rating								
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	2019	2018	2017 and Prior	Revolving	Total Portfolio Loans	(Dollars in Thousands)	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Total Portfolio Loans
Commercial	Commercial																	
Real Estate	Real Estate																	
Pass																		
Pass																		
Pass	Pass	\$418,939	\$186,226	\$139,148	\$130,521	\$215,498	\$335,659	\$ 31,349	\$1,457,340									
Special	Special																	
Mention	Mention	—	218	—	—	9,919	659	—	10,796									
Substandard	Substandard	—	—	—	—	2,105	321	—	2,426									
Total	Total																	
Commercial	Commercial																	
Real Estate	Real Estate	\$418,939	\$186,444	\$139,148	\$130,521	\$227,522	\$336,639	\$ 31,349	\$1,470,562									
Total Commercial Real Estate																		
Total Commercial Real Estate																		
YTD Gross	YTD Gross																	
Charge-offs	Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —									
Commercial and Industrial	Commercial and Industrial																	
Commercial and Industrial																		
Commercial and Industrial																		
Pass																		
Pass																		
Pass	Pass	\$ 23,104	\$ 47,137	\$ 35,819	\$ 9,022	\$ 10,639	\$154,473	\$ 23,699	\$ 303,893									
Special	Special																	
Mention	Mention	—	—	2,887	—	—	—	—	2,887									
Substandard	Substandard	—	56	—	18	97	2,800	41	3,012									
Total	Total																	
Commercial and	Commercial and																	
Industrial	Industrial	\$ 23,104	\$ 47,193	\$ 38,706	\$ 9,040	\$ 10,736	\$157,273	\$ 23,740	\$ 309,792									
Total Commercial and Industrial																		
Total Commercial and Industrial																		
YTD Gross	YTD Gross																	
Charge-offs	Charge-offs	\$ 3,432	\$ —	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ 3,436									
Residential Mortgages	Residential Mortgages																	
Residential Mortgages																		
Residential Mortgages																		
Pass																		
Pass																		
Pass	Pass	\$200,725	\$184,718	\$ 81,446	\$ 50,770	\$ 70,659	\$ 39,411	\$ 25,315	\$ 653,044									
Special	Special																	
Mention	Mention	—	—	—	—	429	520	34	983									
Substandard	Substandard	—	1,212	—	865	444	1,400	—	3,921									
Total	Total																	
Residential Mortgages	Residential Mortgages	\$200,725	\$185,930	\$ 81,446	\$ 51,635	\$ 71,532	\$ 41,331	\$ 25,349	\$ 657,948									

Total Residential Mortgages																		
Total Residential Mortgages																		
YTD Gross	YTD Gross																	
Charge-offs	Charge-offs	\$	—	\$	—	\$	—	\$	—	\$	22	\$	24	\$	—	\$	46	
Other	Other																	
Consumer	Consumer																	
Other Consumer																		
Other Consumer																		
Pass																		
Pass																		
Pass	Pass	\$	24,100	\$	10,006	\$	7,323	\$	1,999	\$	512	\$	256	\$	299	\$	44,495	
Special	Special																	
Mention	Mention		—		—		—		—		—		—		—		—	
Substandard	Substandard		—		45		1		—		1		20		—		67	
Total Other	Total Other																	
Consumer	Consumer	\$	24,100	\$	10,051	\$	7,324	\$	1,999	\$	513	\$	276	\$	299	\$	44,562	
Total Other Consumer																		
Total Other Consumer																		
YTD Gross	YTD Gross																	
Charge-offs	Charge-offs	\$	280	\$	625	\$	254	\$	358	\$	39	\$	121	\$	—	\$	1,677	
Construction	Construction																	
Construction																		
Construction																		
Pass																		
Pass																		
Pass	Pass	\$149,535	\$117,466	\$	41,808	\$	4,938	\$	25,523	\$	7,190	\$	6,056	\$	352,516			
Special	Special																	
Mention	Mention		—		—		—		—		69		—		69			
Substandard	Substandard		—		—		—		92		876		—		968			
Total	Total																	
Construction	Construction	\$149,535	\$117,466	\$	41,808	\$	4,938	\$	25,615	\$	8,135	\$	6,056	\$	353,553			
Total Construction																		
Total Construction																		
YTD Gross	YTD Gross																	
Charge-offs	Charge-offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	
Other	Other																	
Other																		
Other																		
Pass																		
Pass																		
Pass	Pass	\$	—	\$	—	\$	—	\$	—	\$	—	\$180,745	\$	—	\$	180,745		
Special	Special																	
Mention	Mention		—		—		—		—		—		—		—			
Substandard	Substandard		—		—		—		74,050		57,701		—		131,751			
Total Other	Total Other																	
Loans	Loans	\$	—	\$	—	\$	—	\$	—	\$	74,050	\$238,446	\$	—	\$	312,496		
Total Other Loans																		
Total Other Loans																		
YTD Gross	YTD Gross																	
Charge-offs	Charge-offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	
Total Portfolio	Total Portfolio																	
Loans	Loans																	
Total Portfolio Loans																		

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

**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:

September 30, 2023																		
March 31, 2024																		
March 31, 2024																		
March 31, 2024																		
(Dollars in Thousands)	(Dollars in Thousands)	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Total Portfolio Loans	(Dollars in Thousands)	2024	2023	2022	2021	2020	2019 and Prior	Revolving	Total Portfolio Loans
Commercial	Commercial																	
Real Estate	Real Estate																	
Performing																		
Performing																		
Performing	Performing	\$224,524	\$441,066	\$196,641	\$148,493	\$125,716	\$ 520,775	\$ 30,467	\$1,687,682									
Nonperforming	Nonperforming	—	—	—	—	—	1,265	—	1,265									
Total	Total																	
Commercial	Commercial																	
Real Estate	Real Estate	\$224,524	\$441,066	\$196,641	\$148,493	\$125,716	\$ 522,040	\$ 30,467	\$1,688,947									
Commercial and Industrial	Commercial and Industrial																	
Performing	Performing	\$ 825	\$ 18,601	\$ 39,365	\$ 28,932	\$ 7,094	\$ 143,652	\$ 25,790	\$ 264,259									
Performing																		
Performing																		
Nonperforming	Nonperforming	—	—	—	25	23	3	19	70									
Total	Total																	
Commercial and Industrial	Commercial and Industrial	\$ 825	\$ 18,601	\$ 39,365	\$ 28,957	\$ 7,117	\$ 143,655	\$ 25,809	\$ 264,329									
Residential Mortgages	Residential Mortgages																	
Performing																		
Performing																		

Performing	Performing	\$ 47,097	\$232,769	\$195,101	\$ 79,454	\$ 44,984	\$ 99,897	\$ 36,989	\$ 736,291
Nonperforming	Nonperforming	—	—	—	—	861	966	250	2,077
Total	Total								
Residential	Residential								
Mortgages	Mortgages	\$ 47,097	\$232,769	\$195,101	\$ 79,454	\$ 45,845	\$ 100,863	\$ 37,239	\$ 738,368
Other Consumer	Other Consumer								
Performing	Performing	\$ 23,004	\$ 5,419	\$ 3,009	\$ 4,430	\$ 43	\$ 201	\$ 359	\$ 36,465
Performing									
Performing									
Nonperforming	Nonperforming	—	15	4	—	—	3	—	22
Total Other	Total Other								
Consumer	Consumer	\$ 23,004	\$ 5,434	\$ 3,013	\$ 4,430	\$ 43	\$ 204	\$ 359	\$ 36,487
Construction	Construction								
Performing									
Performing									
Performing	Performing	\$ 63,243	\$156,199	\$123,455	\$ 13,668	\$ 3,936	\$ 7,294	\$ 6,827	\$ 374,622
Nonperforming	Nonperforming	—	—	—	2,090	—	864	—	2,954
Total	Total								
Construction	Construction	\$ 63,243	\$156,199	\$123,455	\$ 15,758	\$ 3,936	\$ 8,158	\$ 6,827	\$ 377,576
Other	Other								
Performing	Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,320	\$ —	\$ 3,320
Performing									
Performing									
Nonperforming	Nonperforming	—	—	—	—	—	301,913	—	301,913
Total Other	Total Other								
Loans	Loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 305,233	\$ —	\$ 305,233
Total Portfolio	Total Portfolio								
Loans	Loans								
Performing	Performing	\$358,693	\$854,054	\$557,571	\$274,977	\$181,773	\$ 775,139	\$100,432	\$3,102,639
Performing									
Performing									
Nonperforming	Nonperforming	—	15	4	2,115	884	305,014	269	308,301
Total	Total								
Portfolio	Portfolio								
Loans	Loans	\$358,693	\$854,069	\$557,575	\$277,092	\$182,657	\$1,080,153	\$100,701	\$3,410,940

# CARTER BANKSHARES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2022																		
December 31, 2023																		
December 31, 2023																		
December 31, 2023																		
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	2019	2018	2017 and Prior	Revolving	Total Portfolio Loans	(Dollars in Thousands)	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Total Portfolio Loans
Commercial	Commercial																	
Real Estate	Real Estate																	
Performing																		
Performing																		
Performing	Performing	\$418,939	\$186,444	\$139,148	\$130,521	\$225,416	\$336,441	\$ 31,349	\$1,468,258									
Nonperforming	Nonperforming	—	—	—	—	2,106	198	—	2,304									



<b>Total Commercial</b>	<b>Total Commercial</b>									
<b>Real Estate</b>	<b>Real Estate</b>	<b>\$418,939</b>	<b>\$186,444</b>	<b>\$139,148</b>	<b>\$130,521</b>	<b>\$227,522</b>	<b>\$336,639</b>	<b>\$ 31,349</b>	<b>\$1,470,562</b>	
Commercial and Industrial	Commercial and Industrial									
Performing	Performing	\$ 23,104	\$ 47,147	\$ 38,706	\$ 9,022	\$ 10,639	\$157,271	\$ 23,699	\$ 309,588	
Performing	Performing									
Performing	Performing									
Nonperforming	Nonperforming	—	46	—	18	97	2	41	204	
<b>Total Commercial and Industrial</b>	<b>Total Commercial and Industrial</b>	<b>\$ 23,104</b>	<b>\$ 47,193</b>	<b>\$ 38,706</b>	<b>\$ 9,040</b>	<b>\$ 10,736</b>	<b>\$157,273</b>	<b>\$ 23,740</b>	<b>\$ 309,792</b>	
Residential Mortgages	Residential Mortgages									
Performing	Performing									
Performing	Performing									
Performing	Performing	\$200,725	\$184,718	\$ 81,446	\$ 50,770	\$ 71,313	\$ 40,362	\$ 25,349	\$ 654,683	
Nonperforming	Nonperforming	—	1,212	—	865	219	969	—	3,265	
<b>Total Residential Mortgages</b>	<b>Total Residential Mortgages</b>	<b>\$200,725</b>	<b>\$185,930</b>	<b>\$ 81,446</b>	<b>\$ 51,635</b>	<b>\$ 71,532</b>	<b>\$ 41,331</b>	<b>\$ 25,349</b>	<b>\$ 657,948</b>	
Other Consumer	Other Consumer									
Performing	Performing	\$ 24,100	\$ 10,045	\$ 7,323	\$ 1,999	\$ 512	\$ 276	\$ 299	\$ 44,554	
Performing	Performing									
Performing	Performing									
Nonperforming	Nonperforming	—	6	1	—	1	—	—	8	
<b>Total Other Consumer</b>	<b>Total Other Consumer</b>	<b>\$ 24,100</b>	<b>\$ 10,051</b>	<b>\$ 7,324</b>	<b>\$ 1,999</b>	<b>\$ 513</b>	<b>\$ 276</b>	<b>\$ 299</b>	<b>\$ 44,562</b>	
Construction	Construction									
Performing	Performing									
Performing	Performing									
Performing	Performing	\$149,535	\$117,466	\$ 41,808	\$ 4,938	\$ 25,615	\$ 7,271	\$ 6,056	\$ 352,689	
Nonperforming	Nonperforming	—	—	—	—	—	864	—	864	
<b>Total Construction</b>	<b>Total Construction</b>	<b>\$149,535</b>	<b>\$117,466</b>	<b>\$ 41,808</b>	<b>\$ 4,938</b>	<b>\$ 25,615</b>	<b>\$ 8,135</b>	<b>\$ 6,056</b>	<b>\$ 353,553</b>	
Other	Other									
Performing	Performing	\$ —	\$ —	\$ —	\$ —	\$ 74,050	\$238,446	\$ —	\$ 312,496	
Performing	Performing									
Performing	Performing									
Nonperforming	Nonperforming	—	—	—	—	—	—	—	—	
<b>Total Other Loans</b>	<b>Total Other Loans</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 74,050</b>	<b>\$238,446</b>	<b>\$ —</b>	<b>\$ 312,496</b>	
Total Portfolio Loans	Total Portfolio Loans									
Performing	Performing	\$816,403	\$545,820	\$308,431	\$197,250	\$407,545	\$780,067	\$ 86,752	\$3,142,268	
Performing	Performing									
Performing	Performing									
Nonperforming	Nonperforming	—	1,264	1	883	2,423	2,033	41	6,645	
<b>Total Portfolio Loans</b>	<b>Total Portfolio Loans</b>	<b>\$816,403</b>	<b>\$547,084</b>	<b>\$308,432</b>	<b>\$198,133</b>	<b>\$409,968</b>	<b>\$782,100</b>	<b>\$ 86,793</b>	<b>\$3,148,913</b>	

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

September 30, 2023									
March 31, 2024									
March 31, 2024									
March 31, 2024									
			Loans 30-59 Days	Loans 60-89 Days	Total 30-89 Days	Past Due 90+ Days	Total Loans		Total
(Dollars in Thousands)	(Dollars in Thousands)	Current Loans	Past Due	Past Due	Past Due	Still Accruing	Past Due	Nonaccrual Loans	Portfolio Loans
(Dollars in Thousands)									
Commercial Real Estate	Commercial Real Estate	\$1,686,768	\$ 234	\$ —	\$ 234	\$ 680	\$ 914	\$ 1,265	\$1,688,947
Commercial and Industrial	Commercial and Industrial	264,197	57	5	62	—	62	70	264,329
Residential Mortgages	Residential Mortgages	734,012	2,079	200	2,279	—	2,279	2,077	738,368
Other Consumer	Other Consumer	36,033	249	183	432	—	432	22	36,487
Construction	Construction	374,574	—	48	48	—	48	2,954	377,576
Other	Other	3,320	—	—	—	—	—	301,913	305,233
Total	Total	\$3,098,904	\$2,619	\$ 436	\$3,055	\$ 680	\$3,735	\$ 308,301	\$3,410,940

# CARTER BANKSHARES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Company had one loan totaling \$0.7 million that was no loans past due 90 days or more and still accruing at September 30, 2023 March 31, 2024 and none at December 31, 2022 December 31, 2023. Since this CRE loan was well secured and in process of collection, it was maintained on accrual status and has since been paid in full as of the filing of this Form 10-Q. Otherwise, loans Loans past due 90 days are automatically transferred to nonaccrual status. Loans past due 30 to 89 days and still accruing decreased \$1.8 million increased \$2.6 million to \$3.1 million \$8.7 million at September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023 primarily in the construction category related due to one \$2.1 CRE relationship totaling \$3.2 million residential construction and one C&I relationship that moved to nonaccrual went delinquent totaling \$0.9 million during the first quarter of 2023 2024, offset by two construction loans, one paid off and two credits one that paid current totaling \$1.1 million at December 31, 2022 which moved to current status. Loans past due 30 to 89 days increased \$1.8 million in the residential mortgage category primarily due to two credits totaling \$1.6 million migrating from current to past due status.

Nonperforming loans increased significantly during the nine months ended September 30, 2023 compared to December 31, 2022 due to \$301.9 million commercial loans in the Other segment, related to the Company's largest lending relationship, transferred to nonaccrual status due to loan maturities and failure to pay in full.

There were no nonaccrual or past due loans related to loans held-for-sale at September 30, 2023 or December 31, 2022. \$2.6 million.

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:

September 30, 2023										
March 31, 2024						March 31, 2024				
		Nonaccrual without an Allowance	Nonaccrual with an Allowance	Total	Past Due 90+ Days					
(Dollars in Thousands)	(Dollars in Thousands)	for Credit Losses	for Credit Losses	Nonaccrual Loans	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
Commercial Real Estate	Commercial Real Estate	\$ —	\$ 1,265	\$ 1,265	\$ 680					
Commercial and Industrial	Commercial and Industrial	—	70	70	—					
Residential Mortgages	Residential Mortgages	—	2,077	2,077	—					
Other Consumer	Other Consumer	—	22	22	—					
Construction	Construction	2,090	864	2,954	—					
Other	Other	—	301,913	301,913	—					
Total	Total	\$ 2,090	\$ 306,211	\$ 308,301	\$ 680					
December 31, 2022										
December 31, 2023						December 31, 2023				
		Nonaccrual without an Allowance	Nonaccrual with an Allowance	Total	Past Due 90+ Days					
(Dollars in Thousands)	(Dollars in Thousands)	for Credit Losses	for Credit Losses	Nonaccrual Loans	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
Commercial Real Estate	Commercial Real Estate	\$ —	\$ 2,304	\$ 2,304	\$ —					
Commercial and Industrial	Commercial and Industrial	—	204	204	—					
Residential Mortgages	Residential Mortgages	—	3,265	3,265	—					
Other Consumer	Other Consumer	—	8	8	—					
Construction	Construction	—	864	864	—					
Other	Other	—	—	—	—					
Total	Total	\$ —	\$ 6,645	\$ 6,645	\$ —					

Nonperforming loans remained significantly elevated during the three months ended March 31, 2024 and December 31, 2023 due to loans of \$301.9 million representing the Bank's largest lending relationship, that were placed on nonaccrual during the second quarter of 2023.

There were no nonaccrual or past due loans related to loans held-for-sale at March 31, 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, we believe management believes delinquency to be a leading indicator with respect to the likelihood of collection in full of both principal and interest. Accordingly, we management automatically transfer 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 **more greater and/or based on management's discretion**; unless we elect to maintain the loan in the general pool. During the three **and nine** months ended **September 30, 2023** **March 31, 2024** and **September 30, 2022** **March 31, 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.

September 30, 2023						December 31, 2022																	
March 31, 2024												December 31, 2023											
(Dollars in Thousands)	(Dollars in Thousands)	Collateral	Discounted Cash Flow	Total	Collateral	(Dollars in Thousands)	Fair Value - Real Estate	Discounted Cash Flow	Total	Fair Value - Real Estate	Discounted Cash Flow	Total											
Commercial Real Estate	Commercial Real Estate	\$ —	\$ —	\$ —	\$ 2,106																		
Commercial and Industrial	Commercial and Industrial	—	—	—	—																		
Residential Mortgages	Residential Mortgages	—	—	—	1,212																		
Other Consumer	Other Consumer	—	—	—	—																		
Construction	Construction	2,090	—	2,090	—																		
Other	Other	—	301,913	301,913	—																		
Total	Total	\$ 2,090	\$ 301,913	\$304,003	\$ 3,318																		

## 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 September 30, 2023										Three Months Ended March 31, 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:	Allowance for Credit Losses on Loans:															
Balance at Beginning of Period	Balance at Beginning of Period	\$ 19,144	\$ 3,293	\$ 10,386	\$ 1,058	\$ 6,603	\$ 53,660	\$94,144								
Provision (Recovery) for Credit Losses on Loans	Provision (Recovery) for Credit Losses on Loans	346	(256)	356	515	144	—	1,105								
Balance at Beginning of Period	Balance at Beginning of Period															
Balance at Beginning of Period	Balance at Beginning of Period															

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Operating income	\$1,000	\$1,000
Operating expenses	(500)	(500)
Operating profit	\$500	\$500
Other income	100	100
Other expenses	(50)	(50)
Income before taxes	\$550	\$550
Income tax expense	(110)	(110)
Net income	\$440	\$440

	Three Months Ended September 30, 2022						
(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	\$ 17,808	\$ 5,688	\$ 5,155	\$ 1,719	\$ 6,832	\$ 60,779	\$ 97,981
(Recovery) Provision for Credit Losses on Loans	(433)	1,542	466	206	1,856	(3,714)	(77)
Charge-offs	—	(3,432)	—	(418)	—	—	(3,850)

Recoveries	—	—	1	109	—	—	110
<b>Net (Charge-offs)/Recoveries</b>	<b>—</b>	<b>(3,432)</b>	<b>1</b>	<b>(309)</b>	<b>—</b>	<b>—</b>	<b>(3,740)</b>
<b>Balance at End of Period</b>	<b>\$ 17,375</b>	<b>\$ 3,798</b>	<b>\$ 5,622</b>	<b>\$ 1,616</b>	<b>\$ 8,688</b>	<b>\$ 57,065</b>	<b>\$ 94,164</b>

Nine Months Ended September 30, 2022							
(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	\$ 17,297	\$ 4,111	\$ 4,368	\$ 1,493	\$ 6,939	\$ 61,731	\$ 95,939
Provision (Recovery) for Credit Losses on Loans	78	3,118	1,202	1,035	1,600	(4,666)	2,367
Charge-offs	—	(3,432)	(45)	(1,244)	—	—	(4,721)
Recoveries	—	1	97	332	149	—	579
<b>Net (Charge-offs)/Recoveries</b>	<b>—</b>	<b>(3,431)</b>	<b>52</b>	<b>(912)</b>	<b>149</b>	<b>—</b>	<b>(4,142)</b>
<b>Balance at End of Period</b>	<b>\$ 17,375</b>	<b>\$ 3,798</b>	<b>\$ 5,622</b>	<b>\$ 1,616</b>	<b>\$ 8,688</b>	<b>\$ 57,065</b>	<b>\$ 94,164</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 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.

