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

FORM 10-K

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

For the fiscal year ended December 31, 2021

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

For the transition period from _________ to _________

Commission file number: 001-39731

CARTER BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia	**85-3365661**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1300 Kings Mountain Road, Martinsville, Virginia	**24112**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒	Emerging growth company	☐
Non-accelerated filer	☐	Smaller reporting company	☐		

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

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

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

The aggregate market value of Carter Bankshares, Inc.'s common stock held by non-affiliates, computed by reference to the price at which the common stock was last sold, or the average bid and asked price of such common stock, as of June 30, 2021 was $325,891,342.

There were 25,357,994 shares of common stock of Carter Bankshares, Inc. outstanding as of March 8, 2022.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of Carter Bankshares, Inc., to be filed pursuant to Regulation 14A for the 2022 annual meeting of shareholders to be held May 25, 2022, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Important Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains or incorporates statements that we believe are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements related to the COVID-19 pandemic and its potential additional impact on the Company, its markets and its customers, potential asset quality and net interest income developments, and the Company’s efficiency initiatives, and deferral programs and may otherwise relate to our financial condition, results of operations, plans, objectives, outlook for earnings, revenues, expenses, capital and liquidity levels and ratios, asset levels, asset quality, financial position, litigation to which the Company is or has been a party and the potential impacts thereof, and other matters regarding or affecting the Company and its future business and operations. Forward looking statements are typically identified by words or phrases such as “will likely result,” “expect,” “anticipate,” “estimate,” “forecast,” “project,” “intend,” “ believe,” “assume,” “strategy,” “trend,” “plan,” “outlook,” “outcome,” “continue,” “remain,” “potential,” “opportunity,” “believe,” “comfortable,” “current,” “position,” “maintain,” “sustain,” “seek,” “achieve” and variations of such words and similar expressions, or future or conditional verbs such as will, would, should, could or may. Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The matters discussed in these forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results and trends to differ materially from those made, projected, or implied in or by the forward-looking statements depending on a variety of uncertainties or other factors including, but not limited to: changes in accounting policies, practices, or guidance, including for example, our adoption of Current Expected Credit Loss (“CECL”); credit losses; technological risks and developments; cyber-security threats, attacks or events; rapid technological developments and changes; the Company’s liquidity and capital positions; the potential adverse effects of unusual and infrequently occurring events, such as weather-related disasters, terrorist acts or public health events (such as the current COVID-19 pandemic), and of governmental and societal responses thereto; these potential adverse effects may include, without limitation, adverse effects on the ability of the 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 cyberattacks 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; the effect of steps the Company takes or has taken in response to the COVID-19 pandemic, the severity and duration of the pandemic, the uncertainty regarding new variants of COVID-19 that have emerged, the speed and efficacy of vaccine and treatment developments, the impact of loosening or tightening of government restrictions, the pace of economic recovery when the pandemic subsides and the impact it has on exacerbating many of the risks described herein; legislative or regulatory changes and requirements, including the impact of the Coronavirus Aide, Relief and Economic Security Act (the “CARES Act”), as amended by the Consolidated Appropriations Act, 2021 (the “CAA”), and other legislative and regulatory reactions to the COVID-19 pandemic; potential claims, damages, and fines related to litigation or government actions, including litigation or actions arising from the Company’s participation in and administration of programs related to the COVID-19 pandemic, including, among other things, under the CARES Act, as amended by the CAA; sensitivity to the interest rate environment including a prolonged period of low interest rates, a rapid increase in interest rates or a change in the shape of the yield curve; inflation; a change in spreads on interest-earning assets and interest-bearing liabilities; regulatory supervision and oversight; legislation affecting the financial services industry as a whole, and the Company, in particular; the outcome of pending and future litigation and governmental proceedings; increasing price and product/service competition; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; the Company’s strategic branch network optimization plan; managing our internal growth and acquisitions; the possibility that the anticipated benefits from acquisitions cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or more costly than anticipated; containing costs and expenses; reliance on significant customer relationships; general economic or business conditions; deterioration of the housing market and reduced demand for mortgages; deterioration in the overall macroeconomic conditions or the state of the banking industry that could impact the re-emergence of turbulence in significant portions of the global financial and real estate markets that could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities, and indirectly, by affecting the economy generally and access to capital in the amounts, at the times and on the terms required to support our future businesses. Many of these factors, as well as other factors, are described throughout this Annual Report on Form 10-K, including Part I, Item 1A, Risk Factors and any of our subsequent filings with the Securities and Exchange Commission (“SEC”). Forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. We caution you not to unduly rely on forward-looking statements because the assumptions, beliefs, expectations and projections about future events may, and often do, differ materially from actual results. Any forward-looking statement speaks only as to the date on which it is made, and we undertake no obligation to update, revise or clarify any forward-looking statement to reflect developments occurring after the statement is made.

PART 1
ITEM 1. BUSINESS

General

Carter Bankshares, Inc. (the "Company") is a holding company headquartered in Martinsville, Virginia with assets of $4.1 billion at December 31, 2021. The Company is the parent company of its wholly owned subsidiary, Carter Bank & Trust (the "Bank"). The Bank is an insured, Virginia state-chartered commercial bank which operates branches in Virginia and North Carolina and is the fourth largest state chartered commercial bank headquartered in Virginia, operating 69 branches across both states. The Bank provides a full range of financial services with retail, commercial banking products and insurance products.

Holding Company Reorganization

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

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

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

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

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

Operations

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

Our mission is that the Bank strives to be the preferred lifetime financial partner for our customers and shareholders, and the employer of choice in the communities the Bank is privileged to serve. Our strategic plan focuses on restructuring the balance sheet to provide more diversification and higher yielding assets to increase the net interest margin. Another area of focus is the transformation of the infrastructure of the Bank to provide a foundation for operational efficiency and provide new products and services for our customers that will ultimately increase noninterest income.

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

The Bank offers a full range of deposit services including LIFETIME FREE CHECKING, interest checking accounts, savings accounts, retirement accounts and other deposit accounts of various types, ranging from money market accounts to longer-term CDs. These products and services are available to our personal and business customers. The transaction accounts and time CDs are tailored to each of the Bank's principal markets at competitive rates. All deposit accounts are insured by the FDIC up to the maximum amount allowed by law. The Dodd-Frank Act Wall Street Reform and Consumer Protection Act (the “Dodd-Frank 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.

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

The Bank's lending activities are subject to a variety of lending limits imposed by federal law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower's relationship to the Bank), in general the Bank is subject to a “loan to one” borrower limit of an amount equal to 15% of the Bank's unimpaired capital and surplus. The Bank may not make loans to any director, officer, employee or 10% shareholder of the Bank unless the loan is approved by the Company’s Board of Directors (the “Board”) and is made on terms not more favorable than are made available to a person not affiliated with the Bank.

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

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

The Company is a Virginia business corporation subject to the Bank Holding Company Act of 1956, as amended. As such, the Company is subject to supervision and examination by, and the regulations and reporting requirements of, the Board of Governors of the Federal Reserve System (“FRB”). The Company’s principal office, which is the same as the Bank’s principal office, is located at 1300 Kings Mountain Road, Martinsville, Virginia 24112. The Company’s telephone number at that address is (276) 656-1776. The Company’s website address is www.cbtcares.com.

Competition

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

Human Capital Management

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

Demographics

As of December 31, 2021, we employed 731 full and part-time associates across our two-state footprint. No associates are represented by a collective bargaining unit. For fiscal year 2021, we hired 169 associates. Our voluntary separation turnover rate was 16.5% in fiscal year 2021.

Compensation, Benefits, and Wellness

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

Associate Performance and Development

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

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

Diversity, Equity, and Inclusion

We strive to promote inclusion through our core company values and behaviors. We use various communication channels to develop an engaged workforce and create an inclusive workplace. In 2021, we created a Diversity, Equity, and Inclusion Council (the "DEI Council") that is sponsored by our Chief Executive Officer (or "CEO") and directed by our Chief Human Resources Officer and our Regulatory Risk Management Director. The DEI Council consists of at least eight associates from across our organization and is focused on collecting information, developing a roadmap, and presenting information to management to further the Bank's efforts of identifying areas of focus and recommending action plans to cultivate a culture that will attract and retain a diverse workforce.

Here is a snapshot of our diversity metrics as of December 31, 2021:

Gender	% of Total
Female	80.32 %
Male	19.68 %

Generation	% of Total
Generation Z (1997 and later)	6.66 %
Millennials (1981 - 1996)	36.72 %
Generation X (1965 – 1980)	30.58 %
Baby Boomers (1946 – 1964)	25.13 %
Silent Generation (before 1946)	0.91 %

Ethnicity	% of Total
American Indian / Alaskan Native	0.40 %
Asian	0.91 %
Black or African American	9.69 %
Hispanic or Latino	2.12 %
Not specified	0.20 %
Two or more races	1.72 %
White	84.96 %

We continue our commitment to equal employment opportunities by focusing on attracting, developing and retaining a diverse workforce.

Talent Acquisition and Retention

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

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

Supervision and Regulation

General

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

The following summary briefly describes significant provisions of currently applicable federal and state laws and certain regulations and the potential impact of such provisions. This summary is not complete, and we refer you to the particular statutory or regulatory provisions or proposals for more information. Because regulation of financial institutions changes regularly and is the subject of constant legislative and regulatory debate, we cannot forecast how federal and state regulation and supervision of financial institutions may change in the future and affect the Company's and the Bank's operations.

Regulatory Reform

The financial crisis of 2008, including the downturn of global economic, financial and money markets and the threat of collapse of numerous financial institutions, and other events led to the adoption of numerous laws and regulations that apply to, and focus on, financial institutions. The most significant of these laws is the Dodd-Frank Act, which, in part, was intended to implement significant structural reforms to the financial services industry. The Dodd-Frank Act implemented far-reaching changes across the financial regulatory landscape, including changes that have significantly affected the business of all bank holding companies and banks, including the Company and the Bank. Some of the rules that have been proposed and, in some cases, adopted to comply with the Dodd-Frank Act's mandates are discussed further below.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the “EGRRCPA”) was enacted to reduce the regulatory burden on certain banking organizations, including community banks, by modifying or eliminating certain federal regulatory requirements. While the EGRRCPA maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion as well as for larger banks with assets above $50 billion. In addition, the EGRRCPA included regulatory relief for community banks regarding regulatory examination cycles, call reports, application of the Volcker Rule (proprietary trading prohibitions), mortgage disclosures, qualified mortgages, and risk weights for certain high-risk commercial real estate loans. However, federal banking regulators retain broad discretion to impose additional regulatory requirements on banking organizations based on safety and soundness and U.S. financial system stability considerations.

The Company and the Bank continue to experience ongoing regulatory reform. These regulatory changes could have a significant effect on how we conduct business. The specific implications of the Dodd-Frank Act, the EGRRCPA, and other potential regulatory reforms cannot yet be fully predicted and will depend to a large extent on the specific regulations that are to be adopted in the future. Certain aspects of the Dodd-Frank Act and the EGRRCPA are discussed below in more detail.

Regulation of the Company and the Bank

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

The BHCA generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is closely related to banking or to managing or controlling banks, and permits interstate banking acquisitions subject to certain conditions, including national and state concentration limits. The FRB has jurisdiction under the BHCA to approve any bank or non-bank acquisition, merger or consolidation proposed by a bank holding company. A bank holding company must be “well capitalized” and “well managed” to engage in an interstate bank acquisition or merger, and banks may branch across state lines provided that the law of the state in which the branch is to be located would permit establishment of the branch if the bank were a state bank chartered by such state. Bank holding companies and their subsidiaries are also subject to restrictions on transactions with insiders and affiliates, as further discussed below. Finally, the Company is subject to the periodic reporting requirements of the Exchange Act, including, but not limited to, filing annual, quarterly and other current reports with the SEC.

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

Banking Acquisitions; Changes in Control

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

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

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

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

Certain Transactions by Insured Banks with their Affiliates

There are statutory restrictions related to the extent bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with their insured depository institution (i.e., banking) subsidiaries. In general, an "affiliate" of a bank includes the bank's parent holding company and any subsidiary thereof. However, an "affiliate" does not generally include the bank's operating subsidiaries. A bank (and its subsidiaries) may not lend money to, or engage in other covered transactions with, its non-bank affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction, exceeds the following limits: (a) in the case of any one such affiliate, the aggregate amount of covered transactions of the bank and its subsidiaries cannot exceed 10 percent of the bank's capital stock and surplus; and (b) in the case of all affiliates, the aggregate amount of covered transactions of the bank and its subsidiaries cannot exceed 20 percent of the bank's capital stock and surplus. "Covered transactions" are defined to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Certain covered transactions are also subject to collateral security requirements.

Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms, which means that the transaction must be conducted on terms and under circumstances that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with or involving nonaffiliates or, in the absence of comparable transactions, that in good faith would be offered to or would apply to nonaffiliates. Moreover, certain amendments to the BHCA provide that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Regulatory Capital Requirements

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

As of December 31, 2021 and 2020, the Bank qualified as a “well capitalized” institution. Refer to Note 21, Capital Adequacy, of the Notes to Consolidated Financial Statements in Part II, Item 8, of this Annual Report on Form 10-K.

In response to the COVID-19 pandemic, the federal bank regulatory authorities issued an interim final rule in March 2020 to provide banking organizations that were required to implement Accounting Standard Update 2016-13: Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments before the end of 2020 the option to delay the estimated impact on regulatory capital by up to two years, with a three-year transition period to phase out the cumulative benefit to regulatory capital provided during the two-year delay.

On August 26, 2020, federal banking agencies adopted a final rule that was substantially similar to the interim final rule issued in March 2020, which allowed the Company to phase in the impact of adopting the Current Expected Credit Losses (“CECL”) methodology up to two years, with a three-year transition period to phase out the cumulative benefit to regulatory capital provided during the two-year delay. The Company adopted the CECL methodology effective January 1, 2021. Refer to “Capital Resources” in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), of this Annual Report on Form 10-K for information regarding the impact of this final rule on the Company’s regulatory capital.

Basel III Capital Framework

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

The Basel III Final Rules and minimum capital ratios were effective January 1, 2015. The Basel III Final Rules also include a requirement that banks and bank holding companies maintain additional capital (the “capital conservation buffer”), which was phased in beginning January 1, 2016 and was fully phased-in effective January 1, 2019. The Basel III Final Rules and fully phased-in capital conservation buffer require:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the minimum CET1 ratio, effectively resulting in a required ratio of CET1 to risk-weighted assets of at least 7%);
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (effectively resulting in a required Tier 1 capital ratio of 8.5%);
- a minimum ratio of total capital (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (effectively resulting in a required total capital ratio of 10.5%); and
- a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average total assets, subject to certain adjustments and limitations.

The Basel III Final Rules provide deductions from and adjustments to regulatory capital measures, primarily to CET1, including deductions and adjustments that were not applied to reduce CET1 under historical regulatory capital rules. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in non-consolidated financial entities must be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. As of December 31, 2021, the Company and the Bank met all capital adequacy requirements under the Basel III Final Rules.

Community Bank Leverage Ratio

As a result of the EGRRCPA, the federal banking agencies have developed and implemented the Community Bank Leverage Ratio Framework (the “CBLRF”). To qualify for the CBLRF, a bank must have less than $10 billion in total consolidated assets, limited amounts of off-balance sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9%. A bank that elects the CBLRF and has a leverage ratio greater than 9% will be considered to be in compliance with Basel III capital requirements and exempt from the complex Basel III calculations. A bank that falls out of compliance with the CBLRF will have a two-quarter grace period to come back into full compliance, provided that its leverage ratio remains above 8% (a bank will be deemed well-capitalized during the grace period). The CBLRF became available for banking organizations to use as of March 31, 2020 (with the flexibility for banking organizations to subsequently opt into or out of the CBLRF, as applicable). As of December 31, 2021, the Bank has not elected to apply the CBLRF.

Dividend Limitations

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

Insurance of Accounts, Assessments and Regulation by the FDIC

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

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

The actual assessment to be paid by each DIF member is based on the institution’s assessment risk classification and whether the institution is considered by its supervisory agency to be financially sound or to have supervisory concerns.

The DIF is funded by assessments on banks and other depository institutions calculated based on average consolidated total assets minus average tangible equity (defined as Tier 1 capital). As required by the Dodd-Frank Act, the FDIC has adopted a large-bank pricing assessment scheme, set a target “designated reserve ratio” (described in more detail below) of 2% for the DIF and, in lieu of dividends, provides for a lower assessment rate schedule when the reserve ratio reaches 2% and 2.5%. An institution's assessment rate is based on a statistical analysis of financial ratios that estimates the likelihood of failure over a three-year period, which considers the institution’s weighted average CAMELS component rating, and is subject to further adjustments including those related to levels of unsecured debt and brokered deposits (not applicable to banks with less than $10 billion in assets). At December 31, 2021, total base assessment rates for institutions that have been insured for at least five years range from 1.5 to 30 basis points applying to banks with less than $10 billion in assets.

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the “designated reserve ratio.” The FDIA requires the FDIC to consider the appropriate level for the DIF on at least an annual basis.

Banks with less than $10 billion in total consolidated assets (such as the Bank) receive credits to offset the portion of their assessments that help to raise the reserve ratio to 1.35%. The FDIC will automatically apply such a bank’s credits to reduce its regular DIF assessment up to the entire amount of the assessment. The FDIC will remit any such remaining credits in a lump sum to the appropriate bank following application to the bank’s regular DIF assessment for four quarterly assessment periods. Although the DIF declined below the minimum level of 1.35% during 2020 due to the impact of significant deposit increases which led the FDIC to adopt a DIF restoration plan, and the DIF was 1.27 percent as of September 30, 2021, the FDIC has not increased base assessment rates.

In June 2020, the FDIC adopted a final rule that generally removes the effect of lending by financial institutions under the Small Business (“SBA”) Administration’s Paycheck Protection Program (“PPP”) when calculating a bank’s deposit insurance assessment by providing an offset to the bank’s total assessment amount for the increase in the assessment base attributable to the bank’s participation in the PPP. This final rule began applying to FDIC deposit insurance assessments during the second quarter of 2020.

Community Reinvestment

The Community Reinvestment Act (the “CRA”) imposes on financial institutions, including the Bank an affirmative obligation to help meet the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. Each financial institution’s efforts in helping meet community credit needs currently are evaluated as part of the examination process pursuant to regulations adopted by the federal banking agencies. Under the regulation, a financial institution's efforts in helping meet its community's credit needs are evaluated, based on the particular institution's total assets, according to three-pronged test of lending, investment and service in the community. The grade received by a bank is considered in evaluating mergers, acquisitions and applications to open a branch or facility. To the best knowledge of the Bank, it is meeting its obligations under the CRA. The Bank received a rating of "satisfactory" on its most recent CRA examination dated February 1, 2021.