**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 greater than or equal to 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. Alternative methodologies utilize various discounted cash flow assumptions in the alternative modeling through a variety of scenarios.

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

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

OREO is evaluated at the time of acquisition and is recorded at fair value as determined by an appraisal or evaluation, less costs to sell. After acquisition, most OREO assets are revalued every twelve months, or more frequently when deemed necessary by management based upon changes in market or collateral conditions. For smaller OREO assets with existing carrying values less than \$0.5 million, management may elect to re-value the assets, at minimum, once every twenty-four months based on the size of the exposure. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets marked to fair value are classified as Level 3. At September 30, 2023 March 31, 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:

September 30, 2023	
March 31, 2024	March 31, 2024

(Dollars in Thousands)	(Dollars in Thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets			(Dollars in Thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)					
<b>Assets</b>	<b>Assets</b>									
Securities	Securities									
Available-for-Sale:	Available-for-Sale:									
U.S. Treasury Securities		\$ 13,104	\$13,104	\$ —	\$ —					
Securities Available-for-Sale:										
Securities Available-for-Sale:										
U.S. Government Agency Securities										
U.S. Government Agency Securities										
U.S. Government Agency Securities	U.S. Government Agency Securities	47,742	—	47,742	—					
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	97,562	—	97,562	—					
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	33,328	—	33,328	—					
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	21,104	—	21,104	—					
Asset Backed Securities	Asset Backed Securities	137,075	—	137,075	—					
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	163,306	—	163,306	—					
States and Political Subdivisions	States and Political Subdivisions	222,644	—	222,644	—					
Corporate Notes	Corporate Notes	57,524	—	50,113	7,411					
Total Securities Available-for-Sale	Total Securities Available-for-Sale	793,389	13,104	772,874	7,411					
Derivatives	Derivatives	25,296	—	25,296	—					
<b>Total</b>	<b>Total</b>	<b>\$818,685</b>	<b>\$13,104</b>	<b>\$ 798,170</b>	<b>\$ 7,411</b>					
<b>Liabilities</b>	<b>Liabilities</b>									
Liabilities										
Liabilities										



Derivatives															
Derivatives															
Derivatives	Derivatives	\$ 24,775	\$ —	\$ 24,775	\$ —										
Total	Total	\$ 24,775	\$ —	\$ 24,775	\$ —										
December 31, 2022															
December 31, 2023						December 31, 2023									
			Quoted Prices in Active Markets for Identical	Significant Other Observable	Significant Unobservable										
(Dollars in Thousands)	(Dollars in Thousands)	Carrying Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)						(Dollars in Thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets	Assets														
Securities	Securities														
Available-for-Sale:	Available-for-Sale:														
U.S. Treasury Securities		\$ 17,866	\$17,866	\$ —	\$ —										
Securities Available-for-Sale:															
Securities Available-for-Sale:															
U.S. Government Agency Securities															
U.S. Government Agency Securities															
U.S. Government Agency Securities	U.S. Government Agency Securities	49,764	—	49,764	—										
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	103,685	—	103,685	—										
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	34,675	—	34,675	—										
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	22,399	2,538	19,861	—										
Asset Backed Securities	Asset Backed Securities	141,383	4,996	136,387	—										
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	176,622	—	176,622	—										
States and Political Subdivisions	States and Political Subdivisions	228,146	—	228,146	—										
Corporate Notes	Corporate Notes	61,733	—	54,216	7,517										

Total	Total				
Securities	Securities				
Available-	Available-				
for-Sale	for-Sale	836,273	25,400	803,356	7,517
Derivatives	Derivatives	22,974	—	22,974	—
<b>Total</b>	<b>Total</b>	<b>\$859,247</b>	<b>\$25,400</b>	<b>\$ 826,330</b>	<b>\$ 7,517</b>
Liabilities	Liabilities				
Liabilities					
Liabilities					
Derivatives					
Derivatives					
Derivatives	Derivatives	\$ 22,543	\$ —	\$ 22,543	\$ —
<b>Total</b>	<b>Total</b>	<b>\$ 22,543</b>	<b>\$ —</b>	<b>\$ 22,543</b>	<b>\$ —</b>

We have invested in subordinated debt of other financial institutions. We have two securities totaling \$7.4 million \$7.5 million that are considered to be Level 3 securities at September 30, 2023 March 31, 2024 and total \$7.5 million two totaling \$7.3 million at December 31, 2022 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 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:

September 30, 2023											
March 31, 2024						March 31, 2024					
(Dollars in Thousands)	(Dollars in Thousands)	Level 1	Level 2	Level 3	Fair Value	(Dollars in Thousands)	Level 1	Level 2	Level 3	Fair Value	
OREO	OREO	\$ —	\$ —	\$3,765	\$3,765						
Individually Evaluated	Individually Evaluated										
Loans	Loans	\$ —	\$ —	\$ —	\$ —						
December 31, 2022											
December 31, 2023						December 31, 2023					
(Dollars in Thousands)	(Dollars in Thousands)	Level 1	Level 2	Level 3	Fair Value	(Dollars in Thousands)	Level 1	Level 2	Level 3	Fair Value	
OREO	OREO	\$ —	\$ —	\$8,393	\$8,393						
Individually Evaluated	Individually Evaluated										
Loans	Loans	\$ —	\$ —	\$2,649	\$2,649						

The Company had no individually evaluated loans measured at fair value on a nonrecurring basis as of September 30, 2023 March 31, 2024 and December 31, 2023. Individually evaluated loans had a net carrying amount of \$2.6 million at December 31, 2022 with a valuation allowance of \$0.7 million. The Company's largest lending relationship is classified at March 31, 2024 as an individually evaluated loan with a net carrying amount totaling \$248.3 million \$247.6 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 \$53.6 million \$54.3 million at September 30, 2023 March 31, 2024. When evaluating the net carrying value of this credit relationship at March 31, 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 \$3.8 million \$2.5 million as of September 30, 2023, compared with \$8.4 million March 31, 2024 and at December 31, 2022 December 31, 2023, primarily due to sales, write-downs on OREO and payments. There were \$0.9 million The Company had no write-downs recorded on OREO for the nine three months ended September 30, 2023 and \$0.6 million March 31, 2024 or for the same periods period in 2022 2023.

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

March 31, 2024	March 31, 2024
----------------	----------------

(Dollars in Thousands)								(Dollars in Thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Range	Average
Assets													
	September 30, 2023												
(Dollars in Thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Range	Average								
Assets													
OREO													
OREO													
OREO	OREO	\$1,683	Appraisals	Estimated Selling Costs	10.0 %	10.0 %		\$1,249	Appraisals	Appraisals	Estimated Selling Costs	6.0 %	6.0 %
OREO	OREO	1,939	Discounted Internal Valuations	Management's Subject Discount	0.0% - 23.6%	11.9 %	OREO	1,137	Discounted Internal Valuations	Discounted Internal Valuations	Management's Subject Discount	0.0% - 24.0%	8.4 %
OREO	OREO	143	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %	OREO	142	Internal Valuations	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %
Total OREO	Total OREO	\$3,765											
December 31, 2023													
(Dollars in Thousands)							(Dollars in Thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Range	Average	
	December 31, 2022												
(Dollars in Thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Range	Average								
Assets													
Individually Evaluated Loans	\$ 858	Discounted Internal Valuations	Management's Discount & Estimated Selling Costs	14.2 %	14.2 %								
Individually Evaluated Loans	\$1,791	Discounted Appraisals	Estimated Selling Costs	6.0 %	6.0 %								
Total Individually Evaluated Loans	\$2,649												
OREO													
OREO													
OREO	OREO	\$7,323	Appraisals	Estimated Selling Costs	10.0 %	10.0 %		\$130	Appraisals	Appraisals	Estimated Selling Costs	6.0 %	6.0 %
OREO	OREO	143	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %	OREO	142	Internal Valuations	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %
OREO	OREO	927	Discounted Internal Valuations	Management's Discount & Estimated Selling Costs	0.0% - 5.0%	0.7 %	OREO	2,191	Discounted Internal Valuations	Discounted Internal Valuations	Management's Subject Discount	0.0% - 24.0%	15.6 %
Total OREO	Total OREO	\$8,393											

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.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The carrying values and estimated fair values of our financial instruments at **September 30, 2023**, **March 31, 2024** and **December 31, 2022**, **December 31, 2023** are presented in the following tables. Fair values for **September 30, 2023**, **March 31, 2024** and **December 31, 2022**, **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.

Fair Value Measurements at September 30, 2023							Fair Value Measurements at March 31, 2024						

Deposits														
Deposits														
Deposits	Deposits	\$3,556,189	\$661,454	\$1,383,181	\$1,515,311	\$3,559,946								
Other Liabilities- Interest														
Rate Derivatives														
Other Liabilities- Interest														
Rate Derivatives														
Other	Other													
Liabilities-	Liabilities-													
Interest Rate	Interest Rate													
Derivatives	Derivatives	24,775	—	24,775	—	24,775								
FHLB	FHLB													
Borrowings	Borrowings	514,135	—	—	512,282	512,282								
Accrued	Accrued													
Interest	Interest													
Payable	Payable	6,930	—	—	6,930	6,930								
Accrued Interest Payable														
Accrued Interest Payable														
		Fair Value Measurements at December 31, 2022							Fair Value Measurements at December 31, 2023					
(Dollars in	(Dollars in	Carrying												
Thousands)	Thousands)	Value	Level 1	Level 2	Level 3	Total	(Dollars in Thousands)	Carrying Value	Level 1		Level 2		Level 3	Total
Financial	Financial													
Assets:	Assets:													
Cash and	Cash and													
Cash	Cash													
Equivalents	Equivalents	\$ 46,869	\$ 42,364	\$ 4,505	\$ —	\$ 46,869								
Cash and Cash														
Equivalents														
Cash and Cash														
Equivalents														
Securities	Securities													
Available-	Available-													
for-Sale	for-Sale	836,273	25,400	803,356	7,517	836,273								
Portfolio	Portfolio													
Loans, net	Loans, net	3,055,061	—	—	2,955,489	2,955,489								
Portfolio Loans, net														
Portfolio Loans, net														
Federal Home Loan Bank														
Stock, at Cost														
Federal Home Loan Bank														
Stock, at Cost														
Federal	Federal						21,626							
Home Loan	Home Loan													
Bank Stock,	Bank Stock,													
at Cost	at Cost	9,740	—	—	NA	NA								
Other	Other													
Assets-	Assets-													
Interest Rate	Interest Rate													
Derivatives	Derivatives	22,974	—	22,974	—	22,974								
Accrued	Accrued													
Interest	Interest													
Receivable	Receivable	19,346	138	4,903	14,305	19,346								
Financial	Financial													
Liabilities:	Liabilities:													
Financial Liabilities:														
Financial Liabilities:														

Deposits						
Deposits						
Deposits	Deposits	\$3,630,333	\$703,334	\$1,665,473	\$1,264,659	\$3,633,466
Other	Other					
Liabilities-	Liabilities-					
Interest Rate	Interest Rate					
Derivatives	Derivatives	22,543	—	22,543	—	22,543
Other Liabilities- Interest						
Rate Derivatives						
Other Liabilities- Interest						
Rate Derivatives						
FHLB						
FHLB						
Borrowings	Borrowings	180,550	—	—	180,569	180,569
Federal Funds Purchased		17,870	—	17,870	—	17,870
Accrued						
Accrued						
Interest	Interest					
Payable	Payable	2,294	—	—	2,294	2,294
Accrued Interest Payable						
Accrued Interest Payable						

**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)									Fair Value of Derivative Assets (Included in Other Assets)						
September 30, 2023									December 31, 2022						
Fair Value of Derivative Assets (Included in Other Assets)									Fair Value of Derivative Assets (Included in Other Assets)						
March 31, 2024									March 31, 2024						
(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	Number of Transactions	Notional Amount	Fair Value	Fair Value

Derivatives not Designated as Hedging Instruments	Derivatives not Designated as Hedging Instruments																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
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Interest Rate Lock	
Commitments – Mortgage Loans	
Interest Rate Lock	
Commitments – Mortgage Loans	

Interest Rate Swap	Interest Rate Swap								
Contracts – Commercial Loans	Contracts – Commercial Loans	58	390,408	25,291		62	432,984	22,973	

Total Derivatives not Designated as Hedging Instruments	Total Derivatives not Designated as Hedging Instruments	64	\$391,307	\$25,296		63	\$433,184	\$22,974	
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Fair Value of Derivative Liabilities (Included in Other Liabilities)									
September 30, 2023					December 31, 2022				

Fair Value of Derivative Liabilities (Included in Other Liabilities)										Fair Value of Derivative Liabilities (Included in Other Liabilities)					
March 31, 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	Number of Transactions	Notional Amount	Fair Value
Derivatives not Designated as Hedging Instruments	Derivatives not Designated as Hedging Instruments													
Forward Sale Contracts – Mortgage Loans	Forward Sale Contracts – Mortgage Loans	6	\$	899	\$	5		1	\$	200	\$	1		
Forward Sale Contracts – Mortgage Loans	Forward Sale Contracts – Mortgage Loans													
Interest Rate Swap	Interest Rate Swap													
Contracts – Commercial Loans	Contracts – Commercial Loans	58	390,408	24,770		62	432,984	22,542						





		Derivative Assets (Included in Other Assets)		Derivative Liabilities (Included in Other Liabilities)							
		Derivative Assets (Included in Other Assets)						Derivative Assets (Included in Other Assets)		Derivative Liabilities (Included in Other Liabilities)	
(Dollars in Thousands)	(Dollars in Thousands)	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022	(Dollars in Thousands)	March 31, 2024	December 31, 2023		March 31, 2024	December 31, 2023

NOTE 8 – DEPOSITS

[illegible]

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, made 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were \$248.9 million \$244.5 million and \$159.0 million \$235.0 million, respectively.

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, total brokered deposits (excluding the CDARS and ICS two-way) were \$20.0 million \$115.6 million and zero, \$70.0 million, respectively.

Certificates of Deposit maturing as of the date presented:

		September 30, 2023	March 31, 2024
(Dollars in Thousands)		2024	
3 Months or Less	\$	217,569	279,137
Over 3 Months through 12 Months		765,980	1,126,768
Over 1 Year Through 3 Years		456,579	194,633
Over 3 Years		71,426	94,142
Total	\$	1,511,554	1,694,680

Overdrafts reclassified to loans were \$0.2 million at September 30, 2023 March 31, 2024 and \$0.3 million at December 31, 2022 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 \$514.1 million \$310.5 million Federal Home Loan Bank ("FHLB") borrowings at September 30, 2023 March 31, 2024 and \$180.6 million \$393.4 million at December 31, 2022 December 31, 2023. FHLB borrowings include both are fixed rate 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 21.2% 19.5% and 33.4% 5.6% of total borrowings at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Total loans pledged as collateral were \$1.5 billion at both September 30, 2023 March 31, 2024 and December 31, 2022 at December 31, 2023, respectively. There were no securities available-for-sale pledged as collateral at both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. The

At March 31, 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 \$357.6 million based upon current qualifying collateral \$593.8 million. The Company has unsecured facilities with three other correspondent financial institutions totaling \$50.0 million at both March 31, 2024 and has December 31, 2023, respectively, a maximum borrowing capacity of approximately \$1.1 billion fully secured facility with one other correspondent financial institution totaling \$45.0 million, or 25.0% of and access to the Company's assets, institutional CD and brokered deposit markets. The Company did not have outstanding borrowings on these fed funds lines as of September 30, 2023 March 31, 2024. The Company had the capacity to borrow up to an additional \$676.7 million \$480.3 million from the FHLB at December 31, 2022 December 31, 2023.

The Company had no overnight federal funds purchased in September 30, 2023 March 31, 2024 and \$17.9 million nothing in December 31, 2022 December 31, 2023. The available borrowing capacity under unsecured lines of credit with corresponding banks was \$145.0 million and \$127.1 million at September 30, 2023 and December 31, 2022, respectively.

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)	September 30, 2023	December 31, 2022	(Dollars in Thousands)	March 31, 2024	December 31, 2023
FHLB Borrowings	FHLB Borrowings	\$514,135	\$180,550			
Weighted Average Interest Rate	Weighted Average Interest Rate	5.29 %	4.48 %	Weighted Average Interest Rate	5.16 %	5.20 %
FHLB Availability	FHLB Availability	\$357,583	\$676,746			

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)	September 30, 2023	December 31, 2022	(Dollars in Thousands)	March 31, 2024	December 31, 2023
Federal Fund Purchased	Federal Fund Purchased	\$ —	\$ 17,870			

Weighted Average Interest Rate	Weighted Average Interest Rate	— %	4.65 %	Weighted Average Interest Rate	— %	— %
Federal Funds Purchased Availability	Federal Funds Purchased Availability	\$145,000	\$127,130			

Scheduled annual maturities and weighted average interest rates for FHLB borrowings for each of the five years subsequent to **September 30, 2023** **March 31, 2024** and thereafter are as follows: **follows:**

(Dollars in Thousands)	Balance	Weighted Average Rate
1 year	\$ 444,135	5.49 %
2 years	25,000	4.13 %
3 years	45,000	3.96 %
4 years	—	— %
5 years	—	— %
Thereafter	—	— %
<b>Total FHLB Borrowings</b>	<b>\$ 514,135</b>	<b>5.29 %</b>

  

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

#### NOTE 10 – COMMITMENTS AND CONTINGENCIES

Commitments to extend credit, which amounted to **\$751.1 million** **\$742.7 million** at **September 30, 2023** **March 31, 2024** and **\$630.6 million** **\$702.3 million** at **December 31, 2022** **December 31, 2023**, represent agreements to lend to customers with fixed expiration dates or other termination clauses. The Company

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 **\$374.9 million** **\$451.6 million**, or **49.9%** **60.8%** and **\$373.2 million**, **\$452.2**

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**million**, or **59.2%** **64.4%**, of the commitments to extend credit at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **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. Those guarantees are primarily issued to support public and private borrowing arrangements. The Company had outstanding letters of credit totaling **\$21.6 million** **\$18.3 million** at **September 30, 2023** **March 31, 2024** and **\$25.7 million** **\$19.6 million** at **December 31, 2022** **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)	September 30, 2023	December 31, 2022	(Dollars in Thousands)	March 31, 2024	December 31, 2023
Commitments to Extend Credit	Commitments to Extend Credit	\$ 751,113	\$ 630,619			

Standby and Performance Letters of Credit	Standby and Performance Letters of Credit	21,611	25,739
<b>Total</b>	<b>Total</b>	<b>\$ 772,724</b>	<b>\$ 656,358</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 September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,		Three Months Ended March 31,	
		Three Months Ended March 31,		Three Months Ended March 31,	
		Three Months Ended March 31,		Three Months Ended March 31,	
(Dollars in Thousands)					
(Dollars in Thousands)					
(Dollars in Thousands)	(Dollars in Thousands)	2023	2022	2023	2022
Life-of-Loss Reserve on Unfunded Loan Commitments	Life-of-Loss Reserve on Unfunded Loan Commitments				
Life-of-Loss Reserve on Unfunded Loan Commitments	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	Balance at Beginning of Period				
Balance at Beginning of Period	Balance at Beginning of Period	\$ 2,736	\$ 1,816	\$ 2,292	\$ 1,783
(Recovery) Provision for Unfunded Commitments	(Recovery) Provision for Unfunded Commitments	(130)	157	314	190
(Recovery) Provision for Unfunded Commitments	(Recovery) Provision for Unfunded Commitments				
(Recovery) Provision for Unfunded Commitments	(Recovery) Provision for Unfunded Commitments				
Balance at End of Period	Balance at End of Period	\$ 2,606	\$ 1,973	\$ 2,606	\$ 1,973
Balance at End of Period	Balance at End of Period				
Balance at End of Period	Balance at End of Period				

Amounts are added or subtracted to the provision for unfunded commitments through a charge or credit to current earnings in the provision for unfunded commitments. A recovery of \$43.0 thousand was recorded for the three months ended March 31, 2024 for the provision for unfunded commitments, which resulted in a decrease of \$0.1 million compared to the provision of \$0.1 million for the three months ended March 31, 2023.

#### Litigation 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. The Company Further, estimating an amount or range of possible losses that may enter into settlement discussions in some result from legal or administrative proceedings if it believes it 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 Company's best interests early stages of the proceedings, or are subject to do so. 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 September 30, 2023 and March 31, 2024, the Company is not involved in any other material pending legal proceedings other than proceedings occurring in the ordinary course of business.

##### Justice Collection Actions

The Bank is engaged in a variety of collection proceedings (the "Collection Actions") against various related entities that are owned and/or controlled by James C. Justice, II, Cathy L. Justice and James C. Justice, III (such entities, the "Justice Entities" and collectively with the individuals, the "Defendants" "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 \$301.9 \$301 million. On May 12, 2023 and June 7, 2023, the Collection Defendants filed motions to set aside the confessions of judgment on the basis that the Bank allegedly (i) violated anti-tying provisions of the Bank Holding Company Act of 1956, as amended, (ii) breached contractual obligations and fiduciary duties to the Collection Defendants and (iii) tortiously interfered with the Collection Defendants' business expectancies and relationships, among other allegations. On December 11, 2023, the Martinsville Circuit Court heard oral arguments on the motions to set aside the confessions of judgment filed by the Collection Defendants. On January 22, 2024, the Martinsville Circuit Court issued a letter opinion denying such motions. On February 21, 2024, the Martinsville Circuit Court issued final orders denying such motions. On February 26, 2024, the Collection Defendants filed a notice of appeal regarding the Martinsville Circuit Court's order denying such motions.

Under Virginia law, a party seeking to suspend 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, the Collection Defendants filed a motion with the Court of Appeals of the Commonwealth of Virginia (the "Virginia Court of Appeals"), seeking to modify the security requirement applicable to the Collection Defendants' appeals of the Martinsville Circuit Court's orders described in the paragraph above, and 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 the confessions of judgment that were upheld by the Martinsville Circuit Court, the Bank has initiated collection processes against the Collection Defendants (see "Justice Foreclosure Litigation").

The Company and the Bank intend to pursue vigorously the Collection Actions and enforce the confessions of judgment and related agreements, including but not limited to release and 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.

##### 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. 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)

obligations confessions of judgment, and fiduciary duties certain guarantees, be declared void and unenforceable. On December 6, 2023, the Company and the Bank filed a motion to transfer venue to the Defendants and (iii) tortiously interfered with United States District Court for the Defendants' business expectancies and relationships, among other allegations, Western District of Virginia. That motion was granted on April 24, 2024.

The Company and the Bank intend to pursue vigorously the confessions of judgment and enforce the promissory notes and related agreements, including release and affirmation agreements, guaranties and indemnification agreements. The Company and the Bank vigorously deny the allegations contained in the Defendants' motions Justice Federal Court

Litigation and intend to **set aside** defend vigorously the matter and the validity and enforceability of the confessions of **judgment**. 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 with legal counsel, the Company believes that the Company, the Bank and the individual defendants have meritorious defenses to all allegations contained in the Justice Federal Court Litigation.

Because the Justice Federal Court Litigation is in its early stages, the Company cannot reasonably estimate the ultimate outcome or timing of, or possible losses resulting from, the Justice Federal Court Litigation or any related legal proceedings that may commence, and cannot conclude if the outcome of any of these matters would have a material impact to the Company.

#### Justice Foreclosure Litigation

On February 7, 2024, the Bank was named as a defendant in a lawsuit (the "Justice Foreclosure Litigation") filed in the Circuit Court of Greenbrier County, West Virginia (the "Greenbrier Circuit Court") by 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 the Greenbrier Circuit Court to issue declaratory judgments that the Trust Deed is invalid and unenforceable, the Notice of Sale (defined below) is invalid and of no effect, and that the trustee and the Bank may not sell the property described in the Notice of Sale. Sporting Club also requests the Greenbrier Circuit Court to issue a declaratory judgment that the debts secured by the Trust Deed are not payable and therefore no trustee sale is permitted, or alternatively that Sporting Club is entitled to final adjudication of the Justice Federal Court Litigation before any sale of property by the trustee under the Trust Deed may proceed.

On or about February 6, 2024, a notice of sale (the "Notice of Sale") was published in multiple newspapers regarding the proposed sale by the Trustee of certain real estate encumbered by the Trust Deed. The debts secured by the Trust Deed matured on April 15, 2023 and the Bank filed confessions of judgment with respect to such debts in the Martinsville Circuit Court. See the description of the Justice Collection Litigation above. On February 16, 2024, the Bank voluntarily cancelled the proposed sale by the Trustee of the real estate encumbered by the Trust Deed.

The Bank disputes all allegations contained in the Justice Foreclosure Litigation and intends to defend vigorously the matter and the validity and enforceability of the Trust Deed, the validity and collectability of the debts owed to the Bank by the Sporting Club. The Bank intends to oppose vigorously the injunctive relief requested by Sporting Club in the Justice Foreclosure Litigation. Based on information presently available to the Company and the Bank and based on consultation with legal counsel, the Company believes that the Bank has meritorious defenses to all allegations contained in **such motions to set aside** the **confessions of judgment**. Justice Foreclosure Litigation.

Because the **collection litigation** Justice Foreclosure Litigation is in its early stages, the Company **can make no prediction as to** cannot reasonably estimate the ultimate outcome **thereof** 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** **Company is not yet able to make** outcome of any of these matters would have a **determination as** material impact to the **likelihood of an unfavorable outcome** Company.

#### GLAS Federal Court Litigation

On February 12, 2024, the Bank was named as a defendant in **this matter or to estimate a** lawsuit (the "GLAS Federal Court Litigation") filed in the **range of any possible gain or loss with respect to this litigation**.

#### NOTE 11 – TAX EFFECTS ON OTHER COMPREHENSIVE LOSS

The following table presents the change in components of other comprehensive loss **United States District Court** for the **periods presented, net** **Western District** of **tax effects**:

(Dollars in Thousands)	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	Pre-Tax Amount	Tax Benefit	Net of Tax	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax
			Amount			Amount
Net Unrealized Losses Arising during the period	\$ (14,773)	\$ 3,197	\$ (11,576)	\$ (33,326)	\$ 6,999	\$ (26,327)
Reclassification Adjustment for Losses included in Net Income	1	—	1	4	(1)	3
<b>Other Comprehensive Loss</b>	<b>\$ (14,772)</b>	<b>\$ 3,197</b>	<b>\$ (11,575)</b>	<b>\$ (33,322)</b>	<b>\$ 6,998</b>	<b>\$ (26,324)</b>

(Dollars in Thousands)	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax	Pre-Tax Amount	Tax Benefit	Net of Tax
			Amount			Amount
Net Unrealized Losses Arising during the period	\$ (10,176)	\$ 2,224	\$ (7,952)	\$ (111,360)	\$ 23,386	\$ (87,974)
Reclassification Adjustment for Losses (Gains) included in Net Income	10	(2)	8	(48)	10	(38)
<b>Other Comprehensive Loss</b>	<b>\$ (10,166)</b>	<b>\$ 4,615</b>	<b>\$ 2,222</b>	<b>\$ (111,408)</b>	<b>\$ 23,396</b>	<b>\$ (88,012)</b>

#### NOTE 12 – STOCK REPURCHASE PLAN

On March 29, 2023 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 **Company announced** "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 **its Board** it serves as trustee for investors that acquired notes via a series of Directors (the "Board") has authorized, effective May 1, 2023, a common share repurchase program securities transactions that repackaged the Bluestone Entities' obligations to **purchase up** repay Greensill and sold them to **1,000,000 shares** of those investors. In the **Company's common stock** 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 **over** total approximately \$226 million, each constitute either a period of twelve months, (the "2023 Program") subject to receipt of non-objection from the Federal Reserve Bank of Richmond, which was received on April 24, 2023. The 2023

Program authorizes the purchase of the Company's common stock in open market transactions fraudulent conveyance, or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. The authorization permits management to repurchase shares of the Company's common stock from time to time at management's discretion. The actual means and timing of any shares purchased under the 2023 Program will depend on a variety of factors, including the market price of the Company's common stock, general market and economic conditions, management's evaluation of the Company's financial condition and liquidity position and applicable legal and regulatory requirements. The 2023 Program is authorized through May 1, 2024, although it may be modified or terminated by the Board at any time. The 2023 Program does not obligate the Company to purchase any particular number of shares, and was exhausted as of August 31, 2023. During the three months ended September 30, 2023, the remainder of 416,176 shares of common stock had been repurchased under this program at a total cost of \$6.0 million, or an average price of \$14.43 per share.

Previously on June 28, 2022, the Company announced that its Board authorized, effective August 1, 2022, a common share repurchase program to purchase up to 750,000 shares of the Company's common stock in the aggregate over a period of twelve months, subject to non-objection from the Federal Reserve Bank of Richmond, which was received in July 2022 (the "2022 Program"). The 2022 Program authorized the purchase of the Company's common stock in open market transactions or

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.

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 agreed (the "Justice Indemnity Agreement") to indemnify, defend and hold harmless the Bank from damages, claims, liabilities, losses, and expenses incurred in connection with certain claims that may be asserted against the Bank, including the claims that are asserted in the GLAS Federal Court Litigation. These indemnity obligations are supported by substantial pledged collateral. The Company and the Bank intend to pursue vigorously all remedies afforded to the Bank under the Justice Indemnity Agreement.

Because the GLAS Federal Court Litigation is in its early stages, the Company cannot reasonably estimate the ultimate outcome or timing of, or possible losses resulting from, the GLAS Federal Court Litigation or any related legal proceedings that may commence, and cannot conclude if the outcome of any of these matters would have a material impact to the Company.

NOTE 11 – TAX EFFECTS ON OTHER COMPREHENSIVE INCOME

The following table presents the change in components of other comprehensive income 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	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax
			Amount			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
Other Comprehensive Income	\$ 2,119	\$ (476)	\$ 1,643	\$ 15,645	\$ (3,393)	\$ 12,252

NOTE 12 – STOCK REPURCHASE PLAN – (continued)

privately negotiated transactions, including pursuant to a trading planThe Company was active in accordance with Rule 10b-18 promulgated under the Exchange Act. The authorization permitted management to share repurchase activity and repurchased 1,000,000 shares of the Company'sits common stock from time to time at management's discretion. The 2022 Program 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, did not obligate the Company to purchase any particular number of shares, and but was fully exhausted as of March 10, 2023.

Previously on December 13, 2021, The Board of Directors authorized the Company announced that its Board authorized, effective December 10, 2021, a common share repurchase program to purchase up to 2,000,000 of 1,000,000 shares of the Company's common stock in under the aggregate over a period of twelve months (the "2021 Program"). The 2021 2023 Program was originally authorized through December 9, 2022, did not obligate and on August 31, 2023 reached the Company to purchase any particular maximum number of shares and was exhausted that could be purchased under the 2023 Program. The Company's Board of Directors have not authorized a new repurchase program as of April 28, 2022 March 31, 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:

		Three Months Ended September 30,				Nine Months Ended September 30,			
		2023		2022		2023		2022	
		Three Months Ended March 31,							
		Three Months Ended March 31,							
		Three Months Ended March 31,							
		2024							
		2024							
		2024							
(Dollars in Thousands)									
(Dollars in Thousands)									
(Dollars in Thousands)	(Dollars in Thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Federal Income Tax at Statutory Rate	Federal Income Tax at Statutory Rate	\$ 925	21.0	\$ 4,077	21.0	\$ 6,428	21.0	\$ 8,954	21.0
Federal Income Tax at Statutory Rate									
Federal Income Tax at Statutory Rate									
State Income Tax, net of Federal Benefit									
State Income Tax, net of Federal Benefit									
State Income Tax, net of Federal Benefit	State Income Tax, net of Federal Benefit	48	1.1	208	1.1	468	1.5	470	1.1
Tax-exempt Interest, net of Disallowance	Tax-exempt Interest, net of Disallowance	(170)	(3.9)	(214)	(1.1)	(548)	(1.8)	(667)	(1.6)
Tax-exempt Interest, net of Disallowance									
Tax-exempt Interest, net of Disallowance									
Federal Tax Credits, net of Basis Reduction									
Federal Tax Credits, net of Basis Reduction									
Federal Tax Credits, net of Basis Reduction	Federal Tax Credits, net of Basis Reduction	(556)	(12.6)	790	4.1	(1,665)	(5.4)	(317)	(0.7)
Tax Credit Investment Amortization, net of Federal Benefit	Tax Credit Investment Amortization, net of Federal Benefit	379	8.6	—	—	1,136	3.7	—	—
Tax Credit Investment Amortization, net of Federal Benefit									



Tax Credit Investment									
Amortization, net of Federal Benefit									
Change in Valuation Allowance									
Change in Valuation Allowance									
Change in Valuation Allowance	Change in Valuation Allowance	—	—	219	1.1	—	—	(61)	(0.1)
Income from Bank Owned Life Insurance									
Income from Bank Owned Life Insurance	Income from Bank Owned Life Insurance	(73)	(1.7)	(72)	(0.4)	(216)	(0.7)	(212)	(0.5)
Income from Bank Owned Life Insurance									
Income from Bank Owned Life Insurance									
Interim Period Effective Tax Rate Adjustment									
Interim Period Effective Tax Rate Adjustment									
Interim Period Effective Tax Rate Adjustment	Interim Period Effective Tax Rate Adjustment	321	7.3	6	—	(276)	(0.9)	(49)	(0.1)
Other	Other	(94)	(2.1)	(5)	—	11	—	12	—
Other									
Other									
Income Tax Provision and Effective Income Tax Rate	Income Tax Provision and Effective Income Tax Rate	\$ 780	17.7	\$ 5,009	25.8	\$ 5,338	17.4	\$ 8,130	19.1
Income Tax Provision and Effective Income Tax Rate									
Income Tax Provision and Effective Income Tax Rate									

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 **September 30, 2023** **March 31, 2024**, the Company recognized **\$2.2 million** **\$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 **September 30, 2023** **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 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 nine** month periods ended **September 30, 2023** **March 31, 2024** and **September 30, 2022** **March 31, 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,” “continue,” “remain,” “potential,” “opportunity,” “comfortable,” “current,” “position,” “maintain,” “sustain,” “seek,” “achieve” and variations of such words and similar expressions, or future or conditional verbs such as will, would, should, could or may.

These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumption 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, government**, including policies of the Federal Reserve, FDIC and **U.S. Department of the Treasury (the “Treasury Department”); Department;**
- **cyber-security threats, attacks or events;**

#### CARTER BANKSHARES, INC.

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

- **changes in accounting policies, practices, or 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;**
- **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, (such as the Inflation Reduction Act of 2022), and the Company and the Bank, in particular;
- the outcome of pending and future litigation and/or governmental proceedings; 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;
- 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 the closings of Silicon Valley Bank ("SVB"), Signature Bank, Silvergate Bank and First Republic Bank and their impact on the recent significant bank failures or broader market through other customers, suppliers and partners stability or that the conditions which resulted in the liquidity concerns with SVB, Signature Bank, Silvergate Bank and First Republic Bank regarding other financial institutions including but not limited to other regional banks, which may also adversely impact, directly or indirectly, other financial institutions and market participants with which the Company has commercial or deposit relationships with;
- our ability to successfully execute and achieve the expected results of our business, brand strategies, brand awareness programs and marketing programs in the markets we serve, including, but not limited to, the Company's guiding principles, including our new purpose statement: *To create opportunities for more people and businesses to prosper;* supported by our new set of core values: *Build Relationships, Earn Trust and Take Ownership;* 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)

- changes in deposit flows and loan demand;
- our failure to attract or retain key employees;
- expansions or consolidations in the Company's branch network, including any that the anticipated benefits of the Company's ongoing 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.

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, 2022](#) [December 31, 2023](#), Part II, Item 1A, "Risk Factors" in the Company's Quarterly Report on Form 10-Q for the periods ended March 31, 2023 and June 30, 2023, and in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q, and any of our subsequent filings with the Securities and Exchange Commission ("SEC"). All risk factors and uncertainties described herein and therein should be considered in evaluating the Company's forward-looking statements. Forward-looking statements are based on beliefs and assumptions using information available at the time the statements are prepared. 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 **earning 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 **earning 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 **September 30, 2023** **March 31, 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, 2022](#) [December 31, 2023](#) under the section "Management's Discussion and Analysis of Financial Condition and Results of Operations," and are incorporated herein by reference.

## CARTER BANKSHARES, INC.

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

## Overview and Strategy

Carter Bankshares, Inc. (the "Company") is a bank holding company headquartered in Martinsville, Virginia with assets of **\$4.5 billion** **\$4.6 billion** at **September 30, 2023** **March 31, 2024**. The Company is the parent company of its wholly owned subsidiary, Carter Bank & Trust (the "Bank"). The Bank is a **FDIC** Federal Deposit Insurance Corporation, ("FDIC") insured, Virginia state-chartered bank, which operates **64** **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.

**For the 2023-2025 fiscal year periods**, **Beginning in 2023, and continuing into 2024 and 2025**, the Company **will focus** **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*; **prosper**; supported by our new set of core values: *Build Relationships, Earn Trust and Take Ownership*. We believe these new guiding principles will help create alignment to support future growth by empowering our associates and igniting a passion for the Company.

The Company's **Board of Directors** and management believe that the Bank **goal** is **at a turning point in its evolution and transformation**. The Company's goal **will be** 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 **this initiative is viable given that** the Bank's strong capital and liquidity **positions**. **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 **resolve** **resolving** the Company's nonaccrual loans, the significant majority of which are related to a single large lending relationship **at September 30, 2023**, 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 **its** 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 that best protects the Company, the Bank and shareholders.

## Results of Operations and Financial Condition

### Earnings Summary

#### Highlights for the Three Months Ended September 30, 2023 March 31, 2024

- Net interest income decreased \$10.3 million \$12.4 million, or 27.4%, 30.3% compared to \$27.4 million for the three months ended September 30, 2023 compared to the same period in 2022 March 31, 2023, primarily due to a \$9.3 million negative impact 155 basis point increase in funding costs and a 12 basis point decrease in yield on earning assets. Net interest income caused 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 the Bank's its largest lending relationship in on nonaccrual status during the three months ended June 30, 2023 and by an increase second quarter of 194 basis points in funding costs, offset by an increase of 31 basis points in the yield on earning assets due to the rising interest rate environment; 2023;
- The provision for credit losses increased \$1.2 million to \$1.1 million decreased \$1.4 million for the three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022; 2023;
- Total noninterest income increased \$0.3 million to \$5.0 million for the three months ended March 31, 2024, compared to the same period in 2023;
- Total noninterest expense increased \$3.8 million \$2.7 million to \$27.3 million \$26.3 million for the three months ended September 30, 2023 March 31, 2024 compared to the same period in 2022; 2023; and
- Provision for income taxes decreased \$4.2 million \$3.1 million to \$0.8 million \$1.4 million for the three months ended September 30, 2023 March 31, 2024 compared to \$5.0 million \$4.5 million for the same period in 2022 2023, which was primarily due to the decrease in pre-tax income due to the Company's largest lending relationship moving into nonaccrual status during the three months ended June 30, 2023. second quarter of 2023.

#### Highlights for the Nine Months Ended September 30, 2023

### CARTER BANKSHARES, INC.

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

Net interest income decreased \$3.5 million, or 3.6%, to \$94.9 million for the nine months ended September 30, 2023 compared to the same period in 2022 primarily due to an increase of 142 basis points in funding costs, partially offset by an increase of 79 basis points in the yield on earning assets due to the rising interest rate environment and the negative impact of placing the Bank's largest lending relationship in nonaccrual status during the three months ended June 30, 2023;

- The provision for credit losses increased \$0.2 million to \$2.6 million for the nine months ended September 30, 2023, compared to the same period in 2022;
- Total noninterest income decreased \$1.1 million to \$15.0 million for the nine months ended September 30, 2023 compared to the same period in 2022;
- Total noninterest expense increased \$7.0 million to \$76.4 million for the nine months ended September 30, 2023 compared to the same period in 2022; and
- Provision for income taxes decreased \$2.8 million to \$5.3 million for the nine months ended September 30, 2023 compared to the same period in 2022.

#### Balance Sheet Highlights (period-end balances, September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023)

- The securities portfolio decreased \$42.9 million \$10.2 million and is currently 17.8% 16.9% of total assets compared to 19.9% 17.3% of total assets;
- Total portfolio loans increased \$262.0 million \$3.2 million, or 11.1% 0.4%, on an annualized basis, primarily due to loan growth in the commercial real estate ("CRE"), and residential mortgage and construction segments during the nine three months ended September 30, 2023; March 31, 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 95.9% 91.6%, compared to 86.7%, due to loan growth; 94.2%;
- Nonperforming loans as a percentage of total portfolio loans were 9.04% 8.76% compared to 0.21% 8.83%. The significant increase is due to loans contained in the Other segment with an aggregate principal balance of \$301.9 million that were placed into nonaccrual status due to loan maturities and failure to pay in full during the second quarter of 2023. These loans comprise 97.9% 98.2% of nonperforming loans at September 30, 2023 March 31, 2024;
- Total deposits decreased \$74.2 million increased \$108.6 million, or 2.0% 11.6% on an annualized basis, compared to \$3.6 billion at September 30, 2023 due to a decrease of \$324.2 million in all deposit categories except CDs, which increased \$250.0 million December 31, 2023; and
- The Allowance for Credit Losses, ("ACL") to total portfolio loans ratio was 2.77% 2.75% compared to 2.98% 2.77%. The ACL on portfolio loans totaled \$94.5 million \$96.5 million at September 30, 2023 March 31, 2024, compared to \$93.9 million \$97.1 million at December 31, 2022 December 31, 2023.