Federal Home Loan Bank of Atlanta

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Atlanta, which is one of 12 regional FHLBs that provide funding to their members for making housing loans as well as for affordable housing and community development loans. Each FHLB serves as a reserve, or central bank, for the members within its assigned region. Each FHLB makes loans to members in accordance with policies and procedures established by the Board of Directors of the FHLB. As a member, the Bank must purchase and maintain stock in the FHLB. At December 31, 2021, the Bank owned $2.4 million of FHLB stock.

Consumer Protection

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

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

Mortgage Banking Regulation

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

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

Brokered Deposits

Section 29 of the FDIA and FDIC regulations generally limit the ability of any bank to accept, renew or roll over any brokered deposit unless it is "well capitalized" or, with the FDIC's approval, "adequately capitalized." However, as a result of the EGRRCPA, the FDIC undertook a comprehensive review of its regulatory approach to brokered deposits, including reciprocal deposits, and interest rate caps applicable to banks that are less than "well capitalized." On December 15, 2020, the FDIC issued final rules that amended the FDIC's methodology for calculating interest rate caps, provided a new process for banks that seek FDIC approval to offer a competitive rate on deposits when the prevailing rate in the Bank's local market exceeds the national rate cap, and provided specific exemptions and streamlined application and notice procedures for certain deposit-placement arrangements that are not subject to brokered deposit restrictions. These final rules were effective as of April 1, 2021.

Prompt Corrective Action

Federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." These terms are defined under uniform regulations issued by each of the federal banking agencies regulating these institutions. An insured depository institution which is less than adequately capitalized must adopt an acceptable capital restoration plan, is subject to increased regulatory oversight and is increasingly restricted in the scope of its permissible activities. As of December 31, 2021, the Bank was considered "well capitalized."

Incentive Compensation

The federal banking agencies have issued regulatory guidance (the "Incentive Compensation Guidance") intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The FDIC will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Bank, that are not "large, complex banking organizations." The findings will be included in reports of examination, and deficiencies will be incorporated into the organization's supervisory ratings. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In 2016, the SEC and the federal banking agencies proposed rules that prohibit covered financial institutions (including bank holding companies and banks) from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons (consisting of senior executive officers and significant risk takers, as defined in the rules) with excessive compensation, fees or benefits that could lead to material financial loss to the financial institution. The proposed rules outline factors to be considered when analyzing whether compensation is excessive and whether an incentive-based compensation arrangement encourages inappropriate risks that could lead to material loss to the covered financial institution, and establishes minimum requirements that incentive-based compensation arrangements must meet to be considered to not encourage inappropriate risks and to appropriately balance risk and reward. The proposed rules also impose additional corporate governance requirements on the boards of directors of covered financial institutions and impose additional record-keeping requirements. The comment period for these proposed rules has closed and a final rule has not yet been published.

Confidentiality and Required Disclosures of Customer Information

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

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

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

Corporate Transparency Act

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

Cybersecurity

The federal banking agencies have also adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking agencies expect financial institutions to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. If the Company or the Bank fails to meet the expectations set forth in this regulatory guidance, the Company or the Bank could be subject to various regulatory actions and any remediation efforts may require significant resources of the Company or the Bank. In addition, all federal and state banking agencies continue to increase focus on cybersecurity programs and risks as part of regular supervisory exams.

In October 2016, the federal banking agencies issued proposed rules on enhanced cybersecurity risk-management and resilience standards that would apply to very large financial institutions and to services provided by third parties to these institutions. The comment period for these proposed rules has closed and a final rule has not been published. Although the proposed rules would apply only to bank holding companies and banks with $50 billion or more in total consolidated assets, these rules could influence the federal banking agencies' expectations and supervisory requirements for information security standards and cybersecurity programs of smaller financial institutions, such as the Bank.

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

Stress Testing

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

Volcker Rule

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

Call Reports and Examination Cycle

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

Effect of Governmental Monetary Policies

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

Application of Supervisory Guidance to the Company and the Bank

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

Legislative and Regulatory Responses to the COVID-19 Pandemic

In response to the COVID-19 pandemic, the federal banking agencies have adopted regulations and policies that are applicable to the operations and activities of the Company and the Bank. In addition, the U.S. Congress adopted several laws containing significant economic relief packages, including the CARES Act, which was enacted on March 27, 2020. Set forth below is a brief overview of certain provisions of the CARES Act and certain other regulations and policies related to the COVID-19 pandemic that are applicable to the Company and the Bank.

The PPP was authorized by the CARES Act and is a loan program that was administered under the SBA's 7-A loan program. The PPP is a guaranteed, unsecured loan program created to fund certain payroll and operating costs of eligible businesses, organizations and self-employed persons during the COVID-19 pandemic, and was later expanded to cover additional borrowers. In total, we authorized $953 million in loans under the PPP in multiple tranches, the last of which was utilized in full during 2021. As a participating PPP lender, the Bank continues to monitor legislative, regulatory and administrative developments related to the PPP, and continues to evaluate PPP compliance in connection with the forgiveness of principal for qualifying PPP loans.

The CARES Act permits banks to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The provisions of the CARES Act dealing with temporary relief related to TDRs were extended pursuant to the CAA, which was signed into law on December 27, 2020. The CAA extended the "applicable" period to the earlier of January 1, 2022 or 60 days after the date on which the national emergency concerning the COVID-19 pandemic terminates. The federal banking agencies also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 and to assure banks that they will not be criticized by examiners for doing so. In response to COVID-19, the Bank applied this guidance to qualifying loan modifications, and assessed the impact of the expiration of the "applicable" period for the temporary relief related to TDRs.

In response to the COVID-19 pandemic, on March 16, 2020, the FRB's Federal Open Market Committee (the "FOMC") set the federal funds target rate (the interest rate at which depository institutions such as the Bank lend reserve balances to other depository institutions overnight on an uncollateralized basis) at 0-0.25%, an historic low. Consistent with FRB policy, the FRB has committed to the use of overnight reverse repurchase agreements as a supplementary policy tool, as necessary, to help control the federal funds rate and keep it in the target range set by the FOMC. The FOMC has indicated its intention to raise the federal funds target rate in 2022.

Future Regulation

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

Where You Can Find More Information

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

ITEM 1A. RISK FACTORS

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

Risks Related to Credit

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

Approximately 83% of the Company’s commercial loan portfolio as of December 31, 2021, was comprised of loans secured by real estate. An adverse change in the economy affecting occupancy and/or rental rates in the investment real estate market areas we serve could increase the likelihood of defaults. Real estate collateral securing the Company's loans are a secondary source of repayment in the event of unremedied defaults. The value of the Company's collateral could be impaired by changes in demand, rental rates and capitalization rates and could be insufficient to recover outstanding principal and interest. As a result, the Company’s profitability and financial condition could be negatively impacted by an adverse change in the real estate market.

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

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

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

As of December 31, 2021, the Company’s exposure to loans secured by commercial purpose real estate, including investment real estate loans related to hospitality, retail and multifamily apartments (but excluding construction) equated to $1.5 billion, or 51.7% of its total loan portfolio. The average balance of these loans are generally larger and these loans generally involve a more complex degree of financial and credit risk than loans secured by residential real estate. Repayment of these loans is dependent on the success of the borrower’s underlying business and/or the borrower’s ability to generate leases in order to receive sufficient cash flow to service its debts. The financial and credit risk associated with these loans is a result of several factors, including macroeconomic conditions affecting supply, demand and property valuations, as well as larger balances in a smaller population of loans. The ongoing adverse economic effects of the COVID-19 pandemic could potentially exacerbate the financial and credit risk associated with these loans.

The Company’s exposure to hospitality at December 31, 2021 equated to approximately $418.6 million, or 14.9% of its total loan portfolio. These were mostly loans secured by upscale or top tier flagged hotels, which have historically exhibited low leverage and strong operating cash flows. The COVID-19 pandemic significantly impacted demand for both leisure and business travel resulting in overall declines in occupancy and room rates. The Company offered an assistance program that deferred payments in order to alleviate the financial pressures related to depressed revenues caused by the COVID-19 pandemic. The Company closely monitored these borrowers, identified underperforming operators and de-risked the portfolio through note sales. The recovery for the hospitality industry, especially leisure travel, has improved. Conditions in the hospitality industry, and especially leisure travel, have improved despite the fact that the COVID-19 pandemic is ongoing. We believe this is driven in part by the desire to vacation within a drivable distance, which enables social distancing and the avoidance of airline travel, and also in part by increasing COVID-19 vaccination and immunity rates in the United States. While we believe business travel is still depressed when compared to conditions prior to COVID-19, we believe borrowers focused on business travel were able to survive, in part due to the Company's deferral programs. These programs ended on June 30, 2021 and these borrowers have returned to contractual payments and continue to perform. Property values have generally not deteriorated and, in certain circumstances, have increased. However, it is possible that additional COVID variants could impact demand and affect borrowers' abilities to service debt. These developments, together with widespread labor shortages and additional shocks to economic conditions could generally impact operations and property valuations in hospitality and other commercial real estate exposures. As a result, our capital levels and results of operations could be adversely affected.

The Company's exposure to commercial real estate construction loans at December 31, 2021 equated to approximately $355.4 million, or 12.6% of total portfolio loans. Construction loans are inherently risky. These risks include, but are not limited to, potential adverse changes in material costs resulting in cost overruns, the potential that the general contractors develop financial stress and are unable to complete projects and the speculative nature of lease up risk. A severe downturn in real estate could affect demand for leases, capitalization rates and property valuations, which could adversely affect our financial condition and results of operations.

Our allowance for credit losses may be insufficient.

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

We will implement further enhancements or changes to our methodology, models and the underlying assumptions, estimates and assessments, as needed. If the assumptions or estimates we use in adopting the new standard are incorrect or we need to change our underlying assumptions and estimates, there may be a material adverse impact on our results of operation and financial condition.

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

Because we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate. We use methods for valuing collateral for impaired loans and OREO that are in compliance with Accounting Standards Codification ("ASC") Topic 310 Receivables. The methods require the use of assumptions that are subject to change based on events impacting real estate values. The amount that we may realize after a default is dependent upon factors outside of our control, including, but not limited to, general or local economic conditions, environmental cleanup liability, neighborhood values, interest rates, real estate tax rates, operating expenses of the mortgaged properties, and supply of and demand for properties. Certain expenditures associated with the ownership of income producing real estate, principally real estate taxes and maintenance costs, may adversely affect the net cash flows generated by the real estate. Therefore, the cost of operating income-producing real property may exceed the rental income earned from such property, and we may have to advance funds to protect our investment or we may be required to dispose of the real property at a loss.

Risks Related to Our Operations

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Market Conditions, Interest Rates and Investments

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

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

A decrease in the general level of interest rates may, among other things, lead to an increase in prepayments on loans and increased competition for deposits. Conversely, an increase in the general level of interest rates may also, among other things, reduce the demand for loans or increase the rate of default on existing loans. Accordingly, changes in the general level of market interest rates may affect net yield on interest-earning assets, loan origination volume, loan portfolios, and funding costs which impact our overall results.

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

Uncertainty relating to London Interbank Offered Rate ("LIBOR") calculation process and potential phasing out of LIBOR may adversely affect us.

On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calibration of LIBOR to the administrator of LIBOR after 2021. Intercontinental Exchange, Inc., the company that administers LIBOR, has stated that it intends to cease the publication of one week and two-month LIBOR rates immediately after the LIBOR publication on December 31, 2021, and the remaining LIBOR rates immediately following the LIBOR publication on June 30, 2023, and will consult on such intentions. It is not possible to predict what rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, debentures, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally. Uncertainty as to the nature of alternative reference rates, including the Secured Overnight Financing Rate, ("SOFR"), and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans and securities in our portfolio and may impact the availability and cost of hedging instruments and borrowings. If LIBOR rates are no longer available, and we are required to implement substitute indices for the calculation of interest rates under our loan agreements with our borrowers, we may incur significant expenses in effecting the transition. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the COVID-19 Pandemic

The COVID-19 pandemic and resulting adverse economic conditions has adversely impacted the Company's business and results, and could have a more material adverse impact on our business, financial condition and results of operations.

The ongoing COVID-19 global and national health emergency has caused significant disruptions in the global economies and financial markets. The spread of COVID-19 in the United States has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reductions in commercial activity and financial transactions, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Many state and local governments have implemented and continue to maintain regulations and social guidelines, including social distancing restrictions, in light of the continuing COVID-19 pandemic.

The COVID-19 pandemic has caused disruptions to the Company's business and could cause material disruptions to our business and operations in the future. Impacts to our business have included decreased operating effectiveness due to additional health and safety precautions we implemented at our branches and the transition of 20% of our workforce to home locations, decreases in customer traffic in our branches and increases in requests for forbearance and loan modifications. Further, loan payment deferment programs that we have implemented and government stimulus programs, like the PPP, may be masking credit deterioration in our loan portfolio by making less applicable standard measures of developing financial weakness in a client or portfolio, such as past due monitoring and non-accrual assessments. To the extent that commercial and social restrictions increase, the Company's expenses, delinquencies, charge-offs, foreclosures and credit losses could materially increase, and we could experience reductions in interest and fee income. In addition, we anticipate that potential declines in credit quality could significantly affect the adequacy of our allowance for credit losses, which we expect could lead to increases in the provision for credit losses and related declines in our net income.

Unfavorable economic conditions and increasing unemployment figures may also make it more difficult for the Company to maintain deposit levels and loan origination volume and to obtain additional financing. Furthermore, such conditions have and may continue to cause the value of our Company's investment portfolio and of collateral associated with our existing loans to decline. In addition, in March 2020, the FRB lowered the target range for the federal funds rate to a range from 0 to 0.25 percent, in part, as a result, of the COVID-19 pandemic. Although the FRB has indicated an intention to raise the federal funds rate in 2022, a prolonged period of very low interest rates could reduce the Company's net interest income and have a material adverse impact on our cash flows and the market value of our investments or the manner in which we redeploy proceeds from maturing investments.

While we have taken and continue to take precautions to protect the safety and well-being of our associates and customers, no assurance can be given that the steps we've taken will be adequate or appropriate, nor can we predict the level of disruption to our associates' ability to provide customer support and service. The continued or renewed spread of COVID-19 or variants thereof could negatively impact the availability of key personnel necessary to conduct the Company's business, the business and operations of our third-party service providers who perform critical services for the Company's business, or the businesses of many of our customers and borrowers. If COVID-19 is not successfully contained, we could experience a material adverse effect on our business, financial condition, results of operations and cash flow.

Among the factors outside the Company's control that are likely to affect the impact the COVID-19 pandemic will ultimately have on the Company's business are, without limitation:

- the pandemic's course and severity;
- the uncertainty regarding new variants of COVID-19 that have emerged or may emerge in the future;
- the speed and efficacy of vaccine and treatment developments;
- the direct and indirect results of the pandemic, such as recessionary or inflationary economic trends, or impacts on employment levels, wages and benefits, commercial activity, the residential housing market, consumer spending and real estate and investment securities market values;
- political, legal and regulatory actions and policies in response to the pandemic, including the effects of restrictions on commerce and banking, such as moratoria and other suspensions of collections, foreclosures, and related obligations;
- the timing, magnitude and effect of public spending, directly or through subsidies, its direct and indirect effects on commercial activity and incentives of employers and individuals to resume or increase employment, wages and benefits and commercial activity;
- effects on the Company's liquidity position due to changes in customers' deposit and loan activity in response to the pandemic and its economic effects;
- the timing and availability of direct and indirect governmental support for various financial assets, including mortgage loans;
- the long-term effect of the economic downturn on the Company's intangible assets such as our deferred tax asset;
- potential longer-term effects of increased government spending on the interest rate environment and borrowing costs for non-governmental parties;
- the ability of the Company's associates to work effectively during the course of the pandemic;
- the ability of the Company's third-party vendors to maintain a high-quality and effective levels of service;
- the possibility of increased fraud, cybercrime and similar incidents, due to vulnerabilities posed by the significant increases in our associates and customers handling their banking interactions remotely from home, or otherwise;
- required changes to the Company's internal controls over financial reporting to reflect a rapidly changing work environment;
- potential longer-term shifts toward mobile banking, telecommuting and telecommerce;
- geographic variation in the severity and duration of the COVID-19 pandemic, particularly in Virginia and North Carolina, where the Company operates physically; and
- depending on the extent and duration of the COVID-19 pandemic, the price of our common stock could experience volatility and declines.

The Company continues to monitor the COVID-19 pandemic and related risks, although the rapid development and fluidity of the situation precludes any specific prediction as to its ultimate impact on the Company. However, if the COVID-19 pandemic continues to spread or otherwise result in a continuation or worsening of the current economic and commercial environments, our business, financial condition, results of operations and cash flows could be materially adversely affected.

The full effects of the COVID-19 pandemic may have a material adverse effect on the Company in numerous ways.

While the scope, duration, and full effects of COVID-19 are rapidly evolving and not fully known, the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted interest rates, inflation and increased economic and market uncertainty. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in this Annual Report on Form 10-K could be exacerbated and such effects could have a material adverse impact on us in a number of ways related to credit, collateral, customer demand, funding, operations, interest rate risk and human capital.

- Our results of operations may continue to be negatively impacted by general economic or business conditions and uncertainty, including the strength of economic conditions in our principal area of operations impacting the demand for our products and services.
- A low interest rate environment will negatively impact our net interest income and net interest margin.
- Credit losses may be higher and our provision for credit losses may continue to increase, due to deterioration in the financial condition of our commercial and consumer loan customers.
- Declining asset and collateral values may necessitate increases in our provision for credit losses and net charge-offs.
- The hospitality industry and portions of our hospitality loan portfolio may continue to suffer the negative effects of reduced travel, which could result in additional credit losses and net charge-offs.
- We may have an interruption or cessation of an important service provided by a third-party provider.
- Our liquidity and regulatory capital could be adversely impacted.
- Investors may have less confidence in the equity markets in general and in financial services industry in particular, which could have a negative impact on our stock price and resulting market valuation.
- The negative economic consequences of the pandemic may last longer in the areas where we do business, which could negatively affect our financial performance.
- We face heightened cyber security risks in connection with our operation in a remote working environment.

Even after the COVID-19 pandemic subsides, we believe the U.S. economy will likely require time to recover. It is uncertain how long this recovery will take. As a result, we anticipate our business may be adversely affected during this recovery.

Risks Related to Our Business Strategy

Our profitability depends significantly on economic conditions.

Our success depends primarily on the general economic conditions of the geographic markets in which we operate, primarily in Virginia and North Carolina. The local economic conditions in the areas where we operate have a significant impact on our commercial, real estate and construction loans, the ability of our borrowers to repay their loans and the value of the collateral securing these loans and on customer demand for loans, deposits and other bank products. A significant decline in general economic conditions, including a decline caused by the COVID-19 pandemic, inflation, recession, acts of terrorism, outbreak of hostilities (including the military conflict between Russia and Ukraine) or other international or domestic calamities, unemployment or other factors, all of which are beyond our control, could impact economic conditions and negatively affect our financial results.