The Company reported net income of \$3.6 million \$5.8 million or \$0.16 \$0.25 diluted earnings per common share ("EPS") for the three months ended September 30, 2023 and \$25.3 million, or \$1.07 diluted EPS for the nine months ended September 30, 2023 March 31, 2024 compared to net income of \$14.4 million \$15.9 million, or \$0.59 diluted EPS and \$34.5 million, or \$1.38 \$0.67 diluted EPS for the same periods period in 2022, 2023.

The Company's financial results for the three and nine months ended September 30, 2023 March 31, 2024, compared to the same periods period in 2022, 2023 were significantly impacted by placing commercial loans with an aggregate principal value of \$301.9 million in the Other segment of the Bank's loan portfolio on nonaccrual status due to loan maturities and failure to pay in full. This nonaccrual classification had a \$9.3 million and \$20.6 million negative impact on interest income recognized by the Company for the three and nine months ended September 30, 2023 March 31, 2024.

		Three Months Ended September 30,				Nine Months Ended September 30,			
		Three Months Ended March 31,				Three Months Ended March 31,			
		Three Months Ended March 31,				Three Months Ended March 31,			
		Three Months Ended March 31,				Three Months Ended March 31,			
PERFORMANCE RATIOS									
PERFORMANCE RATIOS									
PERFORMANCE RATIOS	PERFORMANCE RATIOS	2023		2022		2023		2022	
Return on Average Assets	Return on Average Assets	0.33	%	1.38	%	0.78	%	1.12	%
Return on Average Assets									
Return on Average Assets									
Return on Average Shareholders' Equity									
Return on Average Shareholders' Equity									
Return on Average Shareholders' Equity									
Return on Average Shareholders' Equity									
Return on Average Shareholders' Equity	Return on Average Shareholders' Equity	4.19	%	16.75	%	9.71	%	12.80	%
Portfolio Loans to Deposit Ratio	Portfolio Loans to Deposit Ratio	95.92	%	81.36	%	95.92	%	81.36	%
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									
Allowance for Credit Losses to Total Portfolio Loans	Allowance for Credit Losses to Total Portfolio Loans	2.77	%	3.11	%	2.77	%	3.11	%
Nonperforming Loans to Total Portfolio Loans	Nonperforming Loans to Total Portfolio Loans	9.04	%	0.23	%	9.04	%	0.23	%
Nonperforming Loans to Total Portfolio Loans									
Nonperforming Loans to Total 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.

Total net interest income decreased \$10.3 million to \$27.4 million for the three months ended September 30, 2023 and decreased \$3.5 million to \$94.9 million for the nine months ended September 30, 2023 compared to the same periods in 2022. The decreases for the comparable periods was a result of the higher interest rate environment that benefited earning asset yields given the asset sensitive positioning of the balance sheet. The Company recognized higher yields on new loan originations and investment securities purchases, offset by the \$9.3 million and \$20.6 million negative impact on interest income related to the Company placing its largest lending relationship on nonaccrual status during the three and nine months ended September 30, 2023. Net interest income, on an FTE basis (non-GAAP), decreased \$10.4 million to \$27.6 million for the three months ended September 30, 2023 and decreased \$3.6 million to \$95.7 million for the nine months ended September 30, 2023, compared to \$38.0 million and \$99.3 million for the same periods in 2022, respectively.

The Company's net interest income and net interest margin will continue to be negatively impacted in future periods, by the Company's largest lending relationship being placed on nonaccrual status. In addition, rising market interest rates have begun to increase the Company's funding costs, which we believe will likely continue in future periods and which would negatively impact the Company's net interest income and net interest margin in future periods.

During the nine months ended September 30, 2023, the Company's yield on earning assets continued to benefit from the rising interest rate environment. However, during the fourth quarter of 2023, the impacts of rising yields on earning assets may not be sufficient to offset the negative impacts of increased funding costs in the rising rate environment and the negative impacts on interest income related to the Company's largest lending relationship being placed in nonaccrual status.

Positively impacting the nine months ended September 30, 2023 was the asset sensitivity of our balance sheet. Yields on a large portion of our loan and securities portfolios adjust as rates rise at a quicker rate than the rates our deposits and other funding sources adjust. Yields on our loan portfolio consist of 24.5% floating rates and 41.3% variable rates, while 47.3% of the securities portfolio is floating rate and adjust as interest rates increase. This positively impacts revenue and helps mitigate increased funding costs.

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

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
(Dollars in Thousands)					
(Dollars in Thousands)					
(Dollars in Thousands)	(Dollars in Thousands)	2023	2022	2023	2022
Interest Income (FTE)(Non-GAAP)	Interest Income (FTE)(Non-GAAP)				
Interest Income (FTE)(Non-GAAP)					
Interest Income (FTE)(Non-GAAP)					
Interest and Dividend Income (GAAP)					
Interest and Dividend Income (GAAP)					
Interest and Dividend Income (GAAP)	Interest and Dividend Income (GAAP)	\$ 48,886	\$ 42,327	\$ 144,557	\$ 111,966
Tax Equivalent Adjustment	Tax Equivalent Adjustment	247	279	768	870
Tax Equivalent Adjustment					
Tax Equivalent Adjustment					
Interest and Dividend Income (FTE) (Non-GAAP)					
Interest and Dividend Income (FTE) (Non-GAAP)					
Interest and Dividend Income (FTE) (Non- GAAP)	Interest and Dividend Income (FTE) (Non- GAAP)	49,133	42,606	145,325	112,836
Average Earning Assets	Average Earning Assets	\$ 4,320,390	\$ 4,024,880	\$ 4,256,560	\$ 4,006,788
Average Earning Assets					

Average Earning Assets											
Yield on Interest-earning Assets (GAAP)	Yield on Interest-earning Assets (GAAP)	4.49	%	4.17	%	4.54	%	3.74	%		
Yield on Interest-earning Assets (GAAP)											
Yield on Interest-earning Assets (GAAP)											
Yield on Interest-earning Assets (FTE) (Non-GAAP)											
Yield on Interest-earning Assets (FTE) (Non-GAAP)											
Yield on Interest-earning Assets (FTE) (Non-GAAP)	Yield on Interest-earning Assets (FTE) (Non-GAAP)	4.51	%	4.20	%	4.56	%	3.77	%		
Net Interest Income (GAAP)	Net Interest Income (GAAP)	\$ 27,394		\$ 37,725		\$ 94,890		\$ 98,406			
Net Interest Income (GAAP)											
Net Interest Income (GAAP)											
Tax Equivalent Adjustment											
Tax Equivalent Adjustment											
Tax Equivalent Adjustment	Tax Equivalent Adjustment	247		279		768		870			
Net Interest Income (FTE) (Non-GAAP)	Net Interest Income (FTE) (Non-GAAP)	27,641		38,004		95,658		99,276			
Net Interest Income (FTE) (Non-GAAP)											
Net Interest Income (FTE) (Non-GAAP)											
Average Earning Assets											
Average Earning Assets											
Average Earning Assets	Average Earning Assets	\$ 4,320,390		\$ 4,024,880		\$ 4,256,560		\$ 4,006,788			
Net Interest Margin (GAAP)	Net Interest Margin (GAAP)	2.52	%	3.72	%	2.98	%	3.28	%		
Net Interest Margin (GAAP)											
Net Interest Margin (GAAP)											
Net Interest Margin (FTE) (Non-GAAP)	Net Interest Margin (FTE) (Non-GAAP)	2.54	%	3.75	%	3.00	%	3.31	%		
Net Interest Margin (FTE) (Non-GAAP)											
Net Interest Margin (FTE) (Non-GAAP)											

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 September 30, 2023									Three Months Ended September 30, 2022								
Three Months Ended March 31, 2024									Three Months Ended March 31, 2023								
(Dollars in Thousands)	(Dollars in Thousands)	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	(Dollars in Thousands)	Average Balance	Income/Expense	Yield/Rate	(Dollars in Thousands)	Average Balance	Income/Expense	Yield/Rate	(Dollars in Thousands)	Average Balance
ASSETS	ASSETS																
Interest-Bearing Deposits with Banks	Interest-Bearing Deposits with Banks																
Interest-Bearing Deposits with Banks	Interest-Bearing Deposits with Banks	\$ 12,652	\$ 172	5.39 %	\$ 25,151	\$ 134	2.11 %		\$ 24,129	\$ 335	5.58 %		\$ 24,129	\$ 335	5.58 %		\$ 16,000
Tax-Free Investment Securities <sup>(2)</sup>	Tax-Free Investment Securities <sup>(2)</sup>	27,594	203	2.92 %	30,073	215	2.84 %		11,818	85	2.89 %		11,818	85	2.89 %		
Taxable Investment Securities	Taxable Investment Securities	893,386	7,793	3.46 %	942,571	5,466	2.30 %		853,540	7,743	3.65 %		853,540	7,743	3.65 %		
Total Securities	Total Securities	920,980	7,996	3.44 %	972,644	5,681	2.32 %		865,358	7,828	3.64 %		865,358	7,828	3.64 %		
Tax-Free Loans <sup>(1)(2)</sup>	Tax-Free Loans <sup>(1)(2)</sup>	120,670	972	3.20 %	141,082	1,115	3.14 %		111,471	897	3.24 %		111,471	897	3.24 %		
Taxable Loans <sup>(3)</sup>	Taxable Loans <sup>(3)</sup>	3,243,663	39,578	4.84 %	2,883,790	35,652	4.90 %		3,407,659	44,817	5.29 %		3,407,659	44,817	5.29 %		
Total Loans	Total Loans	3,364,333	40,550	4.78 %	3,024,872	36,767	4.82 %		3,519,130	45,714	5.22 %		3,519,130	45,714	5.22 %		
Federal Home Loan Bank Stock	Federal Home Loan Bank Stock	22,425	415	7.34 %	2,213	24	4.30 %		20,403	378	7.45 %		20,403	378	7.45 %		
Total Interest-Earning Assets	Total Interest-Earning Assets	4,320,390	\$49,133	4.51 %	4,024,880	\$42,606	4.20 %		4,429,020	\$54,255	4.93 %		4,429,020	\$54,255	4.93 %		
Noninterest Earning Assets	Noninterest Earning Assets	88,805			109,307												
Total Assets	Total Assets	\$4,409,195			\$4,134,187												
Total Assets	Total Assets																
LIABILITIES AND SHAREHOLDERS' EQUITY	LIABILITIES AND SHAREHOLDERS' EQUITY																
LIABILITIES AND SHAREHOLDERS' EQUITY	LIABILITIES AND SHAREHOLDERS' EQUITY																
LIABILITIES AND SHAREHOLDERS' EQUITY	LIABILITIES AND SHAREHOLDERS' EQUITY																
Interest-Bearing Demand	Interest-Bearing Demand																
Interest-Bearing Demand	Interest-Bearing Demand	\$ 475,939	\$ 720	0.60 %	\$ 500,281	\$ 462	0.37 %		\$ 496,052	\$ 1,112	0.90 %		\$ 496,052	\$ 1,112	0.90 %		\$ 490,000
Money Market	Money Market	430,954	2,495	2.30 %	552,718	395	0.28 %		524,896	3,996	3.06 %		524,896	3,996	3.06 %		
Savings	Savings	504,697	140	0.11 %	731,931	192	0.10 %		439,775	137	0.13 %		439,775	137	0.13 %		
Certificates of Deposit	Certificates of Deposit	1,486,165	11,973	3.20 %	1,257,907	3,420	1.08 %		1,635,819	15,472	3.80 %		1,635,819	15,472	3.80 %		

Total Interest-Bearing Deposits	Total Interest-Bearing Deposits	2,897,755	15,328	2.10 %	3,042,837	4,469	0.58 %	Total Interest-Bearing Deposits	3,096,542	20,717	20,717	2.69	2.69 %
Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	447,287	5,986	5.31 %	3,913	31	3.14 %	Federal Home Loan Bank Borrowings	366,782	4,819	4,819	5.28	5.28 %
Federal Funds Purchased	Federal Funds Purchased	7,550	107	5.62 %	3,432	23	2.66 %	Federal Funds Purchased	—	—	—	—	— %
Other Borrowings	Other Borrowings	6,131	71	4.59 %	6,326	79	4.95 %	Other Borrowings	7,703	94	94	4.91	4.91 %
Total Borrowings	Total Borrowings	460,968	6,164	5.31 %	13,671	133	3.86 %	Total Borrowings	374,485	4,913	4,913	5.28	5.28 %
Total Interest-Bearing Liabilities	Total Interest-Bearing Liabilities	3,358,723	21,492	2.54 %	3,056,508	4,602	0.60 %	Total Interest-Bearing Liabilities	3,471,027	25,630	25,630	2.97	2.97 %
Noninterest-Bearing Liabilities	Noninterest-Bearing Liabilities	707,445			736,441								
Shareholders' Equity	Shareholders' Equity	343,027			341,238								
Shareholders' Equity													
Shareholders' Equity													
Total Liabilities and Shareholders' Equity													
Total Liabilities and Shareholders' Equity													
Total Liabilities and Shareholders' Equity	Total Liabilities and Shareholders' Equity	\$4,409,195			\$4,134,187								
Net Interest Income <sup>(2)</sup>	Net Interest Income <sup>(2)</sup>	\$27,641			\$38,004								
Net Interest Income <sup>(2)</sup>													
Net Interest Income <sup>(2)</sup>													
Net Interest Margin <sup>(2)</sup>	Net Interest Margin <sup>(2)</sup>			2.54 %			3.75 %						
Net Interest Margin <sup>(2)</sup>													
Net Interest Margin <sup>(2)</sup>													2.60 %

<sup>(1)</sup> Nonaccruing loans are included in the daily average loan amounts outstanding.

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

<sup>(3)</sup> Average loan balances include loans held-for-sale.

Net interest income decreased to \$28.4 million for the three months ended March 31, 2024 from \$40.8 million for the same period in 2023. Net interest income, on an FTE basis (non-GAAP), decreased \$12.4 million, or 30.3%, to \$28.6 million for the three months ended March 31, 2024 compared to \$41.0 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 net interest income and net interest margin will continue to be negatively impacted in future periods by the Bank's largest lending relationship being placed on nonaccrual status until it is ultimately resolved.

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

(Dollars in Thousands)	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Average Balance	Income/ Expense	Yield/Rate	Average Balance	Income/ Expense	Yield/Rate
<b>ASSETS</b>						
Interest-Bearing Deposits with Banks	\$ 15,550	\$ 587	5.05 %	\$ 64,858	\$ 257	0.53 %
Tax-Free Investment Securities <sup>(2)</sup>	28,189	618	2.93 %	30,188	663	2.94 %
Taxable Investment Securities	908,670	22,874	3.37 %	959,456	13,650	1.90 %
<b>Total Securities</b>	<b>936,859</b>	<b>23,492</b>	<b>3.35 %</b>	<b>989,644</b>	<b>14,313</b>	<b>1.93 %</b>
Tax-Free Loans <sup>(1)(2)</sup>	126,578	3,041	3.21 %	147,372	3,484	3.16 %
Taxable Loans <sup>(3)</sup>	3,158,888	117,235	4.96 %	2,802,692	94,716	4.52 %
<b>Total Loans</b>	<b>3,285,466</b>	<b>120,276</b>	<b>4.89 %</b>	<b>2,950,064</b>	<b>98,201</b>	<b>4.45 %</b>
Federal Home Loan Bank Stock	18,685	970	6.94 %	2,222	66	3.97 %
<b>Total Interest-Earning Assets</b>	<b>4,256,560</b>	<b>\$ 145,325</b>	<b>4.56 %</b>	<b>4,006,788</b>	<b>\$ 112,836</b>	<b>3.77 %</b>
Noninterest Earning Assets	92,613			128,105		
<b>Total Assets</b>	<b>\$ 4,349,173</b>			<b>\$ 4,134,893</b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-Bearing Demand	\$ 485,605	\$ 1,876	0.52 %	\$ 484,076	\$ 1,082	0.30 %
Money Market	440,700	5,607	1.70 %	530,560	989	0.25 %
Savings	570,538	456	0.11 %	724,472	559	0.10 %
Certificates of Deposit	1,388,773	26,690	2.57 %	1,278,905	10,650	1.11 %
<b>Total Interest-Bearing Deposits</b>	<b>2,885,616</b>	<b>34,629</b>	<b>1.60 %</b>	<b>3,018,013</b>	<b>13,280</b>	<b>0.59 %</b>
Federal Home Loan Bank Borrowings	380,023	14,461	5.09 %	3,978	47	1.58 %
Federal Funds Purchased	9,062	354	5.22 %	2,168	27	1.67 %
Other Borrowings	6,247	223	4.77 %	5,637	206	4.89 %
<b>Total Borrowings</b>	<b>395,332</b>	<b>15,038</b>	<b>5.09 %</b>	<b>11,783</b>	<b>280</b>	<b>3.18 %</b>
<b>Total Interest-Bearing Liabilities</b>	<b>3,280,948</b>	<b>49,667</b>	<b>2.02 %</b>	<b>3,029,796</b>	<b>13,560</b>	<b>0.60 %</b>
Noninterest-Bearing Liabilities	720,181			744,597		
Shareholders' Equity	348,044			360,500		
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 4,349,173</b>			<b>\$ 4,134,893</b>		
<b>Net Interest Income<sup>(2)</sup></b>		<b>\$ 95,658</b>			<b>\$ 99,276</b>	
<b>Net Interest Margin<sup>(2)</sup></b>			<b>3.00 %</b>			<b>3.31 %</b>

<sup>(1)</sup> Nonaccruing loans are included in the daily average loan amounts outstanding.

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

<sup>(3)</sup> Average loan balances include loans held-for-sale.

Interest income increased \$6.6 million and \$32.6 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. Interest income, on an FTE basis (non-GAAP), increased \$6.5 million and \$32.5 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. The change was primarily due to increases in average interest-earning assets of \$295.5 million and \$249.8 million in the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. Also impacting the change was higher interest rate yields on interest-earning assets of 31 basis points and 79 basis points for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022 due to the rising interest rate environment. These changes were offset by the negative impact of \$9.3 million and \$20.6 million for the three and nine months ended September 30, 2023, respectively, to interest income related to placing the Company's largest lending relationship on nonaccrual status.

For the three and nine months ended September 30, 2023 compared to the same periods in 2022, average interest-bearing deposits with banks decreased \$12.5 million and \$49.3 million, respectively, as funds were deployed into higher yielding loans, and the average rate earned increased 328 basis points and 452 basis points, respectively. Average loan balances increased \$339.5 million and \$335.4 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. Loans provide the greatest impact on interest income and the yield on earning assets as they have the largest balance and the highest yield within major earning asset categories. The average rate earned on loans decreased four basis points for the three months ended September 30, 2023 compared to the same period of 2022, primarily due to the negative impact of placing the Company's largest lending relationship on nonaccrual status, and increased 44 basis points for the nine months ended September 30, 2023 compared to the same period in 2022.

Interest income was negatively impacted by placing the Company's largest lending relationship on nonaccrual status during the second quarter of 2023, resulting in negative impacts to interest income of by \$20.6 million since June 30, 2023, including \$9.3

million in the third quarter of 2023 and \$11.3 million in the second quarter of 2023. These negative impacts represented an estimated negative effect on the yield on earning assets of 85 basis points for the three months ended September 30, 2023 and 64 basis points for the nine months ended September 30, 2023.

At September 30, 2023 the loan portfolio was comprised of 24.5% floating rate loans which reprice monthly, 41.3% variable rate loans that reprice at least once during the life of the loan and 34.2% fixed rate loans that do not reprice during the life of the loan.

Average investment securities decreased \$51.7 million and \$52.8 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. The average rate earned on investment securities increased 112 basis points and 142 basis points for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. The change in average investment securities is the result of active balance sheet management to deploy the proceeds from securities maturities and principal payments 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 September 30, 2023 March 31, 2024, the securities portfolio was comprised of 47.3% 46.9% variable rate securities with approximately 99.4% 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 is expected to limit has limited the impact of rising rates on the Company's unrealized losses on debt securities. With interest rates likely peaking, the bank may alter this interest rate mix strategy going forward.

Interest expense increased \$16.9 million and \$36.1 million of \$25.6 million for the three and nine months ended September 30, 2023 March 31, 2024 increased \$14.5 million, respectively, or 129.5% compared to the same periods period in 2022 due to increases in the cost of all interest-bearing liability categories, except savings accounts, in the higher rate environment. Also contributing to the increased interest expense is the shift to higher cost deposits and borrowings due to a decline and change in mix of deposits and the Company's use of higher-cost borrowings to fund growth in the loan portfolio, including \$145.1 million and \$132.4 million declines in average interest-bearing deposits for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022.