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

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

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

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

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

Risks Related to Regulatory Compliance and Legal Matters

We are subject to extensive government regulation and supervision.

Banking regulations are primarily intended to protect depositors’ funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. For example, we currently derive a portion of our noninterest income from consumer overdraft fees, which have recently come under scrutiny by banking regulators and politicians. Such regulators or politicians could act to impose additional restrictions on overdraft fee programs which could reduce our noninterest income, increase our compliance costs, or increase our exposure to regulatory and legal claims related to our overdraft program. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties and/or reputational damage. In this regard, government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. See “Supervision and Regulation” included in Item 1, Business, of this Annual Report on Form 10-K for a more detailed description of the certain regulatory requirements applicable to the Bank.

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

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

The application of more stringent capital requirements could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if the Company were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in the Company having to lengthen the term of its funding, restructure its business models, and/or increase its holdings of liquid assets. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy, and could limit the Company's ability to make distributions, including paying out dividends or buying back shares. If the Company and the Bank fail to meet these minimum capital guidelines and/or other regulatory requirements, the Company's financial condition would be materially and adversely affected.

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

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

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

The Company is a defendant in a variety of litigation and other actions, which may have a material adverse effect on its financial condition, results of operation or business.

The Company may be involved from time to time in a variety of litigation arising out of its business, and the Company operates in a legal and regulatory environment that exposes it to potential significant litigation risk. The Company's insurance may not cover all claims that may be asserted against it in legal or administrative actions or costs that it may incur defending such actions, and any claims asserted against it, regardless of merit or eventual outcome, may harm the Company's reputation. Should the ultimate judgments or settlements and/or costs incurred in any litigation exceed any applicable insurance coverage, they could have a material adverse effect on the Company's financial condition and results of operation for any period.

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

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

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

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

Risks Related to Liquidity

We rely substantially on deposits obtained from customers in our target markets to provide liquidity and support growth.

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

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

We own stock in the FHLB of Atlanta, in order to qualify for membership in the FHLB system, which enables us to borrow on our line of credit with the FHLB that is secured by a blanket lien on select commercial loans, multifamily loans, residential mortgages and investment securities available-for-sale and is estimated to be equal to 25% of our assets approximating $1.0 billion, with available borrowing capacity subject to the amount of eligible collateral pledged at any given time. Changes or disruptions to the FHLB or the FHLB system in general may materially impact our ability to meet short and long-term liquidity needs or meet growth plans. Additionally, we cannot be assured that the FHLB will be able to provide funding to us when needed, nor can we be certain that the FHLB will provide funds specifically to us, should our financial condition and/or our regulators prevent access to our line of credit. The inability to access this source of funds could have a materially adverse effect on our ability to meet our customer's needs. Our financial flexibility could be severely constrained if we were unable to maintain our access to funding or if adequate financing is not available at acceptable interest rates.

Risks Related to Owning Our Stock

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

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

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

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

- changes in analysts' estimates of financial performance.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company’s principal executive office is located at 1300 Kings Mountain Road in Martinsville, Virginia. There are also two other corporate administrative locations that house its operations center and various other corporate functions. We offer our community banking services through 69 combined depository locations in Virginia and North Carolina at December 31, 2021, 56 offices are located in Virginia and 13 are located in North Carolina. Two of these depository banking locations are held under lease contracts. In addition, the Bank leases a loan production office and a commercial banking office. Management believes the terms of the various leases are consistent with market standards and were arrived at through arm’s length bargaining. The leases are described in Note 8, Premises and Equipment, of the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

In the 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. As of December 31, 2021, the Company is not involved in any material pending or threatened legal proceedings other than proceedings occurring in the ordinary course of business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Market for Common Stock and Dividends

The Company’s common stock trades on NASDAQ, under the ticker symbol “CARE.” As of the close of business on March 8, 2022, we had 2,379 shareholders of record.

Dividends

On October 14, 2016, prior to the Reorganization, the board of directors of the Bank (the "Bank Board") determined that it was prudent not to declare a quarterly cash dividend on the Bank's common stock beginning in the fourth quarter of 2016. Notwithstanding the Bank’s history of paying a quarterly cash dividend on its common stock, the Bank Board believed this decision was necessary and appropriate as the Bank committed, and now the Company commits, additional resources to assist with regulatory compliance, preserve capital during the COVID-19 pandemic, and makes significant investments in new technology and human resources. While recognizing the importance of dividends to its shareholders, the Board of Directors of the Company (the “Board”) has determined that preservation of capital is of paramount importance at this time.

The Bank Board paid a special one-time cash dividend of $0.14 per share on March 3, 2020. This was a one-time dividend and there are no immediate plans to reinstate a quarterly dividend. The amount and timing of future dividends, if any, remains subject to the discretion of the Board and will depend upon a number of factors, including future earnings, financial condition, liquidity and capital requirements of the Company, applicable governmental regulations and other factors deemed relevant by the Board.

Repurchases of Shares of Common Stock

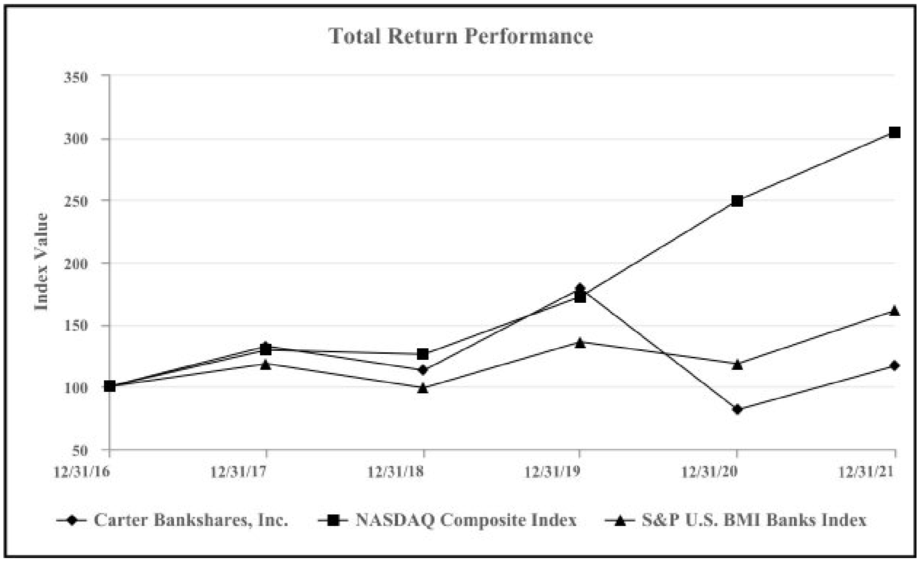
The following table is a summary of our purchases of common stock during the fourth quarter of 2021:

Period	Total number of shares purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [(1)]	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
10/10/2021 - 10/31/2021	—	$—	—	2,000,000
11/1/2021 - 11/30/2021	—	—	—	2,000,000
12/1/2021 - 12/31/2021	30,407	15.22	30,407	1,969,593
Total	**30,407**	**$15.22**	**30,407**	**1,969,593**

[(1)] On December 13, 2021, the Company authorized, effective December 10, 2021, a common stock repurchase program to purchase up to two million shares of the Company’s common stock over a period of twelve months. As of December 31, 2021, 30,407 shares of common stock have been repurchased under this program at an average price of $15.22 per share. The 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 10b5-1 and/or 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 program will depend on a variety of factors, including the market price of the Company’s common stock, general market and economic conditions, and applicable legal and regulatory requirements. The repurchase program is authorized through December 9, 2022, although it may be modified or terminated by the Board at any time. The repurchase program does not obligate the Company to purchase any particular number of shares.

Five-Year Cumulative Total Return

The following chart compares the cumulative total shareholder return on our common stock with the cumulative total return of the NASDAQ Composite Index and S&P U.S. BMI Banks Index, which includes the stocks of banks, thrifts and bank and financial holding companies listed on all major exchanges (NYSE, AMEX, NASDAQ) in the S&P Global Market Intelligence's coverage universe. All SNL indices were retired in 2021, therefore we have replaced that index with the S&P U.S. BMI Banks Index.



	Period Ending					
Index	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**
Carter Bankshares, Inc.(1)	100.00	132.05	112.87	178.48	81.24	116.63
NASDAQ Composite Index	100.00	129.64	125.96	172.18	249.51	304.85
S&P U.S. BMI Banks Index	100.00	118.21	98.75	135.64	118.33	160.89

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

ITEM 6. [RESERVED]

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

OVERVIEW

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

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

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

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with generally accepted accounting principles ("GAAP") in the United States, management uses, and this annual report references, adjusted net interest income on a fully taxable equivalent, or ("FTE"), basis, which is a non-GAAP financial measure. Management believes this measure provides 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 net interest income on an FTE basis ensures the comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Net interest income per the Consolidated Statements of Income (Loss) is reconciled to net interest income adjusted to an FTE basis in the Net Interest Income section of the "Results of Operations – Year ended December 31, 2021."

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

Critical Accounting Estimates

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

We have identified the following critical accounting estimates:

Allowance for Credit Losses ("ACL")

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

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

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

The ACL "base case" model is derived from various economic forecasts provided by widely recognized sources. Management evaluates the variability of market conditions by examining the peak and trough of economic cycles. These peaks and troughs are used to stress the base case model to develop a range of potential outcomes. Management then determines the appropriate reserve through an evaluation of these various outcomes relative to current economic conditions and known risks in the portfolio. For the year ended December 31, 2021 the range of outcomes would produce a 17% reduction or a 27% increase in reserves based on the best and worst case scenarios, respectively.

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

Our Business

Carter Bankshares, Inc. (the "Company") is a bank holding company headquartered in Martinsville, Virginia with assets of $4.1 billion at December 31, 2021. The Company is the parent company of its wholly owned subsidiary, Carter Bank & Trust (the "Bank"). The Bank is an insured, Virginia state-chartered bank, which operates branches in Virginia and North Carolina. The Company provides a full range of financial services with retail, and commercial banking products and insurance. Per the 2020 Annual Report of the Virginia Bureau of Financial Institutions, our Company continues to be the fourth largest state-chartered bank by asset size at year end 2020. 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 tax expense.

Our mission is that the Company strives to be the preferred lifetime financial partner for our customers and shareholders, and the employer of choice in the communities the Company is privileged to serve. Our strategic plan focuses on restructuring the balance sheet to provide more diversification and higher yielding assets to increase the net interest margin. Another area of focus is the transformation of the infrastructure of the Company to provide a foundation for operational efficiency and provide new products and services for our customers that will ultimately increase noninterest income.

Our focus continues to be on loan and deposit growth with a shift in the composition of deposits to more low cost core deposits with less dependence in higher cost certificates of deposits ("CDs"), as well as, implementing opportunities to increase fee income while closely monitoring our operating expenses. The Company is focused on executing this strategy to successfully build our brand and grow our business in our markets.

The Company's Response to COVID-19

Lending Operations

The Company elected to take advantage of Section 4014 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") provision to temporarily delay adoption of the CECL methodology. The Company was subject to the adoption of the Current Expected Credit Loss ("CECL") accounting method under the FASB ASU 2016-03 and related amendments, Financial Instruments – Credit Losses (Topic 326) on January 1, 2020 and has since implemented CECL on January 1, 2021. Refer to Note 1, Basis of Presentation and Note 6, Allowance for Credit Losses, of the Notes to Consolidated Financial Statements for additional disclosures relating to CECL in this Annual Report on Form 10-K.

The Company quickly responded to the pandemic and the CARES Act, offering the option of payment deferrals, participation in the Paycheck Protection Program ("PPP"), fee waivers and other relief actions to customers. In 2021 and, to date in 2022, we continued to prioritize the safety of our associates and customers by taking precautions to protect both customers and associates through enhanced cleaning services, social distancing and personal protective equipment requirements for both. A portion of the Company's workforce continues to work remotely.

Under the CARES Act, the PPP is an amendment to a program administered as part of the Small Business Administration's ("SBA")'s 7-A loan program. The Bank became an approved SBA 7-A lender in November 2019. The PPP is a guaranteed, unsecured loan program created to fund certain payroll and operating costs of eligible businesses, organizations and self-employed persons during the COVID-19 pandemic. Initially, $349 billion was approved and designated for the PPP in order for the SBA to guarantee 100% of collective loans made under the program to eligible small businesses, nonprofits, veteran's organizations, and tribal businesses. The Company participated in the initial round of funding through a referral relationship with a third-party, non-bank lender. When an additional $310 billion in funds were approved and designated for the PPP, we opted to set up an internal, automated loan process utilizing our core system provider.

The Federal Reserve Bank ("FRB") implemented a liquidity facility available to financial institutions participating in the PPP. However, we opted to fund all PPP loans through our internal liquidity sources. These loans are fully guaranteed by the SBA and do not represent a credit risk. The vast majority of these PPP loans have been forgiven.

The Bank provided loan payment deferrals to customers under Section 4013 of the CARES Act and regulatory interagency guidance regarding loan modifications. The Bank launched successive deferral programs with short-term expirations. The Part I program was launched on March 23, 2020 and expired on August 31, 2020. The deferrals in Part I provided for deferral of principal and up to the deferral of principal and interest, if requested through the expiry. The Part II program extended deferrals through December 31, 2020 subject to the collection of updated financial information and validation of need. For these borrowers the Bank requested verification of business and/or guarantor liquidity to ascertain the viability of the business in a post-pandemic environment. Prior to the extension of the CARES Act, the Bank launched the Part III program, which offered borrowers in the Part II program an extension of deferrals through June 30, 2021. Borrowers who opted into the Part III program were required to provide monthly financial statements and remit payments on a quarterly basis equal to the lesser of: i) 90% of free cash flow (EBITDA) or, ii) the otherwise contractual payment ("recapture payment"). Following the expiration of the deferral programs on June 30, 2021, for term loans, payments were applied to accrued interest first and once accrued interest is current, payments will be applied to principal. Deferred principal will be due at maturity. For interest only loans, such as lines of credit, deferred interest will be due at maturity. Cumulative deferred interest totaled $12.0 million as of June 30, 2021, but declined to $1.8 million as of December 31, 2021.

The Bank also participated in the PPP established by the CARES Act. During the first round of PPP, we approved 451 loans that were referred to an online small business lender, totaling $17.9 million. Through the second round we had approved 515 loan applications totaling $39.9 million through our internal lending program, of which 498 loans totaling $38.5 million have been fully forgiven by the SBA. The $57.8 million in PPP loans originated during the first two rounds of PPP generated $1.5 million in fees, which have been, or will be, recognized in income as loans are forgiven, or over the remaining life of the loan for any portion that is not forgiven. On December 22, 2020 Congress passed legislation that was signed into law on December 27, 2020, making available a third round of PPP funding. We provided access to the program through our internal lending program for our current business customers. As of December 31, 2021, we had approved 136 loan applications totaling $11.0 million, of which 125 loans totaling $9.8 million have been fully forgiven by the SBA and generated an additional $0.6 million in fees. These loans, as they were forgiven, generated fee income of $0.1 million and $0.2 million, and $1.1 million and $0.3 million, for the three and twelve months ended December 31, 2021 and December 31, 2020, respectively.

Our interest income could be reduced due to the COVID-19 pandemic. Interest and fees will still accrue to income through normal GAAP accounting. Should eventual credit losses on these deferred payments emerge, interest income and fees accrued would need to be reversed. In such a scenario, interest income in future periods could be negatively impacted. At this time, we are unable to project the significance of such an impact, but recognize the breadth of the economic impact may affect our borrowers’ ability to repay in future periods.

Our exposure to the hospitality industry at December 31, 2021 equated to approximately $418.6 million, or 14.9% of total portfolio loans. These were mostly loans secured by upscale or top tier flagged hotels, which have historically exhibited low leverage and strong operating cash flows. However, we anticipate that a significant portion of our borrowers in the hotel industry will continue to operate at occupancy levels at or below breakeven which has caused, or will cause, them to draw on their existing lines of credit with other financial institutions or other sources of liquidity and may adversely affect their ability to repay existing indebtedness. These developments, together with the current economic conditions generally, may adversely impact the value of real estate collateral in hospitality and other commercial real estate exposure. These risk considerations were factored into qualitative adjustments included in the ACL. As a result, we anticipate that our financial condition, capital levels and results of operations could be adversely affected.

Retail Operations

The Company continues to promote digital banking options through our website. Customers are encouraged to utilize online and mobile banking tools and our customer contact center for personal and automated telephone banking services. Retail branches are staffed and available to assist customers by offering lobby appointments, drive-up and virtual servicing.

In 2021 and, to date in 2022, we continued to prioritize the safety of our associates and customers by offering drive-up and appointment only services due to the COVID-19 pandemic. Retail leadership continues to monitor branch traffic and local conditions daily and makes adjustments as needed. All branches are equipped with video conferencing and online tools that enable virtual servicing. We continue to pay all associates according to their normal work schedule, even if their hours were reduced and no associates were furloughed. Associates whose job responsibilities can be effectively carried out remotely are working from home. Associates whose critical duties require their continued presence on-site are utilizing personal protection equipment and observing social distancing and cleaning protocols.

Our fee income for 2020 was negatively impacted due to COVID-19 by approximately $1.5 million. Beginning on July 20, 2020, certain account fees that were waived for customers affected by the COVID-19 pandemic were reinstated. In keeping with guidance from regulators, we actively worked with customers affected by the COVID-19 pandemic to waive fees from a variety of sources, such as, but not limited to, insufficient funds and overdraft fees and account maintenance fees. As of December 31, 2021, we had no fee waivers specific to the COVID-19 pandemic. We believe these reductions in fees were temporary.

Capital Resources and Liquidity

As of December 31, 2021, all of the Company’s capital ratios were in excess of all regulatory requirements. We believe the economic recession brought about by the COVID-19 pandemic improved during the year ended December 31, 2021.

We maintain access to multiple sources of liquidity. Funding sources accessible to the Company include borrowing availability at the Federal Home Loan Bank ("FHLB"), equal to 25% of the Company's assets approximating $1.0 billion, subject to the amount of eligible collateral pledged, and of which $667.3 million remained available at December 31, 2021, federal funds unsecured lines with six other correspondent financial institutions in the amount of $145.0 million and access to the institutional CD market through brokered CDs. In addition to the above resources, the Company also has $743.8 million of unpledged available-for-sale securities as an additional source of liquidity at December 31, 2021. If an extended recession caused large numbers of our deposit customers to withdraw their funds, we might become more reliant on volatile or more expensive sources of funding.

The Company is monitoring and will continue to monitor the impact of the COVID-19 pandemic and has taken and will continue to take steps to mitigate the potential risks and impact on our liquidity and capital resources.