The cost of interest-bearing liabilities increased by 194 basis points and 142 basis points to 2.54% and 2.02% for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. Interest expense on deposits increased \$10.9 million and \$21.3 million for the three and nine months ended September 30, 2023 compared to the same periods in 2022 2023, primarily due to the rates on these higher interest rate environment and an increase in average-bearing deposits increasing 152 basis points and 101 basis points to 2.10% and 1.60% of \$205.4 million. The increase in average-bearing deposits reflected solid growth in average certificates of deposit of \$354.2 million, respectively. The increases an increase of \$48.1 million in rates for the three and nine months ended September 30, 2023 compared to the same periods last year included interest-bearing demand deposits up by 23 basis points and 22 basis points, respectively, average money market accounts up and an increase of \$5.4 million in interest-bearing demand accounts, offset by 202 basis points and 145 basis points, respectively, and CDs up by 212 basis points and 146 basis points, respectively, a decrease of \$202.3 million in response to competitive pressures from higher market rates compared to the same periods in 2022. The average rates paid on savings accounts increased by one basis point for both the three and nine months ended September 30, 2023 compared to the same periods in 2022.

The average balances on as customer preferences shifted towards certificates of deposits as interest rates increased. Additionally, FHLB borrowings increased \$447.3 million \$81.2 million and \$383.5 million for the three and nine months ended September 30, 2023, respectively, when compared to the same periods in 2022. The cost of borrowings increased 145 basis points and 191 46 basis points for the three and nine months ended September 30, 2023, respectively, when March 31, 2024 compared to the same periods period in 2022, 2023, largely due to increased balances and the higher interest rate environment.

The net interest margin decreased 137 basis points to 2.58% for the three months ended March 31, 2024 compared to 3.95% for the same period in 2023. Net interest margin, on an FTE basis, decreased 138 basis points to 2.60% for the three months ended March 31, 2024 compared to 3.98% 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") relationship, which negatively impacted interest income by \$9.3 million for the first three months of 2024. Funding costs increased 155 basis points and the yield on earning assets declined 12 basis points for the three months ended March 31, 2024 compared to the same period in 2023.

Since the three months ended March 31, 2023, there has been more pressure on our cost of funds due to the shift from non-maturing deposits to higher yielding certificates of deposits, money markets and higher-cost borrowings, which has negatively impacted our net interest margin. During the three months ended March 31, 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 due to the short-term nature of our deposit portfolio. Specifically, 83.0% of our time deposit portfolio will mature and reprice over the next twelve months which gives us flexibility to manage the structure and pricing of our deposit portfolio to reduce funding costs, should the Federal Open Market Committee ("FOMC") begin cutting short-term rates during 2024.

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 September 30, 2023 Compared to September 30, 2022	Nine Months Ended September 30, 2023 Compared to September 30, 2022
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 March 31, 2024 Compared to March 31, 2023								
(Dollars in Thousands)								
(Dollars in Thousands)								
(Dollars in Thousands)	(Dollars in Thousands)	Volume <sup>(2)</sup>	Rate <sup>(2)</sup>	Increase/ (Decrease)	Volume <sup>(2)</sup>	Rate	Increase/ (Decrease)	
Interest Earned on:	Interest Earned on:							
Interest Earned on:								
Interest Earned on:								
Interest-Bearing Deposits with Banks								
Interest-Bearing Deposits with Banks								
Interest-Bearing Deposits with Banks	Interest-Bearing Deposits with Banks	\$ (92)	\$ 130	\$ 38	\$ (332)	\$ 662	\$ 330	
Tax-free Investment Securities <sup>(2)</sup>	Tax-free Investment Securities <sup>(2)</sup>	(18)	6	(12)	(44)	(1)	(45)	
Tax-free Investment Securities <sup>(2)</sup>								
Tax-free Investment Securities <sup>(2)</sup>								
Taxable Investment Securities								
Taxable Investment Securities								
Taxable Investment Securities	Taxable Investment Securities	(299)	2,626	2,327	(758)	9,982	9,224	
<b>Total Securities</b>	<b>Total Securities</b>	<b>(317)</b>	<b>2,632</b>	<b>2,315</b>	<b>(802)</b>	<b>9,981</b>	<b>9,179</b>	
<b>Total Securities</b>								
<b>Total Securities</b>								
Tax-free Loans <sup>(1)(2)</sup>								
Tax-free Loans <sup>(1)(2)</sup>								
Tax-free Loans <sup>(1)(2)</sup>	Tax-free Loans <sup>(1)(2)</sup>	(165)	22	(143)	(499)	56	(443)	
Taxable Loans <sup>(1)</sup>	Taxable Loans <sup>(1)</sup>	4,397	(471)	3,926	12,704	9,815	22,519	
Taxable Loans <sup>(1)</sup>								
Taxable Loans <sup>(1)</sup>								
<b>Total Loans</b>								
<b>Total Loans</b>								
<b>Total Loans</b>	<b>Total Loans</b>	<b>4,232</b>	<b>(449)</b>	<b>3,783</b>	<b>12,205</b>	<b>9,870</b>	<b>22,075</b>	
Federal Home Loan Bank Stock	Federal Home Loan Bank Stock	363	28	391	821	83	904	
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>Total Interest- Earning Assets</b>	<b>\$ 4,186</b>	<b>\$ 2,341</b>	<b>\$ 6,527</b>	<b>\$ 11,892</b>	<b>\$ 20,597</b>	<b>\$ 32,489</b>	
Interest Paid on:								
Interest Paid on:								
Interest Paid on:								
Interest-Bearing Demand								
Interest-Bearing Demand								
Interest-Bearing Demand	Interest-Bearing Demand	\$ (23)	\$ 281	\$ 258	\$ 3	\$ 791	\$ 794	
Money Market	Money Market	(106)	2,206	2,100	(195)	4,813	4,618	

Money Market							
Money Market							
Savings							
Savings							
Savings	Savings	(62)	10	(52)	(122)	19	(103)
Certificates of Deposit	Certificates of Deposit	724	7,829	8,553	989	15,051	16,040
Certificates of Deposit							
Certificates of Deposit							
Total Interest-Bearing Deposits							
Total Interest-Bearing Deposits							
Total Interest-Bearing Deposits	Total Interest-Bearing Deposits	533	10,326	10,859	675	20,674	21,349
Federal Home Loan Bank							
Borrowings							
Federal Home Loan Bank							
Borrowings							
Federal Funds Purchased							
Federal Funds Purchased							
Federal Funds Purchased	Federal Funds Purchased	44	40	84	196	131	327
Other Borrowings	Other Borrowings	(2)	(6)	(8)	22	(5)	17
Other Borrowings							
Other Borrowings							
Total Borrowings							
Total Borrowings							
Total Borrowings	Total Borrowings	5,961	70	6,031	14,301	457	14,758
Total Interest-Bearing Liabilities	Total Interest-Bearing Liabilities	6,494	10,396	16,890	14,976	21,131	36,107
Total Interest-Bearing Liabilities							
Total Interest-Bearing Liabilities							
Change in Net Interest Margin	Change in Net Interest Margin	\$ (2,308)	\$ (8,055)	\$ (10,363)	\$ (3,084)	\$ (534)	\$ (3,618)
Change in Net Interest Margin							
Change in Net Interest Margin							

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

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

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

## Provision for Credit Losses

The Company recognizes provision expense 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 ACL based on period. The following table presents information regarding the difference between the existing balance of ACL reserves and the ACL reserve balance necessary to adequately absorb expected credit losses associated with the Company's financial instruments. Similarly, the Company recognizes provision expense for unfunded commitments based on the difference between the existing balance of reserves for unfunded commitments and the reserve balance for unfunded commitments necessary to adequately absorb expected credit losses associated with those commitments.

The ACL to total portfolio loans was 2.77% of total portfolio loans at September 30, 2023, compared to 2.98% of total portfolio loans, at December 31, 2022. The (recovery) provision for credit losses increased \$1.2 million and \$0.2 million net charge-offs:

(Dollars in Thousands)	Three Months Ended March 31,		\$ Change	% Change
------------------------	------------------------------	--	-----------	----------

	2024	2023		
Provision for Credit Losses	\$ 16	\$ 1,415	\$ (1,399)	(98.9)%
(Recovery) Provision for Unfunded Commitments	(43)	84	(127)	(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>
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>
Net Loan Charge-offs	\$ 532	\$ 573	\$ (41)	(7.2)%
Net Loan Charge-offs (annualized) / Average Portfolio Loans	<b>0.06 %</b>	<b>0.07 %</b>		

The (recovery) provision for credit losses decreased \$1.5 million for the three and nine months ended September 30, 2023, respectively, when March 31, 2024 compared to the same periods period in 2022, 2023. The increase decrease for the three and nine months ended September 30, 2023 March 31, 2024 in the (recovery) provision for credit losses was primarily driven by lower loan growth partially, by a lower average life of the portfolio and net charge-offs.

The the decline in the (recovery) provision for unfunded commitments was the result of decreased \$0.3 million to a recovery commitments in construction loans during the first quarter of \$0.1 million and increased \$0.1 million to a provision of \$0.3 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022 related to changes in real estate construction and pressure on the reserve rate.

Net charge-offs were \$0.8 million and \$2.0 million for the three and nine months ended September 30, 2023, respectively, compared to \$3.7 million and \$4.1 million for the same periods in 2022. During the three months ended September 30, 2022, the Company charged-down \$3.4 million on a \$4.9 million purchased syndicated commercial and industrial loan and transferred \$1.5 million to held-for-sale. As a percentage of average portfolio loans, on an annualized basis, net charge-offs were 0.09% 2024.

## CARTER BANKSHARES, INC.

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

and 0.08% Net charge-offs were \$0.5 million for the three and nine months ended 2023, respectively, and 0.49% and 0.19% March 31, 2024 compared to \$0.6 million for the same periods period in 2022, respectively, 2023. During the three months ended March 31, 2024, 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% for the three months ended 2024 and 0.07% for the same period in 2023. See the "Allowance for Credit Losses" section of this MD&A for additional details regarding our charge-offs.

Nonperforming loans ("NPLs") increased at September 30, 2023 by \$301.7 million to \$308.3 million compared to \$6.6 million at December 31, 2022. During the second quarter of 2023, the Company placed commercial loans that reside in the Other segment of the Company's loan portfolio, relating to a single lending relationship which has an aggregate principal amount of \$301.9 million, on nonaccrual status due to loan maturities charge-offs and failure to pay in full. The Other loan segment resulted in CECL of \$51.3 million in connection with our adoption of Topic 326 "Financial Instruments - Credit Losses." on January 1, 2021. As of September 30, 2023 and December 31, 2022, those Other segment reserves were \$53.6 million and \$54.7 million, respectively. As of September 30, 2023, the Company utilized discounted cash flow valuation techniques to evaluate the current condition of certain of the borrowers' operating businesses and those borrowers' capacity to repay, which resulted in specific reserves related to that single lending relationship. As a result, the classification of these commercial loans in nonaccrual status did not have a significant impact on the Company's provision for credit losses during the three and nine months ended September 30, 2023. See the "Credit Quality" section of this MD&A for additional information regarding our NPLs and this lending relationship.

Refer 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,
(Dollars in Thousands)	
(Dollars in Thousands)	
(Dollars in Thousands)	
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	
Service Charges, Commissions and Fees	
Debit Card Interchange Fees	

Debit Card Interchange Fees									
Debit Card Interchange Fees									
Insurance Commissions									
Insurance Commissions									
Insurance Commissions									
Bank Owned Life Insurance Income									
Bank Owned Life Insurance Income									
Bank Owned Life Insurance Income									
		Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in Thousands)		2023	2022	\$ Change	% Change	2023	2022	\$ Change	% Change
(Losses) Gains on Sales of Securities,									
net		\$ (1)	\$ (4)	\$ 3	75.0 %	\$ (10)	\$ 48	\$ (58)	(120.8) %
Service Charges, Commissions and									
Fees		1,783	1,750	33	1.9 %	5,380	5,452	(72)	(1.3) %
Debit Card Interchange Fees		1,902	1,788	114	6.4 %	5,941	5,570	371	6.7 %
Insurance Commissions		868	876	(8)	(0.9) %	1,550	1,713	(163)	(9.5) %
Bank Owned Life Insurance Income		348	341	7	2.1 %	1,028	1,009	19	1.9 %
(Losses) Gains on Sales and Write-									
downs of Bank Premises, net		—	(4)	4	100.0 %	—	342	(342)	(100.0) %
Commercial Loan Swap Fee Income									
Commercial Loan Swap Fee Income									
Commercial Loan	Commercial Loan								
Swap Fee Income	Swap Fee Income	—	18	(18)	(100.0) %	114	774	(660)	(85.3) %
Other	Other	370	470	(100)	(21.3) %	1,030	1,266	(236)	(18.6) %
Other									
Other									
Total Noninterest Income	Total Noninterest Income	\$ 5,270	\$ 5,235	\$ 35	0.7 %	\$ 15,033	\$ 16,174	\$ (1,141)	(7.1) %
Total Noninterest Income									
Total Noninterest Income									

Total noninterest income increased slightly \$0.3 million to \$5.3 million \$5.0 million for the three months ended September 30, 2023 and decreased \$1.1 million, or 7.1%, to \$15.0 million for the nine months ended September 30, 2023 March 31, 2024 compared to the same periods period in 2022 2023. The slight increase for the three months ended September 30, 2023 compared to the same comparable periods in 2022 was primarily related to a \$0.1 million \$0.4 million increase in debit card interchange fees due to higher interchange fee volume, insurance commissions, offset by a \$0.1 million decrease within other noninterest income related to a higher fair value adjustment of our interest rate swap contracts with commercial customers in the same quarter of 2022.

For the nine months ended September 30, 2023, the decrease in total noninterest income primarily related to a decrease of \$0.7 million in commercial loan swap fee income as activity has declined due to the rising interest rate environment, and a decrease of \$0.3 million related to losses on sales and write-downs of bank premises, net due to a \$0.4 million eminent domain settlement on a previously closed branch in the first quarter of 2022. Also impacting the decrease from the year ago period included a decrease of \$0.2 million in other noninterest income, \$0.2 million decline in insurance commissions, as well as a decline of \$0.1 million in service charges, commissions and fees. The decreases in insurance commissions and service charges on deposit accounts were primarily volume driven and the decrease in other noninterest income related to a higher fair value adjustment of our interest rate swap contracts with commercial customers in the first quarter of 2022. These decreases were offset by an increase of \$0.4 million in debit card interchange fees due to higher interchange fee volume in the first nine months of 2023, environment.

## CARTER BANKSHARES, INC.

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

#### Noninterest Expense

	Three Months Ended September 30, 2023	Nine Months Ended September 30,
	Three Months Ended March 31,	
	Three Months Ended March 31,	
	Three Months Ended March 31,	



(Dollars in Thousands)									
(Dollars in Thousands)									
(Dollars in Thousands)	(Dollars in Thousands)	2023	2022	\$ Change	% Change	2023	2022	\$ Change	% Change
Salaries and Employee Benefits	Salaries and Employee Benefits	\$ 13,956	\$ 13,520	\$ 436	3.2 %	\$ 41,257	\$ 37,721	\$ 3,536	9.4 %
Salaries and Employee Benefits									
Salaries and Employee Benefits									
Occupancy Expense, net									
Occupancy Expense, net									
Occupancy Expense, net	Occupancy Expense, net	3,547	3,412	135	4.0 %	10,548	10,060	488	4.9 %
FDIC Insurance Expense	FDIC Insurance Expense	1,368	543	825	151.9 %	2,711	1,540	1,171	76.0 %
FDIC Insurance Expense									
FDIC Insurance Expense									
Other Taxes									
Other Taxes									
Other Taxes	Other Taxes	846	848	(2)	(0.2) %	2,436	2,471	(35)	(1.4) %
Advertising Expense	Advertising Expense	363	368	(5)	(1.4) %	1,133	874	259	29.6 %
Advertising Expense									
Advertising Expense									
Telephone Expense									
Telephone Expense									
Telephone Expense	Telephone Expense	500	448	52	11.6 %	1,339	1,390	(51)	(3.7) %
Professional and Legal Fees	Professional and Legal Fees	1,512	1,310	202	15.4 %	4,005	3,731	274	7.3 %
Professional and Legal Fees									
Professional and Legal Fees									
Data Processing									
Data Processing									
Data Processing	Data Processing	1,076	833	243	29.2 %	2,854	2,516	338	13.4 %
Debit Card Expense	Debit Card Expense	816	797	19	2.4 %	2,066	2,089	(23)	(1.1) %
Tax Credit Amortization		—	(764)	764	100.0 %	—	466	(466)	(100.0) %
Debit Card Expense									
Debit Card Expense									
Other									
Other									
Other	Other	3,298	2,148	1,150	53.5 %	8,045	6,526	1,519	23.3 %
Total Noninterest Expense	Total Noninterest Expense	\$ 27,282	\$ 23,463	\$ 3,819	16.3 %	\$ 76,394	\$ 69,384	\$ 7,010	10.1 %
Total Noninterest Expense									
Total Noninterest Expense									

During the three and nine months ended September 30, 2023 total Total noninterest expense increased \$3.8 million and \$7.0 million, respectively, compared \$2.7 million to the same periods in 2022. The most significant variances \$26.3 million for the three months ended September 30, 2023 March 31, 2024 compared to the same period in 2022 2023. The most significant variance for the comparable periods related to increases of \$1.2 million within other noninterest expense, an increase of \$0.8 million in higher FDIC insurance expense, an increase expenses of \$0.8 million in tax credit amortization expense due to the early adoption of ASU 2023-02 Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method, an increase of \$0.4 million in salaries and employee benefits, an increase of \$0.2 million in data processing expenses, an increase of \$0.2 million in professional and legal fees, and an increase of \$0.1 million in occupancy expenses.

The increase in other noninterest expense related to a \$0.6 million write-down on three legacy other real estate owned ("OREO") properties pending sale, a \$0.2 million nonrecurring expense in the third quarter of 2023, and \$0.2 million in write-downs on two closed branches marked for sale. FDIC insurance expense increased \$1.0 million due to the deterioration in asset quality as a direct result of placing the Bank's largest lending large nonperforming relationship, in nonaccrual status during the quarter ended June 30, 2023, which is a component used to determine the assessment. The decrease assessment, and a \$0.7 million increase in tax credit amortization of \$0.8 million is due to the reversal during the third quarter of 2022 professional and legal fees also as a result of updated information from the developer that extended large NPL relationship. Other increases to the in-service date to 2023 for one of the Company's partnerships. The increase comparable period was \$0.5 million in salaries and employee benefits, is primarily related to \$1.3 million higher base salaries, an increase of \$0.3 million in occupancy expenses, an increase of \$0.3 million in debit card expenses and increased FICA expenses an increase of \$0.1 million, offset by lower profit sharing and incentives of \$0.6 million and \$0.3 million, respectively in the three months ended September 30, 2023. The increases \$0.2 million in data processing professional and legal fees and occupancy expenses, primarily related to additional seasonal services performed during the third quarter offset by a decrease of 2023.

The largest increase for nine months ended September 30, 2023 compared to the same period \$0.5 million in 2022 was higher salaries other noninterest expenses. Salaries and employee benefits of \$3.5 million increased related to higher salary expense due to retail fewer open positions being filled, in retail, job grade assessment increases, normal merit increases increased medical claims and higher incentive bonuses restricted stock expense due to new grants awarded in 2023. Also impacting the increase was \$1.5 million 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 quarter of 2024. The increase in other noninterest expense, a \$1.2 million increase debit card expenses was primarily related to discounts received in FDIC Insurance expense, an increase March of \$0.5 million in occupancy expense, a \$0.3 million 2023. The increase in data processing expenses, a \$0.3 million increase in professional and legal fees and a \$0.3 million increase in advertising expenses. Offsetting these increases, similar related to the quarterly variance, was a higher third party costs. The decline in tax credit amortization of \$0.5 million due to the previously mentioned in-service date extension.

The increases in other noninterest expense, FDIC insurance expense, occupancy expense, data processing expenses and professional and legal expense for the nine months ended September 30, 2023 are all similar to the variances mentioned for the three months ended September 30, 2023 above; however, advertising expenses increased due to marketing initiatives and the increase in FDIC expenses also related relates to a final rule adopted by the FDIC to increase initial base deposit insurance assessment rate schedules uniformly by net gain of \$0.3 million on two basis points on all insured depository institutions, beginning in the first quarterly assessment period other real estate owned ("OREO") properties of 2023, 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 decreased \$4.2 million and \$2.8 million \$3.1 million to \$0.8 million and \$5.3 million \$1.4 million for the three and nine months ended September 30, 2023 March 31, 2024, respectively, when compared to the same periods period in 2022, 2023. Pre-tax income decreased \$15.0 million and \$12.0 million \$13.2 million for the three and nine months ended September 30, 2023 March 31, 2024, respectively, when compared to the same periods period in 2022, 2023. The effective tax rate was 17.7% and 17.4% 19.7% for the three and nine months ended September 30, 2023 March 31, 2024 compared to 25.8% and 19.1% 22.0% for the same periods period in 2022, 2023. The decrease in the effective tax rate for the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period in 2022, 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

##### September 30, 2023 March 31, 2024

Total assets increased \$247.6 million \$42.4 million, to \$4.6 billion at March 31, 2024 compared to \$4.5 billion at September 30, 2023 December 31, 2023. Cash and due from banks increased \$53.6 million to \$108.1 million at March 31, 2024 compared to \$4.2 billion \$54.5 million at December 31, 2022, December 31, 2023 due to a large loan payoff late on the last working day of the quarter. Total portfolio loans increased \$262.0 million, or 11.1% on an annualized basis, \$3.2 million to \$3.4 billion \$3.5 billion at September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023 primarily due to loan growth in the CRE loan and residential mortgage and construction segments during the nine three months ended September 30, 2023 March 31, 2024. The variances in loan segments for portfolio loans related to increases of \$218.4 million \$58.3 million in commercial real estate CRE loans \$80.4 million and \$0.2 million in residential mortgages, \$24.0 million in construction loans, offset by decreases of \$45.5 million \$39.1 million in construction loans, \$14.3 million in C&I loans, \$8.1 million and \$1.8 million in other consumer loans and \$7.2 million loans. During the first quarter of 2024, loan growth was muted by \$80.0 million in the other category, loan payoffs of two large commercial real estate loans.