Results of Operations and Financial Condition

Earnings Summary

2021 Highlights

- Net interest income increased $6.1 million, or 5.8%, to $111.2 million for the full year 2021 compared to $105.1 million for the full year 2020 primarily due to the enhanced return on restructured loan assets and collection of significant late fees on those loan assets, as well as a decline in funding costs during 2021.
- The provision for credit losses totaled $3.4 million for the year ended December 31, 2021, compared to $18.0 million for the full year ended December 31, 2020.
- Total noninterest income increased $2.3 million to $28.9 million for the full year 2021 compared to $26.6 million for the full year 2020.
- Total noninterest expense decreased $56.5 million to $102.3 million for the full year 2021 compared to $158.8 million for the full year 2020.
- Provision for income taxes increased $3.3 million to $4.1 million for the full year 2021 compared to $0.8 million for the full year 2020.

We reported net income of $31.6 million, or $1.19 diluted earnings per share, for the year ended December 31, 2021 compared to a net loss of $45.9 million, or $1.74 per share, for the year ended December 31, 2020.

	Years Ended December 31,		
PERFORMANCE RATIOS	**2021**	**2020**	**2019**
Return on Average Assets	0.76 %	(1.12)%	0.65 %
Return on Average Shareholders' Equity	7.92 %	(9.78)%	5.76 %
Portfolio Loans to Deposit Ratio	76.03 %	79.99 %	82.32 %
Allowance for Credit Losses to Total Portfolio Loans	3.41 %	1.83 %	1.34 %

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.

The interest income on interest-earning assets and the net interest margin are presented on an FTE basis, which is a non-GAAP measure. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and securities using the applicable federal statutory tax rate of 21% for each period and the dividend-received deduction for equity securities. The Company believes this FTE presentation provides a relevant comparison between taxable and non-taxable sources of interest income.

The following table reconciles net interest income per the Consolidated Statements of Income (Loss) to net interest income on an FTE basis for the periods presented:

	Years Ended December 31,		
(Dollars in Thousands)	**2021**	**2020**	**2019**
Total Interest Income	$ 133,897	$ 140,941	$ 159,120
Total Interest Expense	22,714	35,826	46,773
Net Interest Income per Consolidated Statements of Net Income (Loss)	111,183	105,115	112,347
Adjustment to FTE Basis	1,492	2,375	3,046
Net Interest Income (FTE) (non-GAAP)	**$ 112,675**	**$ 107,490**	**$ 115,393**
Net Interest Margin	2.80 %	2.74 %	2.97 %
Adjustment to FTE Basis	0.04 %	0.06 %	0.08 %
Net Interest Income (FTE) (non-GAAP)	**2.84 %**	**2.80 %**	**3.05 %**

Average Balance Sheet and Net Interest Income Analysis (FTE)

Total net interest income increased $6.1 million, or 5.8%, to $111.2 million in 2021, as compared to $105.1 million in 2020. Net interest income, on an FTE basis (non-GAAP), increased $5.2 million, or 4.8%, to $112.7 million in 2021 as compared to $107.5 million in 2020. The increase in net interest income, on an FTE basis, is driven by $13.1 million decrease in interest expense, offset by a $7.9 million decrease in interest income during 2021 as compared to 2020. The low interest rate environment and large commercial paydowns during 2021 has a negative impact on both net interest income and the net interest margin, but continues to be offset by a lower cost of funds as well as the positive impact of enhanced pricing on restructured loans and related late fees. Net interest margin increased six basis points to 2.80% in 2021 compared to 2.74% in 2020. The net interest margin, on an FTE basis (non-GAAP), increased four basis points to 2.84% in 2021 compared to 2.80% in 2020, primarily due to the aforementioned enhanced return on restructured loan assets and the collection of related fees during 2021. The intentional runoff of higher cost CDs continues to drive the decline in the overall cost of funds.

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

	2021			2020			2019		
(Dollars in Thousands)	**Average Balance**	**Income/ Expense**	**Yield/Rate**	**Average Balance[3]**	**Income/ Expense**	**Yield/Rate**	**Average Balance**	**Income/ Expense**	**Yield/Rate**
ASSETS									
Interest-Bearing Deposits with Banks	$ 194,492	$ 271	0.14 %	$ 104,526	$ 302	0.29 %	$ 123,946	$ 2,750	2.22 %
Tax-Free Investment Securities [2]	34,171	1,116	3.27 %	47,364	1,567	3.31 %	63,641	2,352	3.70 %
Taxable Investment Securities	798,672	12,442	1.56 %	697,408	14,264	2.05 %	730,500	17,826	2.44 %
Total Securities	**832,843**	**13,558**	**1.63 %**	**744,772**	**15,831**	**2.13 %**	**794,141**	**20,178**	**2.54 %**
Tax-Free Loans [1][2]	189,716	5,991	3.16 %	307,023	9,739	3.17 %	379,090	12,154	3.21 %
Taxable Loans [1]	2,751,169	115,448	4.20 %	2,672,435	117,226	4.39 %	2,489,105	126,940	5.10 %
Total Loans	**2,940,885**	**121,439**	**4.13 %**	**2,979,458**	**126,965**	**4.26 %**	**2,868,195**	**139,094**	**4.85 %**
Federal Home Loan Bank Stock	3,420	121	3.54 %	4,925	218	4.43 %	2,352	144	6.12 %
Total Interest-Earning Assets	**3,971,640**	**135,389**	**3.41 %**	**3,833,681**	**143,316**	**3.74 %**	**3,788,634**	**162,166**	**4.28 %**
Noninterest Earning Assets	170,856			276,473			289,027		
Total Assets	**4,142,496**			**4,110,154**			**4,077,661**		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-Bearing Demand	413,714	1,007	0.24 %	$ 321,036	$ 1,140	0.36 %	$ 249,086	$ 2,004	0.80 %
Money Market	383,391	1,130	0.29 %	197,225	924	0.47 %	134,676	1,671	1.24 %
Savings	663,382	682	0.10 %	599,637	632	0.11 %	582,195	1,388	0.24 %
Certificates of Deposit	1,484,436	19,427	1.31 %	1,818,837	32,695	1.80 %	2,054,077	41,593	2.02 %
Total Interest-Bearing Deposits	**2,944,923**	**22,246**	**0.76 %**	**2,936,735**	**35,391**	**1.21 %**	**3,020,034**	**46,656**	**1.54 %**
Federal Funds Purchased	—	—	— %	55	1	1.82 %	—	—	—
FHLB Borrowings	25,986	313	1.20 %	30,628	361	1.18 %	2,329	38	1.63 %
Other Borrowings	3,167	155	4.89 %	1,408	73	5.18 %	1,042	79	7.58 %
Total Borrowings	**29,153**	**468**	**1.61 %**	**32,091**	**435**	**1.36 %**	**3,371**	**117**	**3.47 %**
Total Interest-Bearing Liabilities	**2,974,076**	**22,714**	**0.76 %**	**2,968,826**	**35,826**	**1.21 %**	**3,023,405**	**46,773**	**1.55 %**
Noninterest-Bearing Liabilities	769,401			667,914			581,496		
Shareholders' Equity	399,019			473,414			472,760		
Total Liabilities and Shareholders' Equity	**4,142,496**			**4,110,154**			**4,077,661**		
Net Interest Income [2]		**$ 112,675**			**$ 107,490**			**$ 115,393**	
Net Interest Margin [2]			**2.84 %**			**2.80 %**			**3.05 %**

[1] *Nonaccruing loans are included in the daily average loan amounts outstanding.*
[2] *Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 21 percent.*
[3] *Loan and deposit balances include held-for-sale transactions in connection with sale of Bank branches.*

Interest income decreased $7.0 million, or 5.0% for 2021 compared to 2020. Interest income, on an FTE basis (non-GAAP), decreased $7.9 million, or 5.5%, for 2021 compared to 2020. The change was primarily due to increases in average interest-earning assets of $138.0 million for 2021, offset by a lower interest rate yield of 33 basis points compared to 2020. Average interest-bearing deposits with banks increased $90.0 million in 2021, and the average rate paid decreased 15 basis points for 2021 compared to 2020. Average loan balances decreased $38.6 million, primarily due to large commercial payoffs and loan sales, during 2021 compared to 2020, which included PPP loan production that began in the second quarter of 2020. Average PPP loans totaled $19.3 million during 2021. The average rate earned on loans decreased 13 basis points for 2021 compared to 2020 primarily due to lower short-term interest rates. Average investment securities increased $88.1 million and the average rate earned decreased 50 basis points for 2021 compared to 2020. The change in investment securities is the result of active balance sheet management as our portfolio has been diversified as to bond types, maturities, and interest rate structures.

Interest expense decreased $13.1 million for 2021 compared to 2020. The decrease was primarily due to lower short-term interest rates in 2021 as compared to 2020 in addition to the intentional runoff of higher cost CDs. Interest expense on deposits decreased $13.1 million for 2021 compared to 2020 primarily due to the decline in the average balance of CDs. The decrease of $334.4 million or 18.4% in the average balance of CDs for 2021 compared to 2020 was primarily due to the aforementioned intentional runoff of these higher cost CDs. Money market and interest-bearing demand accounts increased $186.2 million and $92.7 million, respectively for 2021 compared to 2020 primarily due to our deposit acquisition strategy. The average rate paid on interest-bearing deposits decreased 45 basis points for 2021 compared to 2020 primarily due to the aforementioned intentional runoff of higher cost CDs and lower short-term interest rates. Overall, the cost of interest-bearing liabilities decreased 45 basis points for 2021 compared to 2020.

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:

	2021 Compared to 2020			2020 Compared to 2019		
(Dollars in Thousands)	**Volume[3]**	**Rate[3]**	**Increase/ (Decrease)**	**Volume[3]**	**Rate[3]**	**Increase/ (Decrease)**
Interest Earned on:						
Interest-Bearing Deposits with Banks	$ 177	$ (208)	$ (31)	$ (374)	$ (2,074)	$ (2,448)
Tax-Free Investment Securities [2]	(431)	(20)	(451)	(557)	(228)	(785)
Taxable Investment Securities	1,884	(3,706)	(1,822)	(779)	(2,783)	(3,562)
Total Securities	**1,453**	**(3,726)**	**(2,273)**	**(1,336)**	**(3,011)**	**(4,347)**
Tax-Free Loans [1][2]	(3,705)	(43)	(3,748)	(2,287)	(128)	(2,415)
Taxable Loans [1]	3,393	(5,171)	(1,778)	8,898	(18,612)	(9,714)
Total Loans	**(312)**	**(5,214)**	**(5,526)**	**6,611**	**(18,740)**	**(12,129)**
Federal Home Loan Bank Stock	(58)	(39)	(97)	123	(49)	74
Total Interest-Earning Assets	**$ 1,260**	**$ (9,187)**	**$ (7,927)**	**$ 5,024**	**$ (23,874)**	**$ (18,850)**
Interest Paid on:						
Interest-Bearing Demand	$ 280	$ (413)	$ (133)	$ 469	$ (1,333)	$ (864)
Money Market	640	(434)	206	570	(1,317)	(747)
Savings	66	(16)	50	40	(796)	(756)
Certificates of Deposit	(5,352)	(7,916)	(13,268)	(4,493)	(4,405)	(8,898)
Total Interest-Bearing Deposits	**(4,366)**	**(8,779)**	**(13,145)**	**(3,414)**	**(7,851)**	**(11,265)**
Federal Funds Purchased	—	**(1)**	(1)	1	—	1
FHLB Borrowings	(56)	8	(48)	336	(13)	323
Other Borrowings	86	(4)	82	23	(29)	(6)
Total Borrowings	**30**	**3**	**33**	**360**	**(42)**	**318**
Total Interest-Bearing Liabilities	**$ (4,336)**	**$ (8,776)**	**$ (13,112)**	**$ (3,054)**	**$ (7,893)**	**$ (10,947)**
Change in Net Interest Margin	**$ 5,596**	**$ (411)**	**$ 5,185**	**$ 8,078**	**$ (15,981)**	**$ (7,903)**

[1] *Nonaccruing loans are included in the daily average loan amounts outstanding.*

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

[3] *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 for ACL based on the difference between the existing balance of ACL reserves and the ACL reserve balance necessary to adequately absorb expected credit losses associated with the Company's financial instruments. Similarly, the Company recognizes provision expense for unfunded commitments based on the difference between the existing balance of reserves for unfunded commitments and the reserve balance for unfunded commitments necessary to adequately absorb expected credit losses associated with those commitments. The Company elected to defer its adoption of CECL in accordance with relief provided under the CARES Act and the adoption became effective January 1, 2021. At January 1, 2021, we increased the ACL by $64.5 million, which includes $61.6 million for the Day 1 CECL adjustment and $2.9 million related to the life-of-loan reserve on unfunded loan commitments. The ACL as a percentage of total portfolio loans was 3.41% at December 31, 2021 and 1.83% at December 31, 2020.

Provision expense decreased $14.6 million to $3.4 million for the year ended 2021 compared to $18.0 million for the year ended 2020. The decline in provision expense was because of increased qualitative loss factors as a result of the estimated economic impact of COVID-19 during 2020 and the relatively stable economy and improving COVID-19 conditions from the date of adoption through December 31, 2021.

During 2021, management observed that $62.2 million of loans that were previously in the deferral program were recovering at rates much lower than peers. Accordingly, management sold all of these loans during the third and fourth quarters of 2021 after workout strategies had been exhausted.

A release of $1.3 million was recorded in 2021 related to the provision for unfunded commitments. Per the guidance related to CECL, unfunded loan commitments are included as part of the provision for credit losses rather than noninterest expense, where it was previously recorded.

Net charge-offs were $23.1 million for the full year 2021 compared to $2.7 million for the full year 2020. The increase in net charge-offs was primarily attributable to the resolution of five problem relationships during 2021, in which the majority of losses were anticipated and previously reserved. As a percentage of average portfolio loans, on an annualized basis, net charge-offs were 0.79% and 0.09% for the years ended 2021 and 2020, respectively. See the "Allowance for Credit Losses" section of this MD&A for additional details regarding our charge-offs.

Nonperforming loans ("NPLs") decreased significantly at December 31, 2021 by $24.6 million, or 76.9% to $7.4 million compared to $32.0 million at December 31, 2020. The decrease was primarily due to the resolution of our largest NPL relationship during 2021 and a significant reduction of our second largest NPL relationship. NPLs as a percentage of total portfolio loans were 0.26% at December 31, 2021 compared to 1.09% at December 31, 2020. See the "Credit Quality" section of this MD&A for more detail on our NPLs.

Discussion of net interest income for the year ended December 31, 2019 has been omitted as such discussion was provided in Part II, Item 7. "Management's Discussion and Analysis," under the heading "Net Interest Income" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 12, 2021, and is incorporated herein by reference.

Noninterest Income

	Years Ended December 31,			
(Dollars in Thousands)	**2021**	**2020**	**$ Change**	**% Change**
Gains on Sales of Securities, net	$ 6,869	$ 6,882	$ (13)	(0.2) %
Service Charges, Commissions and Fees	6,662	4,668	1,994	42.7 %
Debit Card Interchange Fees	7,226	5,857	1,369	23.4 %
Insurance Commissions	1,901	1,728	173	10.0 %
Bank Owned Life Insurance Income	1,380	1,400	(20)	(1.4) %
Other Real Estate Owned Income	90	340	(250)	(73.5) %
Commercial Loan Swap Fee Income	2,416	4,051	(1,635)	(40.4) %
Other	2,337	1,654	683	41.3 %
Total Noninterest Income	**$ 28,881**	**$ 26,580**	**$ 2,301**	**8.7 %**

For the year ended December 31, 2021 compared to December 31, 2020, the increase of $2.3 million in total noninterest income was driven by increases in service charges, commissions and fee accounts of $2.0 million, debit card interchange fees of $1.4 million, $0.7 million increase in other income primarily due to a year-to-date gain of $0.5 million on the sale of four bank branches and higher insurance commissions of $0.2 million. The above increases were offset by lower commercial loan swap fee income of $1.6 million and a decrease in OREO income of $0.3 million. Service charges, commission and fees increased due to reinstating fees that were previously waived during 2020 for customers affected by the COVID-19 pandemic and debit card interchange fees increased due to increased usage. The fluctuations in commercial loan swap fee income are due primarily to the timing and demand for this product in the current low interest rate environment.

Discussion of noninterest income for the year ended December 31, 2019 has been omitted as such discussion was provided in Part II, Item 7. "Management's Discussion and Analysis," under the heading "Noninterest Income" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 12, 2021, and is incorporated herein by reference.

Noninterest Expense

	Years Ended December 31,			
(Dollars in Thousands)	**2021**	**2020**	**$ Change**	**% Change**
Salaries and Employee Benefits	$ 54,157	$ 52,390	$ 1,767	3.4 %
Occupancy Expense, net	13,556	13,369	187	1.4 %
FDIC Insurance Expense	2,157	2,313	(156)	(6.7)%
Other Taxes	3,129	3,151	(22)	(0.7)%
Advertising Expense	952	1,633	(681)	(41.7)%
Telephone Expense	2,208	2,303	(95)	(4.1)%
Professional and Legal Fees	5,255	5,006	249	5.0 %
Data Processing Expense	3,758	2,648	1,110	41.9 %
Losses on Sales and Write-downs of Other Real Estate Owned, net	3,622	1,435	2,187	152.4 %
Losses on Sales and Write-downs of Bank Premises, net	231	99	132	133.3 %
Debit Card Expense	2,777	2,565	212	8.3 %
Tax Credit Amortization	1,708	1,088	620	57.0 %
Unfunded Loan Commitment Expense	—	(252)	252	NM
Other Real Estate Owned Expense	407	657	(250)	(38.1)%
Goodwill Impairment Expense	—	62,192	(62,192)	NM
Other	8,368	8,178	190	2.3 %
Total Noninterest Expense	**$ 102,285**	**$ 158,775**	**$ (56,490)**	**(35.6)%**

NM - percentage not meaningful

Total noninterest expense decreased $56.5 million to $102.3 million for the full year 2021 compared to $158.8 million compared to the full year 2020. The decline was driven by the one-time charge resulting from goodwill impairment of $62.2 million recorded in the third quarter of 2020. Offsetting the decrease were increases of $2.2 million in losses on sales and write-downs of OREO, net primarily due to nonrecurring write-downs related to closed bank branches. There were also increases of $1.8 million in salaries and employee benefits, a $1.1 million increase in data processing expense and a $0.6 million increase in tax credit amortization. The increase in salaries and employee benefits was due to increased profit sharing incentives of $1.1 million and higher medical expenses of $1.7 million, offset by lower salaries of $1.3 million due to our branch network optimization project. Higher data processing expenses resulted from increased customer accounts and new modules added to our core processor and the increase in tax credit amortization was due to new historic tax credits entered into throughout 2021.