The securities portfolio decreased \$42.9 million \$10.2 million and is currently 17.8% 16.9% of total assets at September 30, 2023 March 31, 2024 compared to 19.9% 17.3% of total assets at December 31, 2022 December 31, 2023. The decrease is due to \$54.0 million in ongoing maturities, principal curtailments and security sales deployed into higher yielding loan growth, offset changes in market values driven by \$24.9 million fluctuations in intermediate treasury yields. There were no additional purchases of small business administration bonds new securities during the nine three months ended September 30, 2023 March 31, 2024. As of September 30, 2023 March 31, 2024, the securities portfolio was comprised of 47.3% 46.9% variable rate securities with approximately 99.4% 99.3% that will reprice at least once over the next 12 months. At September 30, 2023 March 31, 2024, total gross unrealized gains in the available-for-sale portfolio were \$0.9 million \$0.4 million, offset by \$120.5 million \$89.8 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.

Federal Home Loan Bank ("FHLB") stock, at cost increased \$17.6 million decreased \$3.7 million to \$27.4 million \$17.9 million at September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023. The increase decrease is due to the paydowns of FHLB requirement to hold a specified level of stock based upon level of borrowings. OREO decre increased \$4.6 million \$0.1 million at September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023 due to the sale of one two OREO property in June 2023. During the third quarter of 2023, the Bank closed two retail banking offices properties totaling \$1.1 million and moved \$1.1 million \$1.2 million of loans at fair

Total deposits decreased \$74.2 million increased \$108.6 million, or 11.7% on an annualized basis, to \$3.6 billion \$3.8 billion at September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023. The decrease related increase in deposits was primarily due to a decline \$108.0 million increase in CDs, which included \$45.6 million in brokered CDs, an increase of \$324.2 million \$34.1 million in interest-bearing demand accounts and an increase of \$7.1 million in money market accounts, offset by a decrease of \$27.4 million in savings money market accounts and a decrease of \$13.2 million in noninterest-bearing demand deposits due accounts. The Company had \$115.6 million brokered CDs at March 31, 2024, compared to customers migrating to higher-yielding CD products driven by rising market interest rates, \$70.0 million at December 31, 2023. At September 30, 2023 March 31, 2024, noninterest-bearing deposits comprised 18.6% 17.5% of total deposits compared to 19.4% 18.4% at December 31, 2022 December 31, 2023 and 19.3% 19.5% at September 30, 2022 March 31, 2023. CDs comprised 42.5% 44.2%, 34.7% 42.6% and 33.5% 37.0% of total deposits at September 30, 2023 March 31, 2024, December 31, 2022 December 31, 2023 and September 30, 2022 March 31, 2023, respectively. As of September 30, 2023 March 31, 2024, based on assumptions that the Bank uses to prepare its regulatory call report, approximately 88.9% 82.8% of our total deposits of \$3.6 billion \$3.8 billion were insured under standard FDIC insurance coverage limits, and approximately 11.1% 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 79.2% 78.8% of retail deposits.

Total capital of **\$330.6 million** **\$359.1 million** at **September 30, 2023** **March 31, 2024**, reflects an increase of **\$2.0 million** **\$7.8 million** compared to **\$328.6 million** at December 31, 2022 **December 31, 2023**. The increase in total capital from **December 31, 2022** **December 31, 2023** is primarily due to net income of **\$25.3 million** for the nine months ended September 30, 2023 **\$5.8 million**, offset by **\$16.4 million** related to the repurchase of common stock, a **\$7.9 million** decrease **\$1.6 million** increase in other comprehensive (loss) income due to changes in fair value of investment securities, as well as, the transitional adjustment of **\$0.1 million**, net of tax for the adoption of ASU 2023-02. The remaining difference of **\$1.1 million** is related to restricted stock activity for the nine months ended September 30, 2023.

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

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

The ACL was 2.77% 2.75% of total portfolio loans at September 30, 2023 March 31, 2024 compared to 2.98% 2.77% as of December 31, 2022 December 31, 2023. General reserves as a percentage of total portfolio loans were 1.20% at September 30, 2023 March 31, 2024 compared to 2.96% 1.22% at December 31, 2022 December 31, 2023. The decrease in the general reserves as a percentage of total portfolio loans was primarily driven by the largest lending relationships movement from the general pool to the individually evaluated pool due to the transfer to nonaccrual during the second quarter of 2023 offset by loan growth. Management believes the ACL is adequate to absorb expected losses inherent in the loan portfolio. See the sections of this MD&A titled "Provision for Credit Losses," "Credit Quality" and "Allowance for Credit Losses" for information about the factors that impacted the ACL and the provision for credit losses.

The Company remains well capitalized. The Tier 1 capital ratio decreased to 11.20% 10.89% at September 30, 2023 March 31, 2024 compared to 12.61% 11.08% at December 31, 2022 December 31, 2023. The leverage ratio was 9.70% 9.34% at September 30, 2023 March 31, 2024, compared to 10.29% 9.48% at December 31, 2022 December 31, 2023 and the total risk-based capital ratio was 12.46% 12.15% at September 30, 2023 March 31, 2024 compared to 13.86% 12.34% at December 31, 2022 December 31, 2023. The decrease is related to the aforementioned repurchase of common stock of \$16.4 million through September 30, 2023 and loan growth during the nine months ended September 30, 2023. Another most significant factor driving the ratios downward was the above mentioned large lending relationship movement to nonaccrual status with the \$20.6 million year-to-date \$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.

The Bank also remained well capitalized as of September 30, 2023 March 31, 2024. The Bank's Tier 1 Capital ratio was 11.08% 10.80% at September 30, 2023 March 31, 2024 compared to 12.42% 10.99% at December 31, 2022 December 31, 2023. The Bank's leverage ratio was 9.59% 9.27% at September 30, 2023 March 31, 2024 compared to 10.13% 9.41% at December 31, 2022 December 31, 2023. The Bank's Total Risk-Based Capital ratio was 12.34% 12.07% at September 30, 2023 March 31, 2024 compared to 13.68% 12.25% at December 31, 2022 December 31, 2023.

## Securities Activity

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

(Dollars in Thousands)	(Dollars in Thousands)	September 30, 2023	December 31, 2022	\$ Change	(Dollars in Thousands)	March 31, 2024	December 31, 2023	\$ Change
U.S. Treasury Securities		\$ 13,104	\$ 17,866	\$ (4,762)				
U.S. Government Agency Securities								
U.S. Government Agency Securities								
U.S. Government Agency Securities	U.S. Government Agency Securities	47,742	49,764	(2,022)				

Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	97,562	103,685	(6,123)
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	33,328	34,675	(1,347)
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	21,104	22,399	(1,295)
Asset Backed Securities	Asset Backed Securities	137,075	141,383	(4,308)
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	163,306	176,622	(13,316)
States and Political Subdivisions	States and Political Subdivisions	222,644	228,146	(5,502)
Corporate Notes	Corporate Notes	57,524	61,733	(4,209)
<b>Total Debt Securities</b>	<b>Total Debt Securities</b>	<b>\$ 793,389</b>	<b>\$ 836,273</b>	<b>\$(42,884)</b>

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 \$42.9 million \$10.2 million to \$793.4 million \$768.8 million at September 30, 2023 March 31, 2024 compared to \$836.3 million \$779.0 million at December 31, 2022 December 31, 2023. Securities comprise 17.8% 16.9% of total assets at September 30, 2023 March 31, 2024 compared to 19.9% 17.3% at December 31, 2022 December 31, 2023. The decrease is due to \$54.0 million in ongoing maturities, principal curtailments and security sales changes in market values driven by fluctuations in intermediate treasury yields. There were no additional purchases of new securities during the three months ended March 31, 2024, as liquidity generated by the securities portfolio during the first quarter of 2024 was deployed into higher yielding loan growth, offset by \$24.9 million in purchases of small business administration bonds during the nine months ended September 30, 2023. As of September 30, 2023 March 31, 2024, the securities portfolio was comprised of 47.3% 46.9% variable rate securities with approximately 99.4% 99.3% that will reprice at least once over the next 12 months.

At September 30, 2023 March 31, 2024 total gross unrealized gains in the available-for-sale portfolio were \$0.9 million \$0.4 million, offset by \$120.5 million \$89.8 million of gross unrealized losses. At December 31, 2022 December 31, 2023, total gross unrealized gains in the available-for-sale portfolio were \$0.3 million \$0.7 million offset by \$109.7 million \$92.3 million of gross unrealized losses.

#### 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 49.9% 48.2% of securities issued by United States government sponsored entities and carry an implicit government guarantee. States and political subdivisions comprise 28.1% 28.8% 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. From time to time we 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 slightly higher over the past three months, driving unrealized losses on these outstanding securities higher. Although However, principal reductions outpaced the Federal Reserve is modest increase in the middle of an aggressive effort to raise 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 combat inflation, fall should the Company does not expect higher FRB begin lowering short-term rates. Changes in intermediate and long-term interest rates, to adversely impact which are market driven, affect the fair values market value of the Company's investment fixed rate securities to the same extent as increases in longer-term rates, with similar maturities. The Company expects that higher short-term rates may market values on the Bank's intermediate and long-term maturity holdings will continue to improve yields on certain of the Company's variable rate securities over the next several quarters. fluctuate in large part driven by treasury yield changes.

At September 30, 2023 March 31, 2024 the 5-year and 10-year U.S. Treasury yields were 4.60% 4.21% and 4.59% 4.20%, respectively. At December 31, 2022 December 31, 2023, those same bond yields were 3.99% 3.84% and 3.88%, respectively. The decrease Therefore, this increase of seven basis points in the 10-year treasury was offset by the increase in the 5-year treasury 37 bps and 32 bps, respectively in the intermediate part of the yield curve which drove largely caused the increase reduction in unrealized losses bond prices for fixed rate bonds in that maturity range. Note, the first nine months of 2023. The effects were generally greater for longer maturity bonds, such as municipal bonds. On the other hand, floating rate bonds largely held consistent values, as those interest rates generally adjust in line with Federal Reserve 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company had no credit related impairment.

Refer to Note 3, Investment Securities, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q for additional information related to our securities.

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.

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 for as of the periods dates presented:

(Dollars in Thousands)	(Dollars in Thousands)	September 30, 2023	December 31, 2022	(Dollars in Thousands)	March 31, 2024	December 31, 2023
Commercial	Commercial					
Commercial	Commercial					
Real Estate	Real Estate	\$ 1,688,947	\$ 1,470,562			
Commercial Real Estate						
Commercial Real Estate						
Commercial and Industrial	Commercial and Industrial	264,329	309,792			
Total Commercial Loans	Total Commercial Loans	1,953,276	1,780,354			
Consumer	Consumer					
Residential Mortgages						
Residential Mortgages						
Residential Mortgages	Residential Mortgages	738,368	657,948			
Other Consumer	Other Consumer	36,487	44,562			
Total Consumer Loans	Total Consumer Loans	774,855	702,510			
Construction	Construction	377,576	353,553			
Other	Other	305,233	312,496			
Total Portfolio Loans	Total Portfolio Loans	3,410,940	3,148,913			
Loans Held-for- Sale	Loans Held-for- Sale	—	—			
Total Loans	Total Loans	\$ 3,410,940	\$ 3,148,913			
Total Loans						
Total Loans						

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, 2022, and Part II, Item 1A, "Risk Factors," contained in our Quarterly Report on Form 10-Q for the periods ended March 31, 2023, June 30, 2023 and this Quarterly Report on Form 10-Q, December 31, 2023.](#)

Total portfolio loans increased \$262.0 million, or 11.1%, on an annualized basis, to \$3.4 billion were \$3.5 billion at September 30, 2023 compared to December 31, 2022 both March 31, 2024 and December 31, 2023 with strong production primarily in our CRE residential mortgage and construction portfolios. portfolio. The CRE portfolio is monitored for potential concentrations of credit risk by market, property type and tenant concentrations. Given the continued rising current interest rate environment our mortgage portfolio is experiencing experienced more modest growth in 2023, the three months ended March 31, 2024 and the full year ended December 31, 2023. At September 30, 2023 March 31, 2024, the loan portfolio was comprised of 24.5% 25.3% floating rates which reprice monthly, 41.3% 40.0%, variable rates that reprice at least once during the life of the loan and the remaining 34.2% 34.7% are fixed rate loans. The Company continues to carefully monitor the loan portfolio during 2023, 2024, including in light of market conditions that impact our borrowers and the interest rate environment.

Aggregate commitments Total CRE represented 49.3% of total portfolio loans at March 31, 2024 compared to our top 10 credit relationships were \$644.8 million 47.7% at September 30, 2023 December 31, 2023. The Other segment represents 46.8% of collateral for the top 10 credit relationships Company's CRE loans is concentrated predominantly in North Carolina, Virginia, South Carolina, West Virginia and \$301.9 million has since transferred to nonaccrual during Georgia within the second quarter of 2023, as described in more detail below under "Credit Quality" in this MD&A. 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 summarizes our top 10 relationships presents the Company's loan portfolio breakout by CRE collateral type, loan amounts for each CRE collateral type included in special mention and a description substandard and the related percentages by segment to the CRE collateral types as of industries represented for the periods presented:

Dollars in Thousands	For the Periods Ending			September 30, 2023	September 30, 2023
	September 30, 2023	December 31, 2022	Change	% of Gross Loans	% of RBC
1. Hospitality, agriculture & energy	\$ 301,913	\$ 309,107	\$ (7,194)	8.85 %	62.12 %
2. Retail real estate & food services	53,905	55,625	(1,720)	1.58 %	11.09 %
3. Industrial & retail real estate	40,351	41,725	(1,374)	1.18 %	8.30 %
4. Multifamily development	40,000	40,000	—	1.17 %	8.23 %
5. Retail real estate	39,448	37,679	1,769	1.16 %	8.12 %
6. Hospitality	37,633	35,255	2,378	1.10 %	7.74 %
7. Non-Owner Occupied/Commercial Real Estate	33,903	17,308	16,595	1.00 %	6.98 %
8. Multifamily & student housing	33,033	33,998	(965)	0.97 %	6.80 %
9. Hospitality	32,661	33,587	(926)	0.96 %	6.72 %
10. Multifamily / Construction Real Estate	32,000	24,000	8,000	0.94 %	6.58 %
<b>Top Ten (10) Relationships</b>	<b>\$ 644,847</b>	<b>\$ 628,284</b>	<b>\$ 16,563</b>	<b>18.91 %</b>	<b>132.68 %</b>
<b>Total Gross Loans</b>	<b>\$ 3,410,940</b>	<b>\$ 3,148,913</b>	<b>\$ 262,027</b>		
<b>% of Total Gross Loans</b>	<b>18.91 %</b>	<b>19.95 %</b>	<b>(1.04)%</b>		
Concentration (25% of RBC)	\$ 121,508	\$ 120,863			

March 31, 2024								
(Dollars in Thousands)						CRE Collateral Type		
	Commercial Real Estate	Commercial & Industrial	Residential Mortgage	Construction	Other	Total	in Special Mention and Substandard	% of Each Segment to Total CRE Collateral
	Estate	Industrial					Risk Rating	Type
Retail/Restaurant	\$ 395,441	\$ 127	\$ —	\$ 49,040	\$ 3,280	\$ 447,888	60	18.9 %
Warehouse	346,428	509	52	55,241	—	402,230	70	16.9 %
Hospitality	298,420	—	—	4,277	51,552	354,249	51,552	14.9 %
Multifamily	266,098	—	—	74,110	—	340,208	—	14.3 %
Office	207,806	—	—	6,579	508	214,893	973	9.0 %
Land	1,097	—	—	119,414	92,648	213,159	92,705	9.0 %
Single Family	5,496	13	46,813	16,630	13,367	82,319	13,437	3.5 %
Country Club	—	—	—	—	45,002	45,002	45,002	1.9 %



Long-term Care	20,171	—	—	9,887	—	30,058	—	1.3 %
Other	191,605	437	126	30,208	22,836	245,212	22,938	10.3 %
<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>

Unfunded commitments on lines of credit were \$595.9 million at September 30, 2023 as compared to \$512.7 million at December 31, 2022.

December 31, 2023								
(Dollars in Thousands)						CRE Collateral Type		% of Each Segment to Total CRE Collateral
	Commercial Real Estate	Commercial & Industrial	Residential Mortgage	Construction	Other	Total	Risk Rating	
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 unused commitments our CRE loans are for made in the above noted geographies and granted to experienced developers and sponsors with loan guaranty structures that provide recourse to individuals with access to financial resources. We believe our knowledge of CRE and our operating knowledge at the local and regional level of these markets allows us to effectively manage concentration risk. Our operating knowledge at the local and regional level is derived from our front-line connection to the customer and our understanding of their business model. We also have access to research tools that inform us about market statistics such as occupancy, lease growth rates and new construction projects that will be drawn as the construction completes. Total utilization was 51.9% at September 30, 2023 starts. This data is reviewed frequently by our credit officers and 52.2% at December 31, 2022. Unfunded commitments disseminated to our lenders. The Bank's underwriting process includes multiple shock scenarios primarily focused on commercial operating lines of credit was 51.4% at September 30, 2023 cash flow and 51.7% at December 31, 2022. leverage in order to determine a supportable loan amount.

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, geography, collateral and industry while actively managing concentrations. When concentrations exist in certain segments, we seek to mitigate this risk is mitigated by reviewing the relevant economic indicators and internal risk rating trends of the loans in these segments. The Company established transaction, relationship and specific loan segment limits in its loan policy. Total commercial real estate balances should not exceed the combination of 300% of total risk-based capital and growth in excess of 50% over the previous thirty-six months and construction loan balances should not exceed 100% of total risk-based capital. Investment real estate property types and purchased loan programs have individual dollar limits that should not be exceeded in the portfolio and are based on

#### 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 limits in place targets for various categories of real estate loans with regards respect to debt service coverage ratios, loan-to-value ratios, loan terms, and amortization periods. We also have policy limits on loan-to-cost for construction projects. Although leverage is important, the Company is also focused focuses on cash flow generation and uses multiple metrics employs stress testing to calculate a supportable loan amount. Supportable loan amounts have generally been

Aggregate commitments to our top 10 credit relationships were \$632.6 million at March 31, 2024. The Other segment represents 47.7% of the top 10 credit relationships including the Company's largest lending relationship, the entire balance of which \$301.9 million transferred to nonaccrual status during the second quarter of 2023, as described in more challenging given detail below under "Credit Quality" in this MD&A.

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

(Dollars in Thousands)	For the Periods Ending			March 31, 2024	
	March 31, 2024	December 31, 2023	Change	% of Gross Loans	% of RBC
1. Hospitality, Agriculture & Energy	\$ 301,913	\$ 301,913	\$ —	8.60 %	63.07 %
2. Retail Real Estate & Food Services	53,243	53,576	(333)	1.52 %	11.12 %

3. Retail Real Estate	37,622	38,972	(1,350)	1.07 %	7.86 %
4. Hospitality	37,369	37,502	(133)	1.06 %	7.81 %
5. Construction / Commercial Property	35,500	—	35,500	1.01 %	7.42 %
6. Non-Owner Occupied / Commercial Real Estate	35,364	27,834	7,530	1.01 %	7.39 %
7. Non-Owner Occupied / Commercial Real Estate	33,605	33,752	(147)	0.96 %	7.02 %
8. Industrial & Retail Real Estate	33,560	33,885	(325)	0.96 %	7.01 %
9. Multifamily & student housing	32,460	32,747	(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>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>% of Total Gross Loans</b>	<b>18.03 %</b>	<b>16.89 %</b>	<b>1.14 %</b>		
Concentration (25% of RBC)	\$ 119,681	\$ 121,231			

Unfunded commitments on lines of credit were \$565.4 million at March 31, 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% at March 31, 2024 and 53.8% at December 31, 2023. Unfunded commitments on commercial operating lines of credit was 48.7% at March 31, 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 \$6.7 million \$7.5 million and \$8.2 million \$7.2 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Discounts on purchased 1-4 family loans included in the portfolio balances above were \$140.0 \$125.9 thousand and \$161.2 \$133.4 thousand at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

From time to time, we have mortgage loans held-for-sale derived from two sources. First, we purchase mortgage loans on a short-term basis from a partner financial institution that has fully executed sales contracts to end investors. Second, we originate and close mortgages with fully executed contracts with investors to purchase shortly after closing. We then hold these mortgage loans from both sources until funded by the investor, typically a two-week period. There were no mortgage loans held-for-sale at September 30, 2023 and December 31, 2022, respectively.

## CARTER BANKSHARES, INC.

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

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.

#### 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)	September 30, 2023	December 31, 2022	\$ Change	(Dollars in Thousands)	March 31, 2024	December 31, 2023	\$ Change
<b>Nonaccrual Loans</b>	<b>Nonaccrual Loans</b>							
Commercial Real Estate	Commercial Real Estate							
Commercial Real Estate	Commercial Real Estate							
Commercial Real Estate	Commercial Real Estate	\$ 1,265	\$ 2,304	\$ (1,039)				
Commercial and Industrial	Commercial and Industrial	70	204	(134)				
Residential Mortgages	Residential Mortgages	2,077	3,265	(1,188)				
Other Consumer	Other Consumer	22	8	14				
Construction	Construction	2,954	864	2,090				
Other	Other	301,913	—	301,913				
<b>Total Nonperforming Loans</b>	<b>Total Nonperforming Loans</b>	<b>308,301</b>	<b>6,645</b>	<b>301,656</b>				
Other Real Estate Owned	Other Real Estate Owned	3,765	8,393	(4,628)				
<b>Total Nonperforming Assets</b>	<b>Total Nonperforming Assets</b>	<b>\$ 312,066</b>	<b>\$ 15,038</b>	<b>\$ 297,028</b>				

Nonperforming assets increased \$297.0 million decreased \$2.2 million to \$312.1 million \$309.8 million at September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023. The decrease of \$2.2 million in 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. During the second quarter of 2023, the Company placed \$301.9 million of commercial loans that resided reside in the Other segment of the Company's loan portfolio, relating to the Bank's largest lending relationship, which has an aggregate principal amount of \$301.9 million, on nonaccrual status due to loan maturities and failure to pay in full. These loans remained on nonaccrual status at both March 31, 2024 and December 31, 2023. These nonperforming loans are 97.9% 98.2% of the Company's total nonperforming loans and 96.7% 97.4% of the Company's total nonperforming assets. assets at March 31, 2024.

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 at March 31, 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)

Based on analyses of the credit relationship and various cash flow assumptions in the alternative modeling the Company established individually evaluated loan reserves with respect to these loans of \$53.6 million at September 30, 2023, representing 17.8%, of these loans aggregate principal amount. At September 30, 2023, all of the Bank's loans related to this lending relationship are on nonaccrual status.

The Company believes it is well secured based on the net carrying value of the credit relationship and appropriately reserved for potential expected credit losses with respect to all such loans based on information currently available. The Company utilized various cash flow assumptions in the alternative modeling which resulted in a valuation allowance of \$53.6 million at September 30, 2023. 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 September 30, 2023 March 31, 2024, the Company utilized discounted cash flow valuation techniques to evaluate estimate the current condition timing and magnitude of certain of the borrowers' operating businesses and those borrowers' capacity to repay. That evaluation resulted in the Company establishing a valuation allowance of \$53.6 million at September 30, 2023. 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:

September 30, 2023	December 31, 2022
--------------------	-------------------

March 31, 2024						March 31, 2024						December 31, 2023					
(Dollars in Thousands)	(Dollars in Thousands)	Amount	% of NPLs	Amount	% of NPLs	(Dollars in Thousands)	Amount		% of NPLs			Amount		% of NPLs			
Commercial Real Estate	Commercial Real Estate	\$ 1,265	0.4 %	\$ 2,304	34.7 %	Commercial Real Estate	\$ 641	0.2	0.2 %	%		\$ 1,324	0.4	0.4 %	%		
Commercial & Industrial	Commercial & Industrial	70	— %	204	3.1 %	Commercial & Industrial	109	—	— %	%		52	—	— %	%		
Residential Mortgages	Residential Mortgages	2,077	0.7 %	3,265	49.1 %	Residential Mortgages	2,491	0.8	0.8 %	%		3,283	1.1	1.1 %	%		
Other Consumer	Other Consumer	22	— %	8	0.1 %	Other Consumer	50	—	— %	%		59	—	— %	%		
Construction	Construction	2,954	1.0 %	864	13.0 %	Construction	2,093	0.7	0.7 %	%		2,904	1.0	1.0 %	%		
Other	Other	301,913	97.9 %	—	— %	Other	301,913	98.3	98.3 %	%		301,913	97.5	97.5 %	%		
Balance End of Period	Balance End of Period	308,301	100.0 %	6,645	100.0 %	Balance End of Period	307,297	100.0	100.0 %	%		309,535	100.0	100.0 %	%		

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 II, I, Item 1.1. Notes to Consolidated Financial Statements - Note 10, "Commitments and Contingencies," under the heading "Legal Proceedings" of this Quarterly Report on Form 10-Q.

Closed retail bank offices have had a remaining book value of \$2.1 million \$1.3 million at September 30, 2023 March 31, 2024 and \$1.1 million \$2.3 million at December 31, 2022 December 31, 2023, and are recorded in OREO on the Company's balance sheet. During the third quarter of 2023, three months ended March 31, 2024, the Bank closed sold two retail banking offices and moved \$1.1 million \$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, we believe 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:

September 30, 2023						December 31, 2022											
March 31, 2024						March 31, 2024						December 31, 2023					
		% of Loans in each Category to Total Portfolio						% of Loans in each Category to Total Portfolio Loans						% of Loans in each Category to Total Portfolio Loans			
(Dollars in Thousands)	(Dollars in Thousands)	Amount	Loans	Amount	Loans	(Dollars in Thousands)	Amount					Amount					
Commercial Real Estate	Commercial Real Estate	\$19,490	49.5 %	\$17,992	46.7 %	Commercial Real Estate	\$19,162	49.3 %				\$ 19,873	47.7 %				
Commercial & Industrial	Commercial & Industrial	2,987	7.8 %	3,980	9.9 %	Commercial & Industrial	3,061	7.3 %				3,286	7.7 %				
Residential Mortgages	Residential Mortgages	10,619	21.6 %	8,891	20.9 %	Residential Mortgages	11,038	22.5 %				10,879	22.5 %				



Allowance for Credit Losses	Allowance for Credit Losses	\$ 94,474	\$ 93,852				
Nonperforming Loans	Nonperforming Loans	308,301	6,645				
Allowance for Credit Losses to Nonperforming Loans	Allowance for Credit Losses to Nonperforming Loans	30.64 %	1,412.37 %	Allowance for Credit Losses to Nonperforming Loans	31.41 %		31.35 %
Net Charge-offs to Average Portfolio Loans	Net Charge-offs to Average Portfolio Loans						
Net Charge-offs to Average Portfolio Loans							
Net Charge-offs to Average Portfolio Loans							
Net Charge-offs (annualized)							
Net Charge-offs (annualized)							
Net Charge-offs (annualized)	Net Charge-offs (annualized)	\$ 2,651	\$ 4,506				
Average Total Portfolio Loans	Average Total Portfolio Loans	3,285,380	2,988,785				
Net Charge-offs to Average Portfolio Loans	Net Charge-offs to Average Portfolio Loans	0.08 %	0.15 %	Net Charge-offs to Average Portfolio Loans	0.06 %		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 \$1.2 million and \$0.2 million decreased \$1.4 million for the three and nine months ended September 30, 2023, respectively, March 31, 2024 when compared to the same periods period in 2022, 2023. The increase for the three and nine months ended September 30, 2023 decrease in the provision for credit losses was primarily driven by lower loan growth and net charge-offs, offset by in the release first quarter of specific reserves on two loans, 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.

The (recovery) provision for unfunded commitments decreased \$0.3 million and increased \$0.1 million for the three and nine months ended September 30, 2023, respectively, March 31, 2024 compared to the same periods period in 2022, 2023. The decline was due to decreased commitments in construction loans during the first quarter of 2024. The reserve for unfunded commitments is largely comprised of unfunded commitments related to changes in real estate

## CARTER BANKSHARES, INC.

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

construction loans and pressure on the reserve rate, 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 \$0.8 million and \$2.0 million \$0.5 million for the three and nine months ended September 30, 2023, respectively, March 31, 2024 compared to \$3.7 million and \$4.1 million \$0.6 million for the same period in 2022, 2023. During the three and nine months ended September 30, 2023 March 31, 2024, net charge-offs were primarily recognized in the other consumer segment. During the three months ended September 30, 2022 March 31, 2023, net charge-offs were primarily included in the Company charged-down \$3.4 million on a \$4.9 million purchased syndicated C&I loan and transferred \$1.5 million to held-for-sale, other consumer segment. As a percentage of average portfolio loans, on an

annualized basis, net charge-offs were 0.09% and 0.08% 0.06% for the three and nine months ended 2023 2024 and 0.49% and 0.19% 0.07% for the same periods period in 2022, respectively.

2023.

At September 30, 2023 March 31, 2024, nonperforming loans increased \$301.7 million decreased \$2.2 million to \$308.3 million \$307.3 million since December 31, 2022 December 31, 2023. Nonperforming loans as a percentage of total portfolio loans were 9.04% 8.76% and 0.21% 8.83% as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Nonperforming loans increased 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 second first quarter of 2023 as the Company placed commercial loans that were in the Other segment of the Company's loan portfolio, relating to the Bank's largest lending relationship which has an aggregate principal amount of \$301.9 million, on nonaccrual status due to loan maturities and failure to pay in full, 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:

September 30, 2023																	
March 31, 2024									March 31, 2024								
		Commercial						Total			Commercial		Residential	Other			Total
(Dollars in Thousands)	(Dollars in Thousands)	Commercial Real Estate	and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Portfolio Loans	(Dollars in Thousands)	Commercial Real Estate	and Industrial	Residential Mortgage	Other Consumer	Construction	Other		Portfolio Loans
Pass	Pass	\$ 1,686,716	\$ 261,416	\$ 734,589	\$ 36,445	\$ 374,495	\$ 3,320	\$3,096,981									
Special Mention	Special Mention	286	2,838	527	—	62	—	3,713									
Substandard	Substandard	1,945	75	3,252	42	3,019	301,913	310,246									
Doubtful	Doubtful	—	—	—	—	—	—	—									
Loss	Loss	—	—	—	—	—	—	—									
Total Portfolio Loans	Total Portfolio Loans	\$ 1,688,947	\$ 264,329	\$ 738,368	\$ 36,487	\$ 377,576	\$ 305,233	\$3,410,940									
Performing	Performing	\$ 1,687,682	\$ 264,259	\$ 736,291	\$ 36,465	\$ 374,622	\$ 3,320	\$3,102,639									
Performing	Performing																
Performing	Performing																
Nonperforming	Nonperforming	1,265	70	2,077	22	2,954	301,913	308,301									
Total Portfolio Loans	Total Portfolio Loans	\$ 1,688,947	\$ 264,329	\$ 738,368	\$ 36,487	\$ 377,576	\$ 305,233	\$3,410,940									
December 31, 2022																	
December 31, 2023									December 31, 2023								
		Commercial						Total			Commercial		Residential	Other			Total
(Dollars in Thousands)	(Dollars in Thousands)	Commercial Real Estate	and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Portfolio Loans	(Dollars in Thousands)	Commercial Real Estate	and Industrial	Residential Mortgage	Other Consumer	Construction	Other		Portfolio Loans
Pass	Pass	\$ 1,457,340	\$ 303,893	\$ 653,044	\$ 44,495	\$ 352,516	\$180,745	\$2,992,033									
Special Mention	Special Mention	10,796	2,887	983	—	69	—	14,735									
Substandard	Substandard	2,426	3,012	3,921	67	968	131,751	142,145									
Doubtful	Doubtful	—	—	—	—	—	—	—									
Loss	Loss	—	—	—	—	—	—	—									
Total Portfolio Loans																	
Total Portfolio Loans																	
Total Portfolio Loans	Total Portfolio Loans	\$ 1,470,562	\$ 309,792	\$ 657,948	\$ 44,562	\$ 353,553	\$312,496	\$3,148,913									
Performing	Performing	\$ 1,468,258	\$ 309,588	\$ 654,683	\$ 44,554	\$ 352,689	\$312,496	\$3,142,268									
Performing	Performing																
Performing	Performing																

Nonperforming	Nonperforming	2,304	204	3,265	8	864	—	6,645
<b>Total</b>	<b>Total</b>							
<b>Portfolio</b>	<b>Portfolio</b>							
<b>Loans</b>	<b>Loans</b>	<b>\$ 1,470,562</b>	<b>\$ 309,792</b>	<b>\$ 657,948</b>	<b>\$ 44,562</b>	<b>\$ 353,553</b>	<b>\$ 312,496</b>	<b>\$ 3,148,913</b>

At March 31, 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 decreased \$3.0 million compared to December 31, 2023, with a decrease of \$2.3 million in substandard and a decrease of \$0.7 million in special mention. The decrease of \$2.3 million in substandard was primarily related to two loans, one of which is a commercial real estate ("CRE") loan and the other is a construction loan, totaling \$1.3 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 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)

Special mention, substandard and doubtful loans at September 30, 2023 increased \$157.1 million to \$314.0 million compared to \$156.9 million at December 31, 2022. The decrease of \$11.0 million in special mention is primarily due to the upgrade of a CRE credit totaling \$9.8 million to a pass rating. The increase of \$168.1 million in substandard loans is primarily related to the above mentioned large nonaccrual lending relationship in the other Other loan category. The \$301.9 million category, which was placed on nonaccrual status during the second quarter of loans related 2023 and contributed \$301.9 million to the Bank's largest lending relationship were nonperforming and rated Company's substandard loan balances as substandard at September 30, 2023. At December 31, 2022 the largest lending relationship in the other segment loans were all accruing and totaled \$309.1 million of which, \$177.3 million of those loans were pass-rated and \$131.8 million of those loans were substandard-rated, dates.

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:

		September		December			March 31,		December 31,				
(Dollars in Thousands)	(Dollars in Thousands)	30, 2023	31, 2022	\$ Change	% Change		2024		2023			\$ Change	% Change
Noninterest-Bearing Demand	Noninterest-Bearing Demand	\$ 661,454	\$ 703,334	\$(41,880)	(6.0)%	Noninterest-Bearing Demand	\$ 671,981	\$	\$ 685,218	\$		\$ (13,237)	(1.9)%
Interest-Bearing Demand	Interest-Bearing Demand	469,904	496,948	(27,043)	(5.4)%	Interest-Bearing Demand	515,614	481,506	481,506	34,108		34,108	7.1%
Money Market	Money Market	426,172	484,238	(58,065)	(12.0)%	Money Market	520,785	513,664	513,664	7,121		7,121	1.4%
Savings	Savings	487,105	684,287	(197,182)	(28.8)%	Savings	427,461	454,876	454,876	(27,415)		(27,415)	(6.0)%
Certificates of Deposit	Certificates of Deposit	1,511,554	1,261,526	250,028	19.8%	Certificates of Deposit	1,694,680	1,586,651	1,586,651	108,029		108,029	6.8%
<b>Total Deposits</b>	<b>Total Deposits</b>	<b>\$ 3,556,189</b>	<b>\$ 3,630,333</b>	<b>\$(74,154)</b>	<b>(2.0)%</b>								
<b>Total Deposits</b>							<b>\$ 3,830,521</b>		<b>\$ 3,721,915</b>		<b>\$ 108,606</b>		<b>2.9%</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 September 30, 2023 decreased \$74.2 million March 31, 2024 increased \$108.6 million, or 2.9%, from December 31, 2022 December 31, 2023. The decrease increase related to a decline of \$324.2 million in demand, money market and savings deposits, offset by an increase of \$250.0 million \$108.0 million in CDs, which was primarily due 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 in money market accounts, offset by a decrease of \$27.4 million in savings accounts and a decrease of \$13.2 million in noninterest-bearing demand accounts. The Company had \$115.6 million brokered CDs at March 31, 2024, compared to customers migrating between deposit products as interest rates have risen, \$70.0 million at December 31, 2023.

At September 30, 2023 March 31, 2024, noninterest-bearing deposits comprised 18.6% 17.5% of total deposits compared to 19.4% 18.4% at December 31, 2022 December 31, 2023 and 19.3% 19.5% at September 30, 2022 March 31, 2023. CDs comprised 42.5% 44.2%, 34.7% 42.6% and 33.5% 37.0% of total deposits at September 30, 2023 March 31, 2024, December 31, 2022 December 31, 2023 and September 30, 2022 March 31, 2023, respectively. As of September 30, 2023 March 31, 2024, based on assumptions that the Bank uses to prepare its regulatory call report, approximately 88.9% 82.8% of our total deposits of \$3.6 billion \$3.8 billion were insured under standard FDIC insurance coverage limits, and approximately 11.1% 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 79.2% 78.8% of retail deposits. At September 30, 2023 and December 31, 2022, total brokered deposits (excluding the CDARS and ICS two-way) were \$20.0 million and zero, respectively.

## 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:

		September 30, 2023		December 31, 2022				March 31, 2024		December 31, 2023	
(Dollars in Thousands)	(Dollars in Thousands)	Amount	Percent	Amount	Percent	(Dollars in Thousands)		Amount	Percent	Amount	Percent
Deposits from the Certificate of Deposit Account Registry Services ("CDARS")	Deposits from the Certificate of Deposit Account Registry Services ("CDARS")	\$ —	— %	\$ 922	0.1 %						
Brokered Deposits	Brokered Deposits										
Noninterest-Bearing Public Funds Deposits	Noninterest-Bearing Public Funds Deposits	23,739	2.1 %	27,086	2.4 %						
Interest-Bearing Public Funds Deposits	Interest-Bearing Public Funds Deposits	124,812	11.2 %	180,243	16.0 %						
Total Deposits not Covered by Deposit Insurance <sup>(1)</sup>	Total Deposits not Covered by Deposit Insurance <sup>(1)</sup>	396,283	35.3 %	493,013	43.6 %						
Certificates of Deposits not Covered by Deposit Insurance	Certificates of Deposits not Covered by Deposit Insurance	248,924	22.3 %	159,030	14.0 %						
Deposits for Certain Directors, Executive Officers and their Affiliates	Deposits for Certain Directors, Executive Officers and their Affiliates	1,503	0.1 %	2,910	0.3 %						

<sup>(1)</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 September 30, 2023 March 31, 2024 are summarized as follows:

		September 30, 2023		March 31, 2024				Amount		Percent	
(Dollars in Thousands)	(Dollars in Thousands)	Amount	Percent	(Dollars in Thousands)	Percent	(Dollars in Thousands)		Amount	Percent	Amount	Percent
Three Months or Less	Three Months or Less	\$ 31,465	12.6 %	Three Months or Less	12.6 %			\$ 49,814	20.4 %	\$ 49,814	20.4 %

Over Three Months Through Twelve Months	Over Three Months Through Twelve Months	136,656	54.9 %	Over Three Months Through Twelve Months	180,758	73.9	73.9	%
Over Twelve Months Through Three Years	Over Twelve Months Through Three Years	58,727	23.6 %	Over Twelve Months Through Three Years	12,390	5.1	5.1	%
Over Three Years	Over Three Years	22,076	8.9 %	Over Three Years	1,488	0.6	0.6	%
<b>Total</b>	<b>Total</b>	<b>\$248,924</b>	<b>100.0 %</b>	<b>Total</b>	<b>\$ 244,450</b>	<b>100.0</b>	<b>100.0</b>	<b>%</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 \$514.1 million \$310.5 million FHLB borrowings at September 30, 2023 March 31, 2024 and \$180.6 million \$393.4 million at December 31, 2022 December 31, 2023. The Company had no overnight federal funds purchased at September 30, 2023 and \$17.9 million in overnight federal funds purchased March 31, 2024 or at December 31, 2022 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 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)	September 30, 2023	December 31, 2022	(Dollars in Thousands)	March 31, 2024	December 31, 2023
Balance at Period End	Balance at Period End					
Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	\$514,135	\$180,550			
Federal Funds Purchased	Federal Funds Purchased	\$ —	\$ 17,870			
Average Balance during the Period	Average Balance during the Period					
Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	\$380,023	\$ 29,849			
Federal Funds Purchased	Federal Funds Purchased	\$ 9,062	\$ 5,711			





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 the ALCO for formulation, implementation and oversight of liquidity risk management for the Company. The ALCO's goal is to maintain adequate levels of liquidity at a reasonable cost to meet funding needs in both a normal operating environment and for potential liquidity stress events. The ALCO closely monitors and manages liquidity through various ratios, by reviewing cash flow projections, performing balance sheet stress tests and by having maintaining a detailed contingency funding plan. The plan that includes specific liquidity measures that are reviewed by the ALCO monthly. Our liquidity policy guidelines define and contingency funding plan provide graduated risk tolerance levels, levels for multiple liquidity measures and potential liquidity environments. If our liquidity position moves to a level that has been defined as high risk, specific actions are required, such as increased monitoring or the development of an action plan to reduce the risk position.