Discussion of noninterest expense for the year ended December 31, 2019 has been omitted as such discussion was provided in Part II, Item 7. "Management's Discussion and Analysis," under the heading "Noninterest Expense" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 12, 2021, and is incorporated herein by reference.

Provision for Income Taxes

The provision for income taxes increased $3.3 million to $4.1 million for the year ended December 31, 2021 compared to $0.8 million for December 31, 2020. Pre-tax income increased $80.8 million for the year ended 2021 compared to 2020. A full goodwill impairment charge in the amount of $62.2 million was recorded in the third quarter of 2020. Our effective tax rate was 11.5% for the year ended December 31, 2021 compared to negative 1.7% for December 31, 2020. The increase in the effective tax rate is primarily due to a higher level of pre-tax income and a lower level of tax-exempt interest income for the year ended December 31, 2021 and the nondeductible goodwill impairment charge for the year ended December 31, 2020. 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"), which are relatively consistent regardless of the level of pre-tax income.

Discussion of provision for income taxes for the year ended December 31, 2019 has been omitted as such discussion was provided in Part II, Item 7. "Management's Discussion and Analysis," under the heading "Provision for Income Taxes" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 12, 2021, and is incorporated herein by reference.

Financial Condition
December 31, 2021

Total assets of $4.1 billion decreased $45.4 million, or 1.1%, from December 31, 2020. Total portfolio loans at December 31, 2021 were $2.8 billion, decreasing $135.0 million, or 4.6%, year over year. We experienced a decline in total loans during 2021 primarily due to large commercial loan payoffs of approximately $312.3 million, $62.2 million of loan sales and mortgage refinancing sold in the secondary markets. The variances between loan segments for portfolio loans are also related to the adoption of Topic 326. See the impact of Topic 326 in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K. We made changes to our loan portfolio segments to align with the methodology applied in determining the allowance under CECL. The new segmentation breaks out an Other category from the original loan categories, which applies only to the current year 2021 and was not applied to periods during 2020 and prior years, therefore showing fluctuations in all categories. At January 1, 2021, the initial break-out of Other loans related to the adoption of Topic 326 totaled $379.9 million consisting of $140.8 million of Commercial Real Estate, ("CRE"), $78.1 million of Commercial and Industrial ("C&I"), $50.8 million of Residential Mortgages and $110.2 million of Construction. This segment of loans has unique risk attributes considered inconsistent with current underwriting standards. The analysis applied to this segment resulted in an expected credit loss of $51.3 million at adoption. Loans held-for-sale were $0.2 million at December 31, 2021 a decrease of $25.2 million over prior year.

The Company's investment portfolio increased $143.7 million, or 18.5%, from December 31, 2020. Deposits increased $13.8 million from December 31, 2020 primarily due to our core deposits offset by the runoff of higher cost CDs and $84.7 million of deposits held-for-assumption in connection with the sale of four bank branches, which were completed during the second quarter of 2021. Shareholders' equity at December 31, 2021 was $407.6 million, a $32.6 million or 7.4% decrease from $440.2 million at December 31, 2020.

Securities

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

(Dollars in Thousands)	2021	2020	$ Change
U.S. Treasury Securities	$ 4,413	$ —	$ 4,413
U.S. Government Agency Securities	3,478	—	3,478
Residential Mortgage-Backed Securities	110,013	44,724	65,289
Commercial Mortgage-Backed Securities	4,168	5,447	(1,279)
Asset Backed Securities	81,863	133,557	(51,694)
Collateralized Mortgage Obligations	287,614	218,359	69,255
Small Business Administration	108,914	99,145	9,769
States and Political Subdivisions	262,202	252,622	9,580
Corporate Notes	59,735	24,825	34,910
Total Debt Securities	**$ 922,400**	**$ 778,679**	**$ 143,721**

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

	2021		2020	
(Dollars in Thousands)	Balance	Weighted-Average Yield	Balance	Weighted-Average Yield
U.S. Treasury Securities	$ 4,413	1.35 %	$ —	— %
U.S. Government Agency Securities	3,478	1.73 %	—	— %
Residential Mortgage-Backed Securities	110,013	0.44 %	44,724	1.86 %
Commercial Mortgage-Backed Securities	4,168	2.02 %	5,447	2.77 %
Asset Backed Securities	81,863	1.58 %	133,557	1.47 %
Collateralized Mortgage Obligations	287,614	1.03 %	218,359	1.38 %
Small Business Administration	108,914	1.47 %	99,145	1.69 %
States and Political Subdivisions	262,202	2.41 %	252,622	2.69 %
Corporate Notes	59,735	4.08 %	24,825	5.42 %
Total Securities Available-for-Sale	**$ 922,400**	**1.65 %**	**$ 778,679**	**2.02 %**

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 approved annually by our Board and administered through ALCO and our treasury function.

The securities portfolio increased $143.7 million at December 31, 2021 compared to December 31, 2020. Securities comprise 22.3% of total assets at December 31, 2021 compared to 18.6% at December 31, 2020. The increase is a result of active balance sheet management and the Company's excess cash position. We further diversified the securities portfolio as to bond types, maturities and interest rate structures.

At December 31, 2021, total gross unrealized gains in the available-for-sale portfolio were $10.0 million offset by $7.8 million of gross unrealized losses. At December 31, 2020, total gross unrealized gains in the available-for-sale portfolio were $22.6 million offset by $2.7 million of gross unrealized losses.

Management evaluates the securities portfolio for other-than-temporary impairment ("OTTI") on a quarterly basis. During the years ended December 31, 2021 and December 31, 2020 the Company did not record any OTTI. The performance of the debt and equity securities markets could generate impairments in future periods requiring realized losses to be reported.

The following table sets forth the maturities of securities at December 31, 2021 and the weighted average yields of such securities.

Available-for-Sale Securities

	Maturing							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(Dollars in Thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
U.S. Treasury Securities	$ —	— %	$ —	— %	$ 4,413	1.35 %	$ —	— %
U.S. Government Agency Securities	—	— %	—	— %	3,478	1.73 %	—	— %
Residential Mortgage-Backed Securities[2]	14	2.26 %	—	— %	—	— %	109,999	0.44 %
Commercial Mortgage-Backed Securities[2]	—	— %	—	— %	4,168	2.02 %	—	— %
Asset Backed Securities[2]	—	— %	—	— %	17,259	2.18 %	64,604	1.42 %
Collateralized Mortgage Obligations[2]	—	— %	—	— %	62,132	1.81 %	225,482	0.82 %
Small Business Administration	—	— %	1,922	1.47 %	63,530	1.47 %	43,462	1.47 %
States and Political Subdivisions	731	4.11 %	963	2.75 %	70,814	2.23 %	189,694	2.47 %
Corporate Notes	—	— %	—	— %	59,735	4.08 %	—	— %
Total	**$ 745**		**$ 2,885**		**$ 285,529**		**$ 633,241**	
Weighted Average Yield[1]		**4.08 %**		**1.90 %**		**2.33 %**		**1.35 %**

[1] Weighted -average yields are calculated on a taxable-equivalent basis using the federal statutory tax rate of 21 percent.
[2] Securities not due at a single maturity date

At December 31, 2021 the Company had no held-to-maturity securities; however, if at a future date we classify securities as held-to-maturity, our disclosures will show the weighted average yield for each range of maturities.

At December 31, 2021, the Company held 52% fixed rate and 48% floating rate securities. The floating rate securities may have a stated maturity greater than ten years, but the interest rate generally adjusts monthly. Therefore, the duration on these securities is short, generally less than one year, and will therefore not be as sensitive to interest rate changes.

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

Loan Composition

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

	December 31,				
(Dollars in Thousands)	**2021**	**2020**	**2019**	**2018**	**2017**
Commercial					
Commercial Real Estate	$ 1,323,252	$ 1,453,799	$ 1,365,310	$ 1,359,036	$ 1,479,765
Commercial and Industrial	345,376	557,164	621,667	661,870	804,592
Total Commercial Loans	**1,668,628**	**2,010,963**	**1,986,977**	**2,020,906**	**2,284,357**
Consumer					
Residential Mortgages	457,988	472,170	514,538	397,280	193,328
Other Consumer	44,666	57,647	73,688	73,058	79,980
Total Consumer Loans	**502,654**	**529,817**	**588,226**	**470,338**	**273,308**
Construction	282,947	406,390	309,563	212,548	126,780
Other	357,900	—	—	—	—
Total Portfolio Loans	**2,812,129**	**2,947,170**	**2,884,766**	**2,703,792**	**2,684,445**
Loans Held-for-Sale	228	25,437	19,714	2,559	517
Loans Held-for-Sale in Connection with Sale of Bank Branches, at the lower of cost or fair value	—	9,835	—	—	—
Total Loans	**$ 2,812,357**	**$ 2,982,442**	**$ 2,904,480**	**$ 2,706,351**	**$ 2,684,962**

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.

Total portfolio loans decreased $135.0 million, or 4.6% to $2.8 billion at December 31, 2021 compared to $2.9 billion at December 31, 2020. We experienced a decline in total loans during 2021 primarily due to large commercial loan payoffs, $62.2 million of loan sales and mortgage refinancing sold in the secondary markets. The variances between loan segments for portfolio loans also relates to the adoption of Topic 326 as we adjusted our loan portfolio segments to align with the methodology applied in determining the allowance under CECL.

The commercial portfolio is monitored for potential concentrations of credit risk by market, loan type, property type and tenants.

Our exposure to the hospitality industry at December 31, 2021 equated to approximately $418.6 million, or 14.9% of total portfolio loans. These were mostly loans secured by upscale or top tier flagged hotels, which have historically exhibited low leverage and strong operating cash flows. Beginning in the second quarter of 2021, we observed improvements in occupancy and the average daily rates for our hotel clients following sharp declines throughout the pandemic. However, like many service industries our clients continue to face challenges with respect to labor, which impedes their ability to turnover rooms resulting in occupancy constraints. This has caused, or may cause, them to operate with lower levels of liquidity and an inability to reserve for capital improvements and may adversely affect their ability to pay property expenses, capital improvements and/or repay existing indebtedness. Contractual payments have been restored since the expiration of our deferral program on June 30, 2021. These developments, together with the current economic conditions, generally, may adversely impact the value of real estate collateral in hospitality and other commercial real estate exposure. As a result, our financial condition, capital levels and results of operations could be adversely affected.

Aggregate commitments to our top 10 credit relationships were $721.6 million at December 31, 2021. The Other segment represents 49.6% of the top 10 credit relationships.

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

Dollars in Thousands	For the Periods Ending				
Top Ten (10) Relationships	**12/31/2021**	**12/31/2020**	**Change**	**2021 % of Gross Loans**	**2021 % of RBC**
1. Hospitality, agriculture & energy	$ 350,010	$ 375,990	$ (25,980)	12.45 %	72.45 %
2. Retail real estate & food services	56,073	55,373	700	1.99 %	11.61 %
3. Hospitality	55,634	61,691	(6,057)	1.98 %	11.51 %
4. Industrial & retail real estate	45,653	41,439	4,214	1.62 %	9.45 %
5. Retail real estate	38,250	35,388	2,862	1.36 %	7.92 %
6. Multifamily development	36,720	40,874	(4,154)	1.31 %	7.60 %
7. Hospitality	35,664	37,435	(1,771)	1.27 %	7.38 %
8. Multifamily & student housing	35,405	38,787	(3,382)	1.26 %	7.33 %
9. Hospitality	34,463	36,086	(1,623)	1.22 %	7.13 %
10. Special / limited use	33,736	33,273	463	1.20 %	6.98 %
Top Ten (10) Relationships	**721,608**	**756,336**	**(34,728)**	**25.66 %**	**149.36 %**
Total Gross Loans	**2,812,357**	**2,982,442**	**(170,085)**		
% of Total Gross Loans	**25.66 %**	**25.36 %**	**0.30 %**		
Concentration Threshold (25% of Risk-based Capital ("RBC"))	$ 120,781	$ 116,300			

Unfunded commitments on lines of credit were $433.1 million at December 31, 2021 as compared to $410.7 million at December 31, 2020. The majority of unused commitments are for construction projects that will be drawn as the construction completes. Total utilization was 52.2% at December 31, 2021 and 47.8% at December 31, 2020. Unfunded commitments on commercial operating lines of credit was 51.7% at December 31, 2021 and 48.3% at December 31, 2020.

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 have fully executed sales contracts to end investors. Second, we originate and close mortgages with fully executed contracts with investors to purchase shortly after closing. We then hold these mortgage loans from both sources until funded by the investor, typically a two-week period. Mortgage loans held-for-sale were $0.2 million and $25.4 million at December 31, 2021 and December 31, 2020, respectively.

In addition to mortgage loans held-for-sale, the Company had $9.8 million in loans held-for-sale in connection with sale of Bank branches at December 31, 2020 that sold in the second quarter of 2021.

The following tables present the maturity schedule of portfolio loan types at December 31, 2021:

	Maturity				
(Dollars in Thousands)	**Within One Year**	**After One But Within Five Years**	**After Five But Within 15 Years**	**After 15 Years**	**Total**
Fixed interest rates					
Commercial Real Estate	$ 47,934	$ 127,445	$ 48,615	$ 9,463	$ 233,457
Commercial and Industrial	65,704	84,886	167,471	16,648	334,709
Residential Mortgages	4,463	7,680	72,577	29,696	114,416
Other Consumer	1,852	33,350	8,797	—	43,999
Construction	79,497	37,989	4,359	165	122,010
Other	—	—	—	—	—
Portfolio Loans with Fixed Interest Rates	**$ 199,450**	**$ 291,350**	**$ 301,819**	**$ 55,972**	**$ 848,591**
Variable interest rates					
Commercial Real Estate	$ 46,124	$ 74,822	$ 570,774	$ 398,075	$ 1,089,795
Commercial and Industrial	3,274	537	4,793	2,063	10,667
Residential Mortgages	1,380	2,538	19,679	319,975	343,572
Other Consumer	643	24	—	—	667
Construction	47,074	104,067	8,016	1,780	160,937
Other	346,729	—	7,712	3,459	357,900
Portfolio Loans with Variable Interest Rates	**$ 445,224**	**$ 181,988**	**$ 610,974**	**$ 725,352**	**$ 1,963,538**
Total Portfolio Loans	**$ 644,674**	**$ 473,338**	**$ 912,793**	**$ 781,324**	**$ 2,812,129**

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

Credit Quality

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

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

Additional credit risk management practices include continuous reviews of 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 individually 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 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. 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.

Nonperforming assets ("NPAs") consist of nonaccrual loans, nonaccrual troubled debt restructurings ("TDRs") and other real estate owned ("OREO"). The following table summarizes nonperforming assets for the dates presented:

	December 31,	
(Dollars in Thousands)	**2021**	**2020**
Nonperforming Loans		
Commercial Real Estate	$ 595	$ 224
Commercial and Industrial	451	456
Residential Mortgages	2,551	4,135
Other Consumer	73	191
Construction	177	2,012
Other	—	—
Total Nonperforming Loans	**3,847**	**7,018**
Nonperforming Troubled Debt Restructurings		
Commercial Real Estate	2,742	21,667
Commercial and Industrial	—	—
Residential Mortgages	—	—
Other Consumer	—	—
Construction	808	3,319
Other	—	—
Total Nonperforming Troubled Debt Restructurings	**3,550**	**24,986**
Total Nonperforming Loans	**7,397**	**32,004**
Other Real Estate Owned	10,916	15,722
Total Nonperforming Assets	**$ 18,313**	**$ 47,726**
Nonperforming Loans to Total Portfolio Loans	0.26 %	1.09 %
Nonperforming Assets to Total Portfolio Loans plus Other Real Estate Owned	0.65 %	1.61 %

NPLs decreased significantly by $24.6 million, or 76.9% compared to December 31, 2020, primarily due to the resolution of our largest NPL relationship and a significant decrease in the second largest NPL relationship, partly offset by new loans placed on nonaccrual status during 2021. The two largest NPL relationships had an aggregate principal balance of $21.4 million at December 31, 2020. We recognized charge-offs totaling $8.2 million related to these relationships during the second quarter of 2021 resulting in the release of $4.8 million of individually evaluated loan reserves. The $8.2 million in charge-offs consisted of a $6.3 million charge-off triggered by a settlement of the debt and proceeds received while the remaining $1.9 million charge-off was triggered by the sale of the underlying collateral through a purchase agreement approved by the bankruptcy court. Nonperforming construction loans decreased primarily due to paydowns from borrower asset sales on four loans related to one relationship during the fourth quarter of 2021. Paydowns on this relationship totaled $2.4 million and charge-offs totaled $1.9 million leaving a remaining book balance of $0.8 million that is adequately secured by collateral. Offsetting the declines were new NPLs totaling $2.8 million, of which $2.7 million is one loan. NPLs as a percentage of total portfolio loans were 0.26% at December 31, 2021 compared to 1.09% at December 31, 2020.

OREO decreased $4.8 million, or 30.6%, at December 31, 2021 compared to December 31, 2020 due to the sale of 23 branches and six OREO properties during 2021. Closed retail bank office carrying values decreased $1.5 million and have a remaining book value of $1.0 million at December 31, 2021 compared to $2.5 million at December 31, 2020. During 2021, 20 branch closures were completed and 16 of these were sold as part of our branch network optimization project that aligns with our strategic goals to enhance franchise value and improve operating efficiency.

There were no nonaccrual loans related to loans held-for-sale at December 31, 2021. As of December 31, 2020 total nonaccrual loans include $7 thousand in loans held-for-sale in connection with sale of Bank branches.

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

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

	December 31,	
(Dollars in Thousands)	**2021**	**2020**
Loans 30 to 89 Days Past Due		
Commercial		
Commercial Real Estate	$ 229	$ 3,816
Commercial and Industrial	297	384
Total Commercial Loans	**526**	**4,200**
Consumer		
Residential Mortgages	683	1,347
Other Consumer	461	580
Total Consumer Loans	**1,144**	**1,927**
Construction	—	284
Other	—	—
Total Loans 30 to 89 Days Past Due	**$ 1,670**	**$ 6,411**

Portfolio loans past due 30 to 89 days or more and still accruing decreased $4.7 million, or 74.0% to $1.7 million at December 31, 2021 compared to $6.4 million at December 31, 2020, primarily in the commercial real estate segment. There were no loans during the year ended December 31, 2021 and December 31, 2020 that were past due more than 90 days and still accruing.

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

Troubled Debt Restructuring (“TDRs”) are loans that we, for economic or legal reasons related to a borrower’s financial difficulties, grant a concession to the borrower that we would not otherwise grant. The Company strives to identify borrowers in financial difficulty early and work with them to modify terms and conditions before their loan defaults and/or is transferred to nonaccrual status. Modified terms that might be considered a TDR generally include extension of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar characteristics, reductions in contractual interest rates or principal deferment. While unusual, there may be instances of principal forgiveness. Short-term modifications that are considered insignificant are generally not considered a TDR unless there are other concessions granted.

An accruing loan that is characterized as a TDR can remain in accrual status if, based on a current credit analysis, collection of principal and interest in accordance with the modified terms is reasonably assured, and the borrower has demonstrated sustained historical performance for a reasonable period before the modification. All TDRs are considered to be impaired loans and will be reported as impaired loans for their remaining lives, unless a subsequent restructuring includes an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk, we fully expect that the remaining principal and interest will be collected according to the restructured agreement or the contractual terms of the original loan agreement are restored. Generally, the Company individually evaluates all impaired loans, which includes TDRs, with a commitment greater than or equal to $1.0 million for Individually Evaluated Loan reserves. In addition, the Company may evaluate credits that have complex loan structures for impairment, even if the balance is less than $1.0 million. Nonaccrual TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

As an example, consider a substandard commercial construction loan that is currently 90 days past due where the loan is restructured to extend the maturity date for a period longer than would be considered an insignificant period of time. The post-modification interest rate given to the borrower is considered to be lower than the current market rate for new debt with similar risk and all other terms remain the same according to the original loan agreement. This loan will be considered a TDR as the borrower is experiencing financial difficulty and a concession has been granted due to the significant extension, resulting in payment delay as well as the rate being lower than current market rate for new debt with similar risk. The loan will be reported as a nonaccrual TDR and an impaired loan. In addition, the loan could be charged down to the fair value of the collateral if a confirmed loss exists. If the loan subsequently performs, by means of making on-time payments according to the newly restructured terms for a period of six months, and it is expected that all remaining principal and interest will be collected according to the terms of the restructured agreement, the loan will be returned to accrual status and reported as an accruing TDR. The loan will remain an impaired loan for the remaining life of the loan because the interest rate was not adjusted to be equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk.

Allowance for Credit Losses

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

(Dollars in Thousands)	**2021**	**2020**	**2019**
Balance Beginning of Year	$ 54,074	$ 38,762	$ 39,199
Impact of CECL Adoption	61,642	—	—
Provision for Credit Losses	3,350	18,006	3,404
Charge-offs:			
Commercial Real Estate	19,662	40	69
Commercial and Industrial	374	66	22
Residential Mortgages	273	258	197
Other Consumer	2,256	3,991	4,401
Construction	1,859	—	393
Other	—	—	—
Total Charge-offs	**24,424**	**4,355**	**5,082**
Recoveries:			
Commercial Real Estate	159	707	—
Commercial and Industrial	291	2	—
Residential Mortgages	168	27	9
Other Consumer	586	737	602
Construction	93	188	630
Other	—	—	—
Total Recoveries	**1,297**	**1,661**	**1,241**
Total Net Charge-offs	**23,127**	**2,694**	**3,841**
Balance End of Year	**$ 95,939**	**$ 54,074**	**$ 38,762**
Net Charge-offs to Average Portfolio Loans	**0.79%**	**0.09%**	**0.13%**
Allowance for Credit Losses to Total Portfolio Loans	**3.41%**	**1.83%**	**1.34%**

Total net charge-offs increased to $23.1 million for the year ended December 31, 2021 compared to $2.7 million for the year ended December 31, 2020 primarily in the commercial real estate segment. In the quarter ended June 30, 2021, we released $4.8 million of specific reserves in connection with the resolution of our two largest CRE nonperforming relationships and recognized $8.2 million in charge-offs. In the quarter ended September 30, 2021, the Bank sold nine CRE loans within two performing relationships with an unpaid principal balance of $50.2 million, which resulted in charge-offs of $9.2 million and a net release of reserves of $3.1 million. Finally, in the quarter ended December 31, 2021, we sold an additional two notes, which resulted in $2.2 million net charge-offs and added $0.5 million to provision expense. We also recorded a $1.9 million net charge-off for a nonperforming lot development relationship.

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

	2021		2020	
(Dollars in Thousands)	**Amount**	**% of Loans in each Category to Total Portfolio Loans**	**Amount**	**% of Loans in each Category to Total Portfolio Loans**
Commercial Real Estate	$ 17,297	47.0 %	$ 36,428	49.3 %
Commercial & Industrial	4,111	12.3 %	5,064	18.9 %
Residential Mortgages	4,368	16.3 %	2,099	16.0 %
Other Consumer	1,493	1.6 %	2,479	2.0 %
Construction	6,939	10.1 %	8,004	13.8 %
Other	61,731	12.7 %	—	— %
Balance End of Year	**$ 95,939**	**100.0 %**	**$ 54,074**	**100.0 %**

While the variances within the loan segments relate to the Day 1 impact of CECL, our ACL has a higher concentration of commercial loans including CRE, C&I and construction. 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.

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

(Dollars in Thousands)	**2021**	**2020**
Allowance for Credit Losses to Total Portfolio Loans		
Allowance for Credit Losses	$ 95,939	$ 54,074
Total Portfolio Loans	2,812,129	2,947,170
Allowance for Credit Losses to Total Portfolio Loans	**3.41 %**	**1.83 %**
Nonperforming Loans to Total Portfolio Loans		
Nonperforming Loans	$ 7,397	$ 32,004
Total Portfolio Loans	2,812,129	2,947,170
Nonperforming Loans to Total Portfolio Loans	**0.26 %**	**1.09 %**
Allowance for Credit Losses to Nonperforming Loans		
Allowance for Credit Losses	$ 95,939	$ 54,074
Nonperforming Loans	7,397	32,004
Allowance for Credit Losses to Nonperforming Loans	**1,297.00 %**	**168.96 %**
Net Charge-offs to Average Portfolio Loans		
Net Charge-offs	$ 23,127	$ 2,694
Average Total Portfolio Loans	2,927,083	2,959,376
Net Charge-offs to Average Portfolio Loans	**0.79 %**	**0.09 %**

A discussion of the factors that drove the material changes in the ACL ratios presented in the table above, such as the significant reduction in nonperforming loans and the significant increase in net charge-offs have been communicated in the paragraphs preceding this table within the Credit Quality and Allowance for Credit Losses sections within this MD&A.

Prior to the adoption of Topic 326 on January 1, 2021, we calculated our ACL using an incurred loan loss methodology. The following tables are disclosures related to the allowance for credit losses in prior periods.

The following table summarizes the ACL balance as of December 31, 2020:

(Dollars in Thousands)		2020
Collectively Evaluated for Impairment	$	38,824
Individually Evaluated for Impairment		15,250
Total Allowance for Credit Losses	**$**	**54,074**

The ACL was $95.9 million, or 3.41%, of total portfolio loans at December 31, 2021 compared to $54.1 million, or 1.83% December 31, 2020.

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

Deposits

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

	2021			2020		
(Dollars in Thousands)		Average Balance	Rate		Average Balance	Rate
Noninterest-Bearing Demand Deposits	$	736,974	—	$	634,864	—
Noninterest-Bearing Demand Deposits Held for Assumption in Connection with Sale of Bank Branches		—	—		6,776	—
Interest-Bearing Demand		413,714	0.24 %		317,664	0.36 %
Money Market		383,391	0.29 %		194,129	0.47 %
Savings		663,382	0.10 %		591,967	0.11 %
Certificates of Deposit		1,484,436	1.31 %		1,765,310	1.79 %
Interest-Bearing Deposits Held for Assumption in Connection with Sale of Bank Branches		—	— %		67,665	1.52 %
Total Interest-Bearing Deposits		**2,944,923**	**0.76 %**		**2,936,735**	**1.21 %**
Total Deposits	**$**	**3,681,897**	**0.60 %**	**$**	**3,578,375**	**0.99 %**

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

(Dollars in Thousands)		2021		2020
Deposits from the Certificate of Deposit Account Registry Services (CDARS)	$	139	$	139
Noninterest-Bearing Public Funds Deposits		58,393		34,457
Interest-Bearing Public Funds Deposits		123,968		139,386
Total Deposits not Covered by Deposit Insurance[(1)]		396,626		377,398
Certificates of Deposits not Covered by Deposit Insurance		147,134		181,057
Deposits from Certain Directors, Executive Officers and their Affiliates		3,032		6,697

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

Maturities of CDs over $250,000 or more not covered by deposit insurance at December 31, 2021 are summarized as follows:

(Dollars in Thousands)	Amount	Percent
Three Months or Less	$ 29,123	19.8 %
Over Three Months Through Twelve Months	38,980	26.5 %
Over Twelve Months Through Three Years	52,850	35.9 %
Over Three Years	26,181	17.8 %
Total	**$ 147,134**	**100.0 %**

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

Federal Home Loan Bank ("FHLB") Borrowings

Information pertaining to FHLB advances at December 31 is summarized in the table below:

(Dollars in Thousands)	2021	2020	2019
Balance at Period End	$ 7,000	$ 35,000	$ 10,000
Average Balance during Period	25,986	30,628	2,329
Average Interest Rate during the Period	1.20 %	1.18 %	1.63 %
Maximum Month-end Balance during the Period	35,000	35,000	10,000
Average Interest Rate at Period End	1.61 %	1.13 %	1.63 %

The Company held FHLB Atlanta stock of $2.4 million and $5.1 million at December 31, 2021 and December 31, 2020, respectively. Dividends recorded on this restricted stock were $121 thousand and $218 thousand for the years ended December 31, 2021 and December 31, 2020, respectively. The investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We hold FHLB stock because we are a member of the FHLB of Atlanta. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon the members' asset values, level of borrowings and participation in other programs offered. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the products and services offered by the FHLB. Unlike equity securities of traditional for-profit enterprises, the stock of the FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value.

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

Capital Resources

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

	2021	2020
Common Equity Tier 1		
Carter Bankshares, Inc.	14.21 %	13.08 %
Carter Bank and Trust	14.04 %	13.06 %
Tier 1 Ratio		
Carter Bankshares, Inc.	14.21 %	13.08 %
Carter Bank and Trust	14.04 %	13.06 %
Total Risk-Based Capital Ratio		
Carter Bankshares, Inc.	15.46 %	14.33 %
Carter Bank and Trust	15.29 %	14.31 %
Leverage Ratio		
Carter Bankshares, Inc.	10.62 %	10.26 %
Carter Bank and Trust	10.49 %	10.24 %

Total shareholders' equity decreased by $32.6 million to $407.6 million at December 31, 2021 compared to $440.2 million at December 31, 2020. The decrease was primarily due to the $50.7 million cumulative-effect adjustment related to the adoption of Topic 326, a $14.0 million, net of tax, decrease in other comprehensive loss due to changes in the fair value of available-for-sale securities and $0.5 million related to the repurchase of common stock, partially offset by net income of $31.6 million. The remaining difference of $1.0 million is related to stock-based compensation during the year ended December 31, 2021.

The Company continues to maintain its capital position with a leverage ratio of 10.62% as compared to the regulatory guideline of 5.00% to be well-capitalized and a risk-based Common Equity Tier 1 ratio of 14.21% compared to the regulatory guideline of 6.50% to be well-capitalized. Our risk-based Tier 1 and Total Capital ratios were 14.21% and 15.46%, respectively, which places the Company above the federal bank regulatory agencies' well-capitalized guidelines of 8.00% and 10.00%, respectively. We believe that we have the ability to raise additional capital, if necessary.

In July 2013 the federal banking agencies issued a final rule to implement the Basel III Final Rules and the minimum leverage and risk-based capital requirements of the Dodd-Frank Act. The final rule established a comprehensive capital framework and went into effect on January 1, 2015 for smaller banking organizations such as the Company. The rule also requires the Company and the Bank to maintain a capital conservation buffer composed of Common Equity Tier 1 capital in an amount greater than 2.50% of total risk-weighted assets beginning in 2019. The capital conservation buffer was phased-in, in equal increments from 2016 through 2019. As a result, starting in 2019, the Company and the Bank were required to maintain a Common Equity Tier 1 risk-based capital ratio greater than 7.0%, a Tier 1 risk-based capital ratio greater than 8.5%, and a Total risk-based capital ratio greater than 10.5%; otherwise, they will be subject to restrictions on capital distributions and discretionary bonus payments.

Federal regulators periodically propose amendments to the regulatory capital rules and the related regulatory framework and consider changes to the capital standards that could significantly increase the amount of capital needed to meet applicable standards. The timing of adoption, ultimate form and effect of any such proposed amendments cannot be predicted.

The community bank leverage ratio final rule was effective on January 1, 2020 and allows qualifying community banking organizations to calculate a leverage ratio to measure capital adequacy. Qualifying banking organizations that have less than $10 billion total assets, a leverage ratio of greater than 9%, and meet other criteria such as off-balance sheet exposures and trading assets limits. Banks opting into this framework are not required to calculate or report risk-based capital. We did not adopt this framework; therefore, capital ratios are calculated and reported as detailed above.

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

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties and exclude contingent contractual liabilities for which we cannot reasonably predict future payments. The Company has various financial obligations, including contractual obligations and commitments that may require future cash payments. The following table presents as of December 31, 2021, significant fixed and determinable contractual obligations to third parties by payment date:

	Payments Due In				
(Dollars in Thousands)	Less Than One Year	One to Three Years	Three to Five Years	More Than five Years	Total
Deposits without a Stated Maturity [1]	$ 2,354,158	$ —	$ —	$ —	$ 2,354,158
Certificates of Deposits [1]	565,385	493,445	283,891	1,597	1,344,318
Federal Home Loan Bank Borrowings [2]	7,000	—	—	—	7,000
Operating and Capital Leases	447	1,000	877	7,549	9,873
Purchase Obligations	4,697	6,919	6,769	5,190	23,575
Total	**$ 2,931,687**	**$ 501,364**	**$ 291,537**	**$ 14,336**	**$ 3,738,924**

[1] Excludes Interest
[2] The FHLB borrowing of $7.0 million was prepaid in January 2022 outside of its scheduled maturity.

Lease contracts are described in Note 8, Premises and Equipment, of the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Purchase obligations primarily represent obligations under agreement with a third-party data processing vendor and communications charges.

Off-Balance Sheet Arrangements

In the normal course of business, the Company offers our customers lines of credit and letters of credit to meet their financing objectives. The undrawn or unfunded portion of these facilities do not represent outstanding balances and therefore are not reflected in our financial statements as loans receivable. The Company provides lines of credit to our clients to memorialize the commitment to finance the completion of construction projects and revolving lines of credit to operating companies to finance their working capital needs. Lines of credit for construction projects represent $283.9 million, or 55.3% and $391.4 million, or 66.2% of the commitments to extend credit identified in the table below at December 31, 2021 and December 31, 2020, respectively. The Company provides letters of credit, generally, for the benefit or our customers to provide assurance to various municipalities that construction projects will be completed according to approved plans and specifications. These instruments involve elements of credit and interest rate risk and our exposure to credit loss, in the event the customer does not satisfy the terms of the agreement, could be equal to the contractual amount of the obligation less the value of any collateral. The Company analyzes this risk and calculates a reserve for unfunded commitments. The same credit policies are applied in granting these facilities as those used for underwriting loans. Lines of credit to finance construction projects include a construction end date, at which time the loan is expected to convert to a mini-perm loan. A department independent of our lending group monitors construction commitments of $1.0 million or more. Lines of credit to operating companies to finance working capital include a maturity date and may include various financial covenants. Letters of credit include an expiration date unless it is a standby letter of credit which automatically renews but generally provide for a termination clause on an annual basis given sufficient notice to the beneficiary. The Company typically charges an annual fee for the issuance of letters of credit. Because letters of credit are expected to expire without being drawn upon, these commitments do not necessarily represent future cash requirements of the Company.

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

(Dollars in Thousands)	2021	2020
Commitments to Extend Credit	$ 513,482	$ 591,175
Standby Letters of Credit	27,083	29,293
Total	**$ 540,565**	**$ 620,468**

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

Liquidity

Liquidity is defined as a financial institution's ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or borrowers needing to access funds to meet their credit needs. In order to manage liquidity risk the Company's Board has delegated authority to the ALCO for formulation, implementation and oversight of liquidity risk management for the Company. The ALCO's goal is to maintain adequate levels of liquidity at a reasonable cost to meet funding needs in both a normal operating environment and for potential liquidity stress events. The ALCO monitors and manages liquidity through various ratios, reviewing cash flow projections, performing stress tests and by having a detailed contingency funding plan. The ALCO policy guidelines define graduated risk tolerance levels. 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.

Our 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 funding dependency on other more volatile sources. Although deposits are the primary source of funds, the Company has identified various other funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. Additional funding sources accessible to the Company include borrowing availability at the FHLB, equal to 25% of the Company's assets approximating $1.0 billion, subject to the amount of eligible collateral pledged, federal funds lines with six other correspondent financial institutions in the amount of $145.0 million, access to the institutional CD market, and the brokered deposit market. In addition to the lines referenced above, the Company also has $743.8 million of unpledged available-for-sale investment securities as an additional source of liquidity.

An important component of our ability to effectively respond to potential liquidity stress events is maintaining a cushion of highly liquid assets. Highly liquid assets are those that can be converted to cash quickly, with little or no loss in value, to meet financial obligations. ALCO policy guidelines define a ratio of highly liquid assets to total assets by graduated risk tolerance levels of minimal, moderate and high. At December 31, 2021, the Bank had $985.1 million in highly liquid assets, which consisted of $64.9 million in interest-bearing deposits in other financial institutions, $176.2 million in FRB Excess Reserves, $743.8 million in unpledged securities and $0.2 million in mortgage loans held-for-sale. This resulted in highly liquid assets to total assets ratio of 23.8% at December 31, 2021.

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

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

(Dollars in Thousands)	2021	2020
Cash and Due From Banks	$ 36,698	$ 38,535
Interest Bearing Deposits in Other Financial Institutions	64,905	39,954
Federal Reserve Bank Excess Reserves	176,196	163,453
Unpledged Investment Securities	743,836	632,724
Excess Pledged Securities	28,417	7,857
FHLB Borrowing Availability	667,307	510,533
Unsecured Lines of Credit	145,000	145,000
Total Liquidity Sources	**$ 1,862,359**	**$ 1,538,056**

Inflation

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

Stock Repurchase Plan

On December 13, 2021, the Company authorized, effective December 10, 2021, a common stock repurchase program to purchase up to two million shares of the Company’s common stock in the aggregate over a period of twelve months. As of December 31, 2021, 30,407 shares of common stock had been repurchased under this program at an average price of $15.22 per share.

The specific timing, price and quantity of repurchases will be at our discretion and will depend on a variety of factors, including general market conditions, the trading price of common stock, legal and contractual requirements, applicable securities laws and the Company’s financial performance. The repurchase plan does not obligate us to repurchase any particular number of shares.

The Stock Repurchase Plan is also described in Item 5, Market for the Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities, of this Annual Report on Form 10-K.