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, federal funds lines of which the Company is eligible to borrow up to an additional \$593.8 million. The Company has unsecured facilities with six three other correspondent financial institutions totaling \$50.0 million, a fully secured facility with an available amount of \$145.0 million 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. In addition to the lines referenced above funding resources, the Company also has \$580.4 million \$465.4 million of unpledged available-for-sale investment securities, that may be sold or pledged as collateral that can serve at fair value, as an additional source of liquidity. Please refer to the Liquidity Sources table below for available funding with the FHLB and our unsecured lines of credit with correspondent banks. As of September 30, 2023 March 31, 2024, approximately 88.9% 82.8% of our total deposits of \$3.6 billion \$3.8 billion were insured under standard FDIC insurance coverage limits, and approximately 11.1% 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 September 30, 2023 March 31, 2024, the Bank had \$597.8 million \$538.6 million in highly liquid assets, which consisted of Federal Reserve Board Excess Reserves and interest-bearing deposits in other financial institutions of \$17.4 million, \$580.4 million \$73.2 million and \$465.4 million in unpledged securities. This resulted in highly liquid assets to total assets ratio of 13.4% 11.8% at September 30, 2023 March 31, 2024. Total available liquidity to uninsured deposits was 306.8% 199.0% at September 30, 2023 March 31, 2024.

As if an extended recession, or significant industry or market volatility, caused large numbers of September 30, 2023, 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 Company has approximately \$322.3 million in par value periods presented:

(Dollars in Thousands)	March 31, 2024		December 31, 2023	
Cash and Due From Banks, including Interest-bearing Deposits	\$	108,110	\$	54,529
Unpledged Investment Securities		465,391		563,537
Excess Pledged Securities		45,333		61,774
FHLB Borrowing Availability		593,774		480,266
Collateralized Lines of Credit		45,000		—
Unsecured Lines of Credit		50,000		50,000
Total Liquidity Sources	\$	1,307,608	\$	1,210,106

The following table provides total liquidity sources and ratios as of securities that are eligible to be pledged under the Bank Term Funding Program ("BTFP"), but the Bank has not borrowed under or otherwise accessed the BTFP periods presented:

--

(Dollars in Thousands)	March 31, 2024	December 31, 2023
Total Liquidity Sources	\$ 1,307,608	\$ 1,210,106
Highly Liquid Assets to Total Assets	11.8 %	12.8 %
Highly Liquid Assets to Uninsured Deposits	82.0 %	89.4 %
Total Available Liquidity to Uninsured Deposits	199.0 %	187.0 %

## CARTER BANKSHARES, INC.

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

The following table provides detail of liquidity sources as of the periods presented:

(Dollars in Thousands)	September 30, 2023	December 31, 2022
Cash and Due From Banks, including Interest-bearing Deposits	\$ 55,398	\$ 46,869
Unpledged Investment Securities	580,379	611,845
Excess Pledged Securities	77,400	46,305
FHLB Borrowing Availability	357,583	676,746
Unsecured Lines of Credit	145,000	127,130
<b>Total Liquidity Sources</b>	<b>\$ 1,215,760</b>	<b>\$ 1,508,895</b>

The following table provides total liquidity sources and ratios as of September 30, 2023:

(Dollars in Thousands)	September 30, 2023
Total Liquidity Sources	\$ 1,215,760
Highly Liquid Assets to Total Assets	13.4%
Highly Liquid Assets to Uninsured Deposits	150.9 %
Total Available Liquidity to Uninsured Deposits	306.8 %

## Regulatory Capital Requirements

Total capital of ~~\$330.6 million~~ ~~\$359.1 million~~ at ~~September 30, 2023~~ ~~March 31, 2024~~, reflects an increase of ~~\$2.0 million~~ ~~\$7.8 million~~ compared to ~~\$328.6 million~~ at ~~December 31, 2022~~ ~~December 31, 2023~~. The increase in total capital from ~~December 31, 2022~~ ~~December 31, 2023~~ is primarily due to net income of \$25.3 million for the nine months ended ~~September 30, 2023~~ offset by ~~\$16.4 million~~ related to the repurchase of common stock, ~~\$5.8 million~~, a ~~\$7.9 million~~ decrease ~~\$1.6 million~~ increase in other comprehensive (loss) income due to changes in fair value of investment securities, as well as ~~the transitional adjustment~~ ~~an increase~~ of \$0.1 million, net of tax for the adoption of ASU 2023-02. The remaining difference of ~~\$1.1 million~~ is ~~\$0.4 million~~ related to restricted stock activity for all during the ~~nine~~ ~~three~~ months ended ~~September 30, 2023~~ ~~March 31, 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 ~~September 30, 2023~~ ~~March 31, 2024~~ and ~~December 31, 2022~~ ~~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 ~~September 30, 2023~~ ~~March 31, 2024~~, the Bank continues to maintain its capital position with a leverage ratio of ~~9.59%~~ ~~9.27%~~ as compared to the regulatory guideline of 5.00% to be well-capitalized and a risk-based Common Equity Tier 1 ratio of ~~11.08%~~ ~~10.80%~~ compared to the regulatory guideline of 6.50% to be well-capitalized. The Bank's risk-based Tier 1 and Total Capital ratios were ~~11.08%~~ ~~10.80%~~ and ~~12.34%~~ ~~12.07%~~, 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 ~~loss~~, ~~income~~, 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		September 30, 2023		December 31, 2022		(Dollars in Thousands)	Minimum Required Basel III	Well Capitalized <sup>(2)</sup>	March 31, 2024		December 31, 2023	
		Basel III	Capitalized <sup>(2)</sup>	Amount	Ratio	Amount	Ratio				Amount	Ratio	Amount	Ratio
<b>Carter Bankshares, Inc.</b>	<b>Carter Bankshares, Inc.</b>													
Leverage Ratio	Leverage Ratio													
Leverage Ratio	Leverage Ratio													
Leverage Ratio	Leverage Ratio	4.00 %	NA	\$436,863	9.70 %	\$439,606	10.29 %		4.00 %	NA	\$428,862	9.34 %	\$435,364	9.48 %
Common Equity Tier 1 (to Risk-weighted Assets)	Common Equity Tier 1 (to Risk-weighted Assets)	7.00 %	NA	436,863	11.20 %	439,606	12.61 %		7.00 %	NA	428,862	10.89 %	435,364	11.00 %
Tier 1 Capital (to Risk-weighted Assets)	Tier 1 Capital (to Risk-weighted Assets)	8.50 %	NA	436,863	11.20 %	439,606	12.61 %		8.50 %	NA	428,862	10.89 %	435,364	11.00 %
Total Capital (to Risk-weighted Assets)	Total Capital (to Risk-weighted Assets)	10.50 %	NA	486,032	12.46 %	483,450	13.86 %		10.50 %	NA	478,725	12.15 %	484,925	12.00 %
<b>Carter Bank &amp; Trust</b>	<b>Carter Bank &amp; Trust</b>													
Leverage Ratio	Leverage Ratio													
Leverage Ratio	Leverage Ratio													
Leverage Ratio	Leverage Ratio	4.00 %	5.00 %	\$431,516	9.59 %	\$432,711	10.13 %		4.00 %	5.00 %	\$425,250	9.27 %	\$431,550	9.41 %
Common Equity Tier 1 (to Risk-weighted Assets)	Common Equity Tier 1 (to Risk-weighted Assets)	7.00 %	6.50 %	431,516	11.08 %	432,711	12.42 %		7.00 %	6.50 %	425,250	10.80 %	431,550	10.00 %

Tier 1	Tier 1							Tier 1													
Capital (to	Capital (to							Capital (to													
Risk-	Risk-							Risk-													
weighted	weighted							weighted													
Assets)	Assets)	8.50 %	8.00 %	431,516	11.08 %	432,711	12.42 %	Assets)	8.50 %	8.00 %	425,250	10.80	10.80 %	431,550	10.						
Total	Total							Total													
Capital (to	Capital (to							Capital (to													
Risk-	Risk-							Risk-													
weighted	weighted							weighted													
Assets)	Assets)	10.50 %	10.00 %	480,617	12.34 %	476,496	13.68 %	Assets)	10.50 %	10.00 %	475,071	12.07	12.07 %	481,070	12.						

(2)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 Federal Reserve System, ("FRB"), 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 September 30, 2023 March 31, 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, 2022 December 31, 2023 ( the "2022 "2023 Annual Report").

Off-Balance Sheet Arrangements

As of September 30, 2023 March 31, 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 2022 2023 Annual Report.

CARTER BANKSHARES, INC.

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 reflects exposures to from interest rate risk inherent in lending, investment, and deposit-taking activities. Interest rate risk can arise from timing differences in the repricing and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay home mortgage loans at any time, depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the

CARTER BANKSHARES, INC.

shape of the yield curve, where interest rates. rates increase or decrease in a non-parallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and SOFR (basis risk).

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

Earnings Simulation Modeling

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

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

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

NII rate shock simulation results are compared to a base case NII result to provide an estimate of the impact that simulated market rate changes may have on 12 months and 24 months of pretax NII. The base case earnings scenario together with various rate shock earning scenarios are modeled utilizing both a static and growth balance sheet. A static balance sheet is a no-growth balance sheet in which all maturing and/or repricing cash flows are reinvested in the same product at the existing product spread over a prescribed index. Parallel rate shock analyses assume an immediate parallel shift in market interest rates across all horizons of the yield curve and also include management's assumptions regarding the impact of interest rate changes on non-maturity deposit products (noninterest-bearing demand, interest-bearing demand, money market, and savings) and changes in the prepayment behavior of loans and securities with embedded optionality. Our policy guidelines limit the change in pretax NII net interest income over a 12-month and 24-month horizon using rate shocks of +/- 100, 200, 300, and 400 basis points, points and for non-parallel yield curve shift scenarios. We have temporarily suspended the + 300 and + 400 basis point rate shock analyses. Due to Federal Open Market Committee's slowing future FOMC's current pause in overnight rate increase projections coupled with current rate forecasts that imply that the recent increase in FOMC will likely begin reducing the Fed Funds Target Rate before the end of 5.00% since March 17, 2022, the year, we believe the impact to NII 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 probably probable interest rate environment for the foreseeable future.

To monitor interest rate risk beyond the 24-month time horizon of rate shocks, we also perform EVE rate shock simulations using the same assumptions used in the NII rate shock simulations discussed above. EVE represents the present value of all asset cash flows discounted with related market interest rates minus the present value of all liability cash flows which are also discounted with related market interest rates. The impact of a changing interest rate environment on the Company's projected EVE is analyzed by shocking market interest rates, then modeling the impact of the rate shock on both the cash flow of assets and liabilities, and the underlying discount rate utilized in the present value calculation of the assets and liabilities. Market rate shock results are then compared to base case simulation results to determine the impact that market rate changes may have on our EVE. As with NII rate shock analyses, EVE rate shock analyses incorporate management's assumptions regarding prepayment behavior of fixed rate loans and securities with embedded optionality and the behavior and value of non-maturity deposit products. Our policy guidelines limit the change in EVE given changes in rates of +/- 100, 200, 300, and 400 basis points. We have temporarily suspended the + 300 and + 400 basis point rate shock analyses. Due to Federal Open Market Committee's slowing future rate increase projections coupled with the recent increase in the Fed Funds Target Rate of 5.25% since March 17, 2022. We believe the impact to NII 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 probably interest rate environment for the foreseeable future.

## CARTER BANKSHARES, INC.

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

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

September 30, 2023		December 31, 2022							
		March 31, 2024						March 31, 2024	
								December 31, 2023	
Change in Interest Rate (basis points)	Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	Change in Interest Rate (basis points)		% Change in Pretax Net Interest Income	
200	200	0.2%	(3.6)%	7.7%	(0.2)%	200	1.5%	(1.1)%	
100	100	0.3%	(0.9)%	4.1%	0.8%	100	1.1%	(0.3)%	
-100	-100	1.6%	(1.8)%	(5.1)%	(3.4)%	-100	1.3%	2.4%	
-200	-200	2.1%	(5.6)%	(10.7)%	(8.5)%	-200	2.2%	4.4%	
-300	-300	2.1%	(10.6)%	(17.3)%	(16.0)%	-300	3.0%	5.6%	

-400	-400	1.4%	(17.1)%	(23.5)%	(28.0)%	-400	4.0%		6.7%
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The results from the net interest income rate shock analysis earnings simulation imply that the Company's balance sheet has shifted from an asset sensitive balance sheet when adjusted for repricing correlations (betas) at December 31, 2022 to a slightly liability sensitive balance sheet when adjusted for repricing correlations (betas) at September 30, 2023 March 31, 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 in pretax net interest income for the same asset base and liability mix due to the balance sheet composition, related maturity structures, and repricing correlations to market interest rates for assets and liabilities. However, in a declining interest rate environment, we are positioned to have a slightly more advantageous increased pretax increase in net interest income for

## CARTER BANKSHARES, INC.

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

the same reasons discussed above.

Based on the ALM results presented above for the quarters ending September 30, 2023 and December 31, 2022, the Company's balance sheet is slightly The liability sensitive at September 30, 2023 versus assets sensitive at December 31, 2022. This migration in asset sensitivity to liability sensitive 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 floating variable rate securities and portfolio loans that are less sensitive to future market interest rate changes, 2) the addition of the Company's largest lending relationship with an aggregate principal amount of \$301.9 million being placed on nonaccrual status as of September 30, 2023, 3) shortening maturities of the time deposit portfolio due to shorter term time deposit promotional campaigns related to the inverted yield curve, and 4) 3) the recent shifts in the shape of the yield curve between the two periods presented above.

#### In addition Economic Value of Equity Modeling

Economic value of equity simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. The ALM calculates the economic value of equity based on discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. The change in net economic value of equity over different rate environments is an indication of the longer-term earnings capability of the balance sheet. The Company uses the same assumptions in the economic value of equity simulation model as in the earnings simulation model. The economic value of equity simulation model uses instantaneous rate shocks to the balance sheet. For economic value of equity simulation, our policy guidelines limit the change in economic value of equity given changes in rates of +/- 100, 200, 300, 400 basis points and EVE analyses, sensitivity analyses for non-parallel yield curve shift scenarios. We have temporarily suspended the + 300 and + 400 basis point rate shock analyses. Due to FOMC's 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 performed driven primarily by the shape of the underlying yield curves and option-adjusted spreads used to help us identify which model assumptions are critical discount the projected cash flows of assets and cause the greatest impact on pretax NII. Sensitivity analyses include changing prepayment behavior of loans and securities with optionality, repricing correlations, liabilities, and the impact assumed life span of interest rate the assets and liabilities being discounted.

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

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

### 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) Act of 1934, as amended) as of September 30, 2023 March 31, 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 **at the reasonable assurance level**, **in all material respects**, as of the end of the period covered by this Report.

### 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 **September 30, 2023** **March 31, 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

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. The Company may enter into settlement discussions in some legal or administrative proceedings, if it believes it is in the Company's best interests to do so. Other than as set forth below, as of the date of this Quarterly Report on Form 10-Q, the Company is not involved in any other material pending legal proceedings other than proceedings occurring in the ordinary course of business.

The Bank is engaged in a variety of collection proceedings against various related entities that are owned and/or controlled by James C. Justice, II, Cathy L. Justice and James C. Justice, III (such entities, the "Justice Entities" and collectively with the individuals, the "Defendants"). On April 20, 2023 and May 15, 2023, the Bank filed in the Circuit Court of the City of Martinsville, Virginia confessions of judgment against the Defendants with respect to amounts owed on matured promissory notes made or guaranteed by the Defendants with an aggregate principal balance of approximately \$301 million. On May 12, 2023 and June 7, 2023, the 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 Defendants and (iii) tortiously interfered with the Defendants' business expectancies and relationships, among other allegations.

The Company and the Bank intend to pursue vigorously the confessions of judgment and enforce the promissory notes and related agreements, including release and affirmation agreements, guaranties and indemnification agreements. The Company and the Bank vigorously deny the allegations **information** contained in **Part I, Item 1. Financial Statements and Supplementary Data – Note 10, "Commitments and Contingencies,"** under the Defendants' motions to set aside the confessions of judgment. Based on consultation with legal counsel, the Company believes that the Bank has meritorious defenses to all allegations contained in such motions to set aside the confessions of judgment. However, because the collection litigation heading "Legal Proceedings," is in its early stages, the Company can make no prediction as to the ultimate outcome thereof or any related legal proceedings that may commence. **incorporated by reference into this Item 1.**

### ITEM 1A – RISK FACTORS

Other than the risk factors set forth below, there **There** have been no material changes in the risk factors faced by the Company from those disclosed in our **2022** **2023** [Annual Report on Form 10-K](#) and Quarterly Report on Form 10-Q for the period ended March 31, 2023 and June 30, 2023.

An investment in the Company's securities involves risks. In addition to the other information set forth in this Quarterly Report on Form 10-Q, including the information addressed in this Item 1A and under "Important Note Regarding Forward Looking Statements" in Part I, Item 2 of this Quarterly Report on Form 10-Q, investors in the Company's securities should carefully consider the factors discussed in our 2022 Annual Report on Form 10-K in Part I, Item 1A, "Risk Factors" and in our Quarterly Report on Form 10-Q for the period ended March 31, 2023 in Part II, Item 1A, "Risk Factors."

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

As of September 30, 2023, our nonperforming assets (which at that date consist of nonaccrual loans and OREO) totaled \$312.1 million, or 9.1%, of the Company's loan portfolio plus OREO. The Company's policy is to place loans in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past

## CARTER BANKSHARES, INC.

due based on contractual terms. While the Company generally seeks to reduce or resolve problem assets through, among other methods, loan workouts, restructurings, or sales, decreases in the value of the underlying collateral, decreases in the respective borrowers' financial condition, profitability, or operating performance may inhibit such reduction or resolution efforts which, in turn, could adversely impact the Company's business, financial condition and results of operations.

The Company's nonperforming assets adversely affect its business, financial condition and results of operations in various ways. The Company does not record interest income on nonaccrual loans or OREO; thus nonperforming assets adversely affect the Company's net income and returns on assets and equity, increase the Company's loan administration costs and adversely affects the Company's results of operations and efficiency ratio. The resolution of nonperforming assets requires significant time commitments from



management which can adversely impact the Company's and Bank's other strategic and operational priorities. If the Bank takes collateral in foreclosure and via a similar proceeding, the Bank is required to mark the collateral to its then-fair market value, which may result in a loss, and the Bank will incur legal and other expenses, which may be significant, in connection with the foreclosure and sale process. Nonperforming loans and OREO can also increase the Company's and the Bank's risk profile and the level of regulatory capital that their respective banking regulators believe is appropriate.

During the second quarter of 2023, the Company placed in nonaccrual status certain commercial loans in the Other segment of the Company's loan portfolio, all relating to the Bank's largest lending relationship, that have an aggregate principal amount of \$301.9 million. Because the Company placed these loans on nonaccrual status, the Company was unable to accrue approximately \$20.7 million of interest income related to these loans as of September 30, 2023.

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

As of September 30, 2023, the Company's largest lending relationship operates in the hospitality, agriculture and energy sectors and had loans outstanding with an aggregate principal amount of \$301.9 million. All such loans are classified in Other segment of the Company's loan portfolio. During the second quarter of 2023, the Company placed these loans on nonaccrual status due to loan maturities and failure to pay in full. This lending relationship comprises 96.1% of the Company's nonperforming assets and 97.2% of the Company's nonperforming loans at September 30, 2023.

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

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

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

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

#### CARTER BANKSHARES, INC.

ended September 30, 2023, the remainder of 416,176 shares of common stock had been repurchased under the 2023 Program at a total cost of \$6.0 million, or an average price of \$14.43 per share.

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

The following table provides information regarding the Company's purchases of our its common stock during the quarter ended September 30, 2023 March 31, 2024.

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum number (or approximate dollar value) of Shares that may yet be purchased under the plans or programs <sup>(a)</sup>
07/01/2023 - 07/31/2023	42,312	\$ 14.83	42,312	373,864
08/01/2023 - 08/31/2023	373,864	14.38	373,864	—
09/01/2023 - 09/30/2023	—	—	—	—
<b>Total</b>	<b>416,176</b>	<b>\$ 14.43</b>	<b>416,176</b>	

<sup>(a)</sup>The number shown represents, as of the end of each period, the approximate number of Common Stock shares that may yet be purchased under publicly-announced share repurchase plan authorizations. The shares may be purchased, from time-to-time, depending on market conditions.

### ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4 – MINE SAFETY DISCLOSURES

None.

### ITEM 5 - OTHER INFORMATION

During the three months ended **September 30, 2023** **March 31, 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="#"><u>3.1</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification by principal executive officer pursuant to Rule 13a-14(a) (filed herewith)</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certification by principal financial officer pursuant to Rule 13a-14(a) (filed herewith)</u></a>
<a href="#"><u>32</u></a>	<a href="#"><u>Certification by principal executive officer and principal financial officer pursuant to 18 U.S.C. §1350 (filed herewith)</u></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: **October 27, 2023** May 3, 2024

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

Date: **October 27, 2023** May 3, 2024

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

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**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: **October 27, 2023** May 3, 2024

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

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: **October 27, 2023** **May 3, 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 **September 30, 2023** **March 31, 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: **October 27, 2023** May 3, 2024

/s/ Litz H. Van Dyke

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

Dated: **October 27, 2023** May 3, 2024

/s/ Wendy S. Bell

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

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