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 primarily reflects exposures to changes in interest rates. Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes affect capital by changing the net present value of a financial institution’s future cash flows, and the cash flows themselves, as rates change. Accepting this risk is a normal part of banking and can be an important source of profitability and enhancement of shareholder value. However, excessive interest rate risk can threaten a financial institution’s earnings, capital, liquidity, and solvency. Our sensitivity to changes in interest rate movements is continually monitored by the ALCO.

The ALCO utilizes an asset liability model (“ALM”) to monitor and manage market risk through net interest income simulation for various rate shock scenarios and economic value of equity (“EVE”), simulation for various rate shock scenarios. The rate shock scenarios used in the ALM span over multiple time horizons and 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, net interest income rate shock simulations explicitly measure the exposure to earnings from changes 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, 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, 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.

Net interest income rate shock simulation results are compared to a base case to provide an estimate of the impact that market rate changes may have on 12 months and 24 months of pretax net interest income. The base case and rate shock analyses are performed on 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. Rate shock analyses assume an immediate parallel shift in market interest rates and also include management 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 optionality. Our policy guidelines limit the change in pretax net interest income over a 12-month horizon using rate shocks of +/- 100, 200, 300, and 400 basis points. We have temporarily suspended the -200, -300, and -400 basis point rate shock analyses. Due to the low interest rate environment, we believe the impact to net interest income when evaluating the -200, -300, and -400 basis point rate shock scenarios do not provide meaningful insight into our interest rate risk position.

To monitor interest rate risk beyond the 24-month time horizon of rate shocks, we also perform EVE analyses. EVE represents the present value of all asset cash flows minus the present value of all liability cash flows. EVE rate change results are compared to a base case to determine the impact that market rate changes may have on our EVE. As with rate shock analysis, EVE analyses incorporate management assumptions regarding prepayment behavior of fixed rate loans and securities with 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 also temporarily suspended the EVE -200, -300, and -400 basis point scenarios in 2021 and 2020 due to the low interest rate environment.

The following tables reflect the net interest income rate shock analyses and EVE analyses 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.

	December 31, 2021		December 31, 2020	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
400	43.6 %	24.6 %	39.6 %	20.1 %
300	33.1 %	20.6 %	30.7 %	17.5 %
200	22.5 %	15.4 %	21.1 %	13.8 %
100	11.4 %	8.6 %	10.7 %	8.1 %
-100	(2.4)%	(7.0) %	(2.4)%	(3.1) %

The results from the net interest income rate shock analysis are consistent with having an asset sensitive balance sheet when adjusted for repricing correlations (betas). The above table indicates that in a rising interest rate environment, the Company is positioned to have increased pretax net interest income for the same asset base due to the balance sheet composition, related maturity structures, and repricing correlations to market interest rates for assets and liabilities. Conversely, in a declining interest rate environment, we are positioned to have decreased pretax net interest income for the same reasons discussed above.

In addition to rate shocks and EVE analyses, sensitivity analyses are performed to help us identify which model assumptions are critical and cause the greatest impact on pretax net interest income. Sensitivity analyses include changing prepayment behavior of loans and securities with optionality, repricing correlations, and the impact of interest rate changes on non-maturity deposit products (decay rates).

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

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands Except Per Share Data)	December 31, 2021	December 31, 2020
ASSETS		
Cash and Due From Banks	$ 36,698	$ 38,535
Interest-Bearing Deposits in Other Financial Institutions	64,905	39,954
Federal Reserve Bank Excess Reserves	176,196	163,453
Total Cash and Cash Equivalents	**277,799**	**241,942**
Securities Available-for-Sale, at Fair Value	922,400	778,679
Loans Held-for-Sale	228	25,437
Loans Held-for-Sale in Connection with Sale of Bank Branches, at the lower of cost or fair value	—	9,835
Portfolio Loans	2,812,129	2,947,170
Allowance for Credit Losses	(95,939)	(54,074)
Portfolio Loans, net	**2,716,190**	**2,893,096**
Bank Premises and Equipment, net	75,297	85,307
Bank Premises and Equipment Held-for-Sale, net	—	2,293
Other Real Estate Owned, net	10,916	15,722
Federal Home Loan Bank Stock, at Cost	2,352	5,093
Bank Owned Life Insurance	55,378	53,997
Other Assets	73,186	67,778
Total Assets	**$ 4,133,746**	**$ 4,179,179**
LIABILITIES		
Deposits:		
Noninterest-Bearing Demand	$ 747,909	$ 699,229
Interest-Bearing Demand	452,644	366,201
Money Market	463,056	294,229
Savings	690,549	625,482
Certificates of Deposit	1,344,318	1,614,770
Deposits Held for Assumption in Connection with Sale of Bank Branches	—	84,717
Total Deposits	**3,698,476**	**3,684,628**
Federal Home Loan Bank Borrowings	7,000	35,000
Other Liabilities	20,674	19,377
Total Liabilities	**3,726,150**	**3,739,005**
SHAREHOLDERS' EQUITY		
Common Stock, Par Value $1.00 Per Share, Authorized 100,000,000 Shares;		
26,430,919 Outstanding at December 31, 2021 and 26,385,041 at December 31, 2020	26,431	26,385
Additional Paid-in-Capital	143,988	143,457
Retained Earnings	235,475	254,611
Accumulated Other Comprehensive Income	1,702	15,721
Total Shareholders' Equity	**407,596**	**440,174**
Total Liabilities and Shareholders' Equity	**$ 4,133,746**	**$ 4,179,179**

See accompanying notes to audited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Years Ended December 31,		
(Dollars in Thousands except, Per Share Data)	**2021**	**2020**	**2019**
INTEREST INCOME			
Loans, including fees			
Taxable	$ 115,448	$ 117,226	$ 126,939
Non-Taxable	4,733	7,694	9,603
Investment Securities			
Taxable	12,442	14,263	17,826
Non-Taxable	882	1,238	1,858
FRB Excess Reserves	169	224	1,484
Interest on Bank Deposits	102	78	1,266
Dividend Income	121	218	144
Total Interest Income	**133,897**	**140,941**	**159,120**
Interest Expense			
Interest Expense on Deposits	22,246	35,391	46,656
Interest Expense on Federal Funds Purchased	—	1	—
Interest on Other Borrowings	468	434	117
Total Interest Expense	**22,714**	**35,826**	**46,773**
NET INTEREST INCOME	**111,183**	**105,115**	**112,347**
Provision for Credit Losses	3,350	18,006	3,404
Provision for Unfunded Commitments	(1,269)	—	—
Net Interest Income After Provision for Credit Losses	**109,102**	**87,109**	**108,943**
NONINTEREST INCOME			
Gain on Sales of Securities, net	6,869	6,882	2,205
Service Charges, Commissions and Fees	6,662	4,668	4,962
Debit Card Interchange Fees	7,226	5,857	5,160
Insurance Commissions	1,901	1,728	1,225
Bank Owned Life Insurance Income	1,380	1,400	1,436
Other Real Estate Owned Income	90	340	689
Commercial Loan Swap Fee Income	2,416	4,051	—
Other	2,337	1,654	1,193
Total Noninterest Income	**28,881**	**26,580**	**16,870**
NONINTEREST EXPENSE			
Salaries and Employee Benefits	54,157	52,390	52,879
Occupancy Expense, net	13,556	13,369	11,785
FDIC Insurance Expense	2,157	2,313	1,270
Other Taxes	3,129	3,151	2,847
Advertising Expense	952	1,633	1,445
Telephone Expense	2,208	2,303	2,202
Professional and Legal Fees	5,255	5,006	4,507
Data Processing	3,758	2,648	2,267
Losses on Sales and Write-downs of Other Real Estate Owned, net	3,622	1,435	4,732
Losses on Sales and Write-downs of Bank Premises, net	231	99	188
Debit Card Expense	2,777	2,565	2,753
Tax Credit Amortization	1,708	1,088	2,265
Unfunded Loan Commitment Expense	—	(252)	121
Other Real Estate Owned Expense	407	657	525
Goodwill Impairment Expense	—	62,192	—
Other	8,368	8,178	8,243
Total Noninterest Expense	**102,285**	**158,775**	**98,029**
Income (Loss) Before Income Taxes	**35,698**	**(45,086)**	**27,784**
Income Tax Provision	4,108	772	1,209
Net Income (Loss)	**$ 31,590**	**$ (45,858)**	**$ 26,575**

Earnings (Loss) per Common Share:			
Basic Earnings (Loss) per Common Share	$ 1.19	$ (1.74)	$ 1.01
Diluted Earnings (Loss) per Common Share	$ 1.19	$ (1.74)	$ 1.01
Average Shares Outstanding-Basic	26,342,729	26,379,774	26,258,576
Average Shares Outstanding-Diluted	26,342,729	26,379,774	26,258,576

See accompanying notes to audited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
(Dollars in Thousands)	**2021**	**2020**	**2019**
Net Income (Loss)	$ 31,590	$ (45,858)	$ 26,575
Other Comprehensive (Loss) Income:			
Net Unrealized (Losses) Gains on Securities Available-for-Sale:			
Net Unrealized (Losses) Gains Arising during the Period	(10,877)	26,621	15,108
Reclassification Adjustment for Gains included in Net Income (Loss)	(6,869)	(6,882)	(2,205)
Tax Effect	3,727	(4,145)	(2,710)
Net Unrealized (Losses) Gains Recognized in Other Comprehensive (Loss) Income	(14,019)	15,594	10,193
Other Comprehensive (Loss) Income:	(14,019)	15,594	10,193
Comprehensive Income (Loss)	**$ 17,571**	**$ (30,264)**	**$ 36,768**

See accompanying notes to audited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Years Ended December 31,				
(Dollars in Thousands)	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholder's Equity**
Balance January 1, 2019	**$ 26,270**	**$ 142,175**	**$ 277,583**	**$ (10,066)**	**$ 435,962**
Net Income	—	—	26,575	—	26,575
Other Comprehensive Income, Net of Tax	—	—	—	10,193	10,193
Issuance of Restricted Stock (64,458 shares)	64	(64))	—	—	—
Recognition of Restricted Stock Compensation Expense	—	381	—	—	381
Balance December 31, 2019	**$ 26,334**	**$ 142,492**	**$ 304,158**	**$ 127**	**$ 473,111**
Net Loss	—	—	(45,858)	—	(45,858)
Other Comprehensive Income, Net of Tax	—	—	—	15,594	15,594
Dividends Declared ($0.14 per share)	—	—	(3,689))	—	(3,689)
Forfeiture of Restricted Stock (4,344 shares)	(4))	4	—	—	—
Issuance of Restricted Stock (55,156 shares)	55	(55))	—	—	—
Recognition of Restricted Stock Compensation Expense	—	1,016	—	—	1,016
Balance December 31, 2020	**$ 26,385**	**$ 143,457**	**$ 254,611**	**$ 15,721**	**$ 440,174**
Net Income	—	—	31,590)	—	31,590
Other Comprehensive Loss, Net of Tax	—	—	—	(14,019)	(14,019)
Cumulative Effect For Adoption of Credit Losses	—	—	(50,726))	—	(50,726)
Repurchase of Common Stock (30,407 shares)	(30)	(433)	—	—	(463)
Forfeiture of Restricted Stock (6,205 shares)	(6))	6	—	—	—
Issuance of Restricted Stock (82,490 shares)	82	(82)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	1,040	—	—	1,040
Balance December 31, 2021	**$ 26,431**	**$ 143,988**	**$ 235,475**	**$ 1,702**	**$ 407,596**

See accompanying notes to audited Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(Dollars in Thousands)	**2021**	**2020**	**2019**
OPERATING ACTIVITIES			
Net Income (Loss)	$ 31,590	$ (45,858)	$ 26,575
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities			
Provision for Credit Losses, including Provision for Unfunded Commitments	2,081	18,006	3,404
Goodwill Impairment	—	62,192	—
Origination of Loans Held-for-Sale	(480,372)	(800,053)	(329,932)
Proceeds From Loans Held-for-Sale	505,946	794,592	312,891
Depreciation/Amortization of Bank Premises and Equipment	6,229	6,142	5,335
Provision (Benefit) for Deferred Taxes	3,114	(1,627)	(76)
Net Amortization of Securities	4,798	3,441	3,953
Tax Credit Amortization	1,708	1,088	2,265
Gains on Sales of Mortgage Loans Held-for-Sale	(365)	(262)	(114)
Gains on Sales of Securities, net	(6,869)	(6,882)	(2,205)
Write-downs of Other Real Estate Owned	3,472	1,483	4,457
Losses (Gains) on Sales of Other Real Estate Owned, Net	150	(48)	275
Losses on Sales and Write-downs of Bank Premises	231	99	188
Premiums on Branch Sales	(506)	—	—
Increase in the Value of Life Insurance Contracts	(1,380)	(1,400)	(1,436)
Recognition of Restricted Stock Compensation Expense	1,040	1,016	381
Decrease (Increase) in Other Assets	9,346	(22,591)	10,094
(Decrease) Increase in Other Liabilities	(2,675)	(1,634)	2,231
Net Cash Provided By Operating Activities	**77,538**	**7,704**	**38,286**
INVESTING ACTIVITIES			
Securities Available-for-Sale:			
Proceeds from Sales	197,056	188,169	390,548
Proceeds from Maturities, Redemptions, and Pay-downs	110,196	78,852	198,154
Purchases	(466,648)	(277,644)	(534,136)
Purchase of Bank Premises and Equipment, Net	(8,484)	(10,120)	(8,453)
Proceeds from Sales of Bank Premises and Equipment, net	—	—	1,135
Net Cash Paid in Branch Sales	(73,923)	—	—
Proceeds from Sale of Portfolio Loans	52,320	—	—
Redemption (Purchase) of Federal Home Loan Bank Stock	2,741	(980)	(4,113)
Loan Originations and Payments, net	67,131	(75,688)	(185,117)
Other Real Estate Owned Improvements	—	(19)	—
Proceeds from Sales and Payments of Other Real Estate Owned	13,256	4,162	12,621
Net Cash Used In Investing Activities	**(106,355)**	**(93,268)**	**(129,361)**
FINANCING ACTIVITIES			
Net Change in Demand, Money Markets and Savings Accounts	369,730	469,507	50,459
Decrease in Certificates of Deposits	(276,899)	(289,124)	(137,395)
(Repayments) Proceeds from Federal Home Loan Bank Borrowings	(28,000)	25,000	10,000
Stock Repurchase Plan Settlements	(157)	—	—
Cash Dividends Paid	—	(3,689)	—
Net Cash Provided By (Used In) Financing Activities	**64,674**	**201,694**	**(76,936)**
Net Increase (Decrease) in Cash and Cash Equivalents	35,857	116,130	(168,011)
Cash and Cash Equivalents at Beginning of Period	241,942	125,812	293,823
Cash and Cash Equivalents at End of Period	**$ 277,799**	**$ 241,942**	**$ 125,812**

See accompanying notes to audited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS - (continued)

	Years Ended December 31,		
(Dollars in Thousands)	**2021**	**2020**	**2019**
SUPPLEMENTARY DATA			
Cash Interest Paid	$ 23,467	$ 36,696	$ 46,170
Cash Paid for Income Taxes	2,720	416	220
Transfer from Loans to Other Real Estate Owned	59	755	302
Transfer from Fixed Assets to Other Real Estate Owned	12,013	2,221	1,694
Security Purchases Settled in Subsequent Period	—	(2,259)	(3,270)
Right-of-use Asset Recorded in Exchange for Lease Liabilities	2,027	621	1,659
Loans Held-for-Sale in Connection with Sale of Bank Branches	—	9,835	—
Bank Premises and Equipment Held-for-Sale	—	2,293	—
Deposits Held for Assumption in Connection with Sale of Bank Branches	—	84,717	—
Stock Repurchases Settled in Subsequent Period	(306)	—	—

See accompanying notes to audited Consolidated Financial Statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

COVID-19 has adversely impacted various industries in which our customers operate and could still impair their ability to fulfill their financial obligations. The Company's business is dependent upon the willingness and ability of its associates and customers to conduct banking and other financial transactions. While we believe conditions have improved as of December 31, 2021, if there is a resurgence in the virus, the Company could experience further adverse effects on its business, financial condition, results of operations and cash flows. While it is not possible to know the full extent of the impact the COVID-19 pandemic will have on the Company's future operations, the Company continues to communicate with its associates and customers to understand their challenges, which allows us to respond to their needs and issues as they arise.

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

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

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

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

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

Securities: The Company classifies securities into either the held-to-maturity or available-for-sale categories at the time of purchase. All securities were classified as available-for-sale at December 31, 2021 and December 31, 2020. Securities classified as available-for-sale include securities, which can be sold for liquidity, investment management, or similar reasons even if there is not a present intention of such a sale. Available-for-sale securities are reported at fair value, with unrealized (losses) gains, net of tax included in other comprehensive (loss) income.

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

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

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

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

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

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

A loan is considered impaired when it is probable that the Company will be unable to collect all principal and interest amounts when due according to the contractual terms of the loan agreement. A performing loan may be considered impaired. The ACL related to loans identified as impaired is primarily based on the excess of the loan's current outstanding principal balance compared to the estimated fair value of the related collateral, less cost to sell. For a loan that is not collateral-dependent, the allowance is recorded at the amount by which the outstanding principal balance exceeds the current estimate of the future cash flows on the loan discounted at the loan's original effective interest rate.

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

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

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

Allowance for Credit Losses

On January 1, 2021, we adopted Accounting Standards Update (“ASU”) 2016-13, Financial Instruments-Credit Losses (“Topic 326”), which replaced the incurred loss impairment model with an expected loss model. As part of adoption our model introduced a segmented pool of “other” loans for discrete analysis. This segmented pool included unique risk attributes considered inconsistent with current underwriting standards. The analysis applied to this pool resulted in an increase in the Current Expected Credit Losses (“CECL”) and is disclosed in the Other line item in the portfolio loan segments. As a result of the CECL adoption we recorded a transition adjustment of $50.7 million to retained earnings as of January 1, 2021 for the cumulative effect of the adoption of ASU 2016-13.

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

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

For more details on the impact and adoption of Topic 326 see later in this Note 1, Recent Accounting Pronouncements and Developments, and Note 6 - Allowance for Credit Losses, of this Annual Report on Form 10-K.

Allowance for Credit Losses Policy

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

The Company’s methodology for estimating the ACL includes:

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

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

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

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

“Other” Segmented Pool

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

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

- The status of a bankruptcy proceeding
- The value of collateral and probability of successful liquidation; and/or
- The status of adverse proceedings or litigation that may result in collection

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

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

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

Troubled Debt Restructurings (“TDRs”): In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms have historically included interest only periods, extended amortization periods beyond what management would typically offer for a similar loan or a below market interest rate when compared to management's underwriting standards for a similar loan type. These concessions are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of interest, management measures any impairment on the restructuring as noted above for impaired loans.

On March 22, 2020, a regulatory interagency statement was issued by our banking regulators that encouraged financial institutions to work with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) further provided that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act terminates. The provisions of the CARES Act dealing with temporary relief from TDR was extended pursuant to the Consolidated Appropriations Act, of 2021 (the “CAA”), which was signed into law on December 27, 2020. The amendment extended the applicable period to the earlier of January 1, 2022 or 60 days after the date on which the national emergency concerning the COVID-19 pandemic terminates.

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

Advertising Costs: We expense all marketing-related costs, including advertising costs, as incurred. Advertising expense was $1.0 million, $1.6 million, and $1.4 million for the years ended 2021, 2020, and 2019, respectively.

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

Bank Premises and Equipment: Bank premises and equipment acquired are stated at cost, less accumulated depreciation. Depreciation is charged to operating expenses over the estimated useful life of the assets by the straight-line method. Land is carried at cost. Costs of maintenance or repairs are charged to expense as incurred and improvements are capitalized. Upon retirement or disposal of an asset, the asset and related allowance account are eliminated. Any gain or loss on such transactions is included in current operations. Depreciation expense is included under occupancy expense, net in the Consolidated Statements of Income (Loss) totaling $6.2 million in 2021, $6.1 million in 2020, and $5.3 million in 2019. The estimated useful life for bank premises ranges from 5 to 40 years and equipment depreciates over a 3 to 10-year period.

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

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

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

Other Real Estate Owned ("OREO"): Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure, which establishes a new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the ACL. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. In addition, any retail branch locations closed for branch operations and marketed for sale are also moved to OREO from bank premises and equipment. This real estate is initially valued based on recent comparative market values received from a real estate broker and any necessary write-downs are charged to operations. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its carrying value or fair value less cost to sell. OREO assets are revalued every twelve 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. Operating costs after acquisition are expensed.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating losses, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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

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

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

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

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

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

The unprecedented decline in economic conditions triggered by the COVID-19 pandemic caused a significant decline in stock market valuations in March 2020, including our stock price. These triggering events indicated that goodwill related to our single reporting unit may be impaired and we expected to evaluate goodwill for impairment quarterly given the current environment.

During the first quarter of 2020, with the recent volatility in the financial services industry and in our economic environment we determined it prudent to have a full goodwill impairment analysis performed as of March 31, 2020 updated as of June 30, 2020. We performed the goodwill impairment test by determining the fair value of the reporting unit. We engaged a third-party financial advisor to prepare the market and income approaches in order to determine fair value. Their analysis supported the conclusion that the fair value of our common stock at June 30, 2020 was greater than both stated and tangible common book value and therefore no impairment to the goodwill was recorded at June 30, 2020.

As we monitored our performance due to the COVID-19 pandemic and continued to experience declines in our stock price in relation to other bank indices and the length of time that the market value of the reporting unit had been below its book value, we completed another interim quantitative goodwill impairment analysis as of September 30, 2020. Various valuation methodologies were considered when completing the quantitative impairment test to determine the estimated fair value of the reporting unit which is then compared to its carrying value, including goodwill. Upon completing the quantitative impairment analysis as of September 30, 2020, the analysis estimated fair value of the reporting unit to be less than the carrying value. Therefore, we recorded a goodwill impairment of $62.2 million, which represented the entire amount of goodwill allocated to the reporting unit. This was a non-cash charge to earnings and had no impact on our regulatory capital ratios, cash flows, liquidity position, or our overall financial strength.

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

Stock-Based Compensation: Compensation cost is recognized for restricted stock awards issued to associates and non-associate directors, based on the fair value of these awards at the date of the grant. The market price of the Company’s common stock at the date of the grant is the fair value of the award.

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

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the financial statements. Legal costs related to loss contingencies are expensed as incurred.

Fair Value Measurements

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

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

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

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

OREO: OREO is evaluated at the time of acquisition and is recorded at fair value as determined by an appraisal or evaluation, less costs to sell. After acquisition, most OREO assets are revalued every twelve months, or more frequently when deemed necessary by management based upon changes in market or collateral conditions. For smaller OREO assets with existing carrying values less than $0.5 million, management may elect to re-value the assets, at minimum, once every twenty-four months based on the size of the exposure. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets marked to fair value are classified as Level 3. At December 31, 2021 OREO assets were in compliance with the OREO policy as set forth above, and substantially all of the assets were listed for sale with credible third-party real estate brokers.

Financial Instruments

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

Recent Accounting Pronouncements and Developments

Newly Adopted Pronouncements in 2021

In December 2019, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in this ASU simplifies the accounting for income taxes by removing certain exceptions and improves the consistent application of GAAP by clarifying and amending other existing guidance. The amendments in this ASU became effective on January 1, 2021 and did not have any material impact on our Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", universally referred to as CECL. The amendments in this ASU, among other things, requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today are still permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For periodic report filers that are not smaller reporting companies, such as the Company, this standard (Topic 326) was effective as of January 1, 2020.

The Company elected to take advantage of Section 4014 of the CARES Act provision to temporarily delay adoption of the CECL methodology. The Company was subject to the adoption of the CECL accounting method under FASB ASU 2016-03 and related amendments, Financial Instruments – Credit Losses (Topic 326). The CARES Act allowed companies to defer the implementation of CECL until the earlier of when the national emergency related to the outbreak of COVID-19 ends or December 31, 2020, which was later extended to January 1, 2022 pursuant to the CAA. The Company adopted the CECL accounting method as of January 1, 2021 as allowed under the provisions of the CARES Act. The Bank's CECL Committee, which includes members from Credit Administration, Accounting/Finance, Risk Management and Internal Audit, has oversight by the Chief Executive Officer, Chief Financial Officer, and Chief Credit Officer. We engaged a third-party to assist us in developing our CECL model and to assist with evaluation of data and methodologies related to this standard.

As part of its process of adopting the CECL accounting method, management implemented a third party software solution and determined appropriate loan segments, methodologies, model assumptions and qualitative components. Our CECL model includes portfolio loan segmentation based upon similar risk characteristics and both a quantitative and qualitative component of the calculation which incorporates a forecasting component of certain economic variables. Our implementation plan also includes the assessment and documentation of appropriate processes, policies and internal controls. Management had a third party independent consultant review and validate our CECL model.

In addition, Topic 326 amends the accounting for credit losses on certain debt securities. The Company did not record any ACL on its debt securities as a result of adopting Topic 326.

The ultimate impact of adopting Topic 326, and at each subsequent reporting period, is highly dependent on credit quality, macroeconomic forecasts and conditions, composition of our loans and available-for-sale securities portfolio, along with other management judgments. The Company adopted Topic 326 using the modified retrospective method. Results for reporting periods beginning after January 1, 2021 are presented under Topic 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. We made the accounting policy election to not measure an ACL for accrued interest receivables for loans and securities. Accrued interest deemed uncollectible will be written off through interest income.

In connection with our adoption of Topic 326, we made changes to our loan portfolio segments to align with the methodology applied in determining the allowance under CECL. Refer to Note 6, Allowance for Credit Losses, for further discussion of these portfolio segments. Our new segmentation breaks out Other loans from our original loan segments: Commercial Real Estate ("CRE"), Commercial and Industrial ("C&I"), Residential Mortgages and Construction. Other loans include unique risk attributes considered inconsistent with current underwriting standards. The Company recorded a net decrease to retained earnings of $50.7 million as of January 1, 2021 for the cumulative effect of adopting Topic 326.

The following table illustrates the impact of the ACL Topic 326:

	January 1, 2021		
(Dollars in Thousands)	**As Reported Under Topic 326**	**Pre Topic 326**	**Impact of Topic 326 Adoption**
Allowance for Credit Losses on Loans:			
Commercial Real Estate	$ (41,458)	$ (34,871)	$ (6,587)
Commercial and Industrial	(4,071)	(2,692)	(1,379)
Obligations of States and Political Subdivisions	(951)	(951)	—
Residential Mortgages	(5,356)	(2,000)	(3,356)
Other Consumer	(1,602)	(2,479)	877
Construction	(6,277)	(6,357)	80
Other Segment	(56,001)	(4,724)	(51,277)
Allowance for Credit Losses on Loans	**$ (115,716)**	**$ (54,074)**	**$ (61,642)**
Assets:			
Total Loans Held for Investments, net	$ 2,831,454	$ 2,893,096	$ (61,642)
Net deferred tax asset	21,413	7,589	13,824
Liabilities:			
Allowance for Credit Losses on Unfunded Loan Commitments	3,052	144	2,908
Equity:			
Retained Earnings	203,885	254,611	(50,726)

Accounting Statements Issued but Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this ASU provide optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from the London Interbank Offered Rate (“LIBOR”) toward new interest rate benchmarks. Modified contracts that meet certain scope guidance are eligible for relief from the modification accounting requirements in U.S. GAAP. The optional guidance generally allows for the modified contract to be accounted for as a continuation of the existing contract and does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. The amendments in this ASU are effective for all entities between March 12, 2020 and December 31, 2022.

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

In response, we have created an internal team that is managing our transition away from LIBOR. This transition team is a cross-functional group comprised of representatives from the lending lines of business, as well as representatives from loan operations, information technology, finance and other support functions. To date, the transition team has completed an assessment of tasks needed for a successful transition, identified contracts that contain LIBOR language, and documented the risks associated with the transition. The team is currently in the process of: i) reviewing existing contract language for the presence of appropriate fallback rate language, ii) developing loan fallback rate language for when LIBOR is retired if needed, and iii) studying industry best practices. We are considering SOFR and other credit-sensitive alternative indices that may gain market acceptance as potential replacements to LIBOR. The financial impact regarding pricing, valuation and operations of the transition is not expected to be material in nature. Our transition team is fully committed to working within the guidelines established by the FCA and ARRC to provide a smooth transition away from LIBOR.

As of December 31, 2021, approximately 16.7% of our loan portfolio consists of loans whose variable rate index is LIBOR. We ceased originating new LIBOR based variable rate loans as of December 31, 2021 per the ARRC's guidance.

NOTE 2 – EARNINGS (LOSS) PER SHARE

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

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

	Years ended December 31,		
(Dollars in Thousands, except share and per share data)	**2021**	**2020**	**2019**
Numerator for Earnings (Loss) per Share - Basic and Diluted			
Net Income (Loss)	$ 31,590	$ (45,858)	$ 26,575
Less: Income allocated to participating shares	127	—	66
Net Income (Loss) Allocated to Common Shareholders - Basic & Diluted	**$ 31,463**	**$ (45,858)**	**$ 26,509**
Denominators:			
Weighted Average Shares Outstanding, including Shares Considered Participating Securities	26,449,438	26,379,774	26,323,899
Less: Average Participating Securities	106,709	—	65,323
Weighted Average Common Shares Outstanding - Basic & Diluted	**$ 26,342,729**	**$ 26,379,774**	**$ 26,258,576**
Earnings (Loss) per Common Share-Basic	$ 1.19	$ (1.74)	$ 1.01
Earnings (Loss) per Common Share-Diluted	$ 1.19	$ (1.74)	$ 1.01

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 share calculation. As a result of the net loss for the full year December 31, 2020, all average participating shares outstanding are considered anti-dilutive to loss per share.

NOTE 3 - RESTRICTIONS ON CASH AND DUE FROM BANK ACCOUNTS

The Board of Governors of the FRB imposes certain reserve requirements on all depository institutions. These reserves are maintained in the form of vault cash or as an interest-bearing balance with the FRB. The Company had no required reserves for 2021 and averaged $3.7 million and $44.3 million for 2020 and 2019, respectively. The average of required reserves declined during 2021 and 2020 as a result of the implementation of a new deposit management tool.

NOTE 4 - INVESTMENT SECURITIES

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

	December 31, 2021			
(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Securities	$ 4,442	$ —	$ (29)	$ 4,413
U.S. Government Agency Securities	3,475	3	—	3,478
Residential Mortgage-Backed Securities	112,118	76	(2,181)	110,013
Commercial Mortgage-Backed Securities	4,155	53	(40)	4,168
Asset Backed Securities	82,119	49	(305)	81,863
Collateralized Mortgage Obligations	287,734	2,190	(2,310)	287,614
Small Business Administration	108,643	879	(608)	108,914
States and Political Subdivisions	257,810	6,344	(1,952)	262,202
Corporate Notes	59,750	375	(390)	59,735
Total Debt Securities	**$ 920,246**	**$ 9,969**	**$ (7,815)**	**$ 922,400**

	December 31, 2020			
(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential Mortgage-Backed Securities	$ 44,057	$ 1,008	$ (341)	$ 44,724
Commercial Mortgage-Backed Securities	5,194	253	—	5,447
Asset Backed Securities	133,672	884	(999)	133,557
Collateralized Mortgage Obligations	212,751	6,007	(399)	218,359
Small Business Administration	99,604	346	(805)	99,145
States and Political Subdivisions	239,251	13,490	(119)	252,622
Corporate Notes	24,250	582	(7)	24,825
Total Debt Securities	**$ 758,779**	**$ 22,570**	**$ (2,670)**	**$ 778,679**

The Company did not have securities classified as held-to-maturity at December 31, 2021 or December 31, 2020.

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

	Years ended December 31,		
(Dollars in Thousands)	2021	2020	2019
Proceeds from Sales of Securities Available-for-Sale	**$ 197,056**	**$ 188,169**	**$ 390,548**
Gross Realized Gains	$ 7,080	$ 6,957	$ 4,172
Gross Realized Losses	(211)	(75)	(1,967)
Net Realized Gains	**$ 6,869**	**$ 6,882**	**$ 2,205**
Tax Impact	**$ 1,443**	**$ 1,445**	**$ 463**

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

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

	December 31, 2021	
(Dollars in Thousands)	Amortized Cost	Fair Value
Due in One Year or Less	$ 730	$ 731
Due after One Year through Five Years	2,856	2,885
Due after Five Years through Ten Years	200,895	201,970
Due after Ten Years	229,639	233,156
Residential Mortgage-Backed Securities	112,118	110,013
Commercial Mortgage-Backed Securities	4,155	4,168
Collateralized Mortgage Obligations	287,734	287,614
Asset Backed Securities	82,119	81,863
Total Securities	**$ 920,246**	**$ 922,400**

At December 31, 2021 and December 31, 2020, there were no holdings of securities of any one issuer, other than those securities issued by or collateralized by the U.S. Government and its Agencies, in an amount greater than 10% of shareholders' equity. The carrying value of securities pledged for various regulatory and legal requirements was $178.6 million at December 31, 2021 and $146.0 million at December 31, 2020.

Available-for-sale securities with unrealized losses at December 31, 2021 and 2020, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, were as follows:

	December 31, 2021								
	Less Than 12 Months			12 Months or More			Total		
(Dollars in Thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury Securities	2	$ 4,413	$ (29)	—	$ —	$ —	2	$ 4,413	$ (29)
U.S. Government Agency Securities	1	1,733	—	—	—	—	1	1,733	—
Residential Mortgage-Backed Securities	30	95,749	(2,030)	7	8,706	(151)	37	104,455	(2,181)
Commercial Mortgage-Backed Securities	1	1,987	(40)	—	—	—	1	1,987	(40)
Asset Backed Securities	17	44,095	(129)	10	21,895	(176)	27	65,990	(305)
Collateralized Mortgage Obligations	50	157,630	(1,945)	11	24,849	(365)	61	182,479	(2,310)
Small Business Administration	11	18,813	(235)	53	19,630	(373)	64	38,443	(608)
States and Political Subdivisions	56	88,746	(1,503)	8	7,874	(449)	64	96,620	(1,952)
Corporate Notes	10	29,683	(317)	1	2,427	(73)	11	32,110	(390)
Total Debt Securities	**178**	**$ 442,849**	**$ (6,228)**	**90**	**$ 85,381**	**$ (1,587)**	**268**	**$ 528,230**	**$ (7,815)**

	December 31, 2020								
	Less Than 12 Months			12 Months or More			Total		
(Dollars in Thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Residential Mortgage-Backed Securities	7	$ 21,109	$ (339)	3	$ 40	$ (2)	10	$ 21,149	$ (341)
Asset Backed Securities	11	23,653	(219)	27	61,599	(780)	38	85,252	(999)
Collateralized Mortgage Obligations	13	48,318	(212)	14	38,615	(187)	27	86,933	(399)
Small Business Administration	7	10,444	(53)	73	47,371	(752)	80	57,815	(805)
States and Political Subdivisions	12	12,558	(119)	—	—	—	12	12,558	(119)
Corporate Notes	1	2,493	(7)	—	—	—	1	2,493	(7)
Total Debt Securities	**51**	**$ 118,575**	**$ (949)**	**117**	**$ 147,625**	**$ (1,721)**	**168**	**$ 266,200**	**$ (2,670)**

The Company adopted Topic 326, Financial Instruments—Credit Losses (Topic 326) on January 1, 2021 and did not record an ACL on its investment securities during the year ended December 31, 2021 as the Company did not have securities classified as held-to-maturity at December 31, 2021. 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.

Securities are evaluated for OTTI quarterly and more frequently if economic or market concerns warrant. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, the credit quality of the issuer, and whether the Company intends to sell the security or may be required to sell the security prior to maturity. The Company has reviewed all securities for OTTI.

As of December 31, 2021 and December 31, 2020, no OTTI has been identified for any investment securities in our portfolio. We do not believe any individual unrealized loss as of December 31, 2021 represents an OTTI. At December 31, 2021 there were 268 securities in an unrealized loss position and at December 31, 2020 there were 168 securities in an unrealized loss position. The unrealized losses on debt securities were primarily attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. We generally do not intend to sell and it is not likely that we will be required to sell any of the securities in an unrealized loss position before recovery of amortized cost.

NOTE 5 – LOANS AND LOANS HELD-FOR-SALE

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

	December 31,	
(Dollars in Thousands)	2021	2020
Commercial		
Commercial Real Estate	$ 1,323,252	$ 1,453,799
Commercial and Industrial	345,376	557,164
Total Commercial Loans	**1,668,628**	**2,010,963**
Consumer		
Residential Mortgages	457,988	472,170
Other Consumer	44,666	57,647
Total Consumer Loans	**502,654**	**529,817**
Construction	282,947	406,390
Other[(1)]	357,900	—
Total Portfolio Loans	**2,812,129**	**2,947,170**
Loans Held-for-Sale	228	25,437
Loans Held-for-Sale in Connection with Sale of Bank Branches, at the lower of cost or fair value	—	9,835
Total Loans	**$ 2,812,357**	**$ 2,982,442**

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

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, geography, collateral and industry while actively managing concentrations. When concentrations exist in certain segments, this risk is mitigated by reviewing the relevant economic indicators and internal risk rating trends of the loans in these segments. The Company has 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. In addition, there are specific limits in place for various categories of real estate loans with regards to loan-to-value ratios, loan terms, and amortization periods. We also have policy limits on loan-to-cost for construction projects.

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.

In connection with our adoption of Topic 326, we made changes to our loan portfolio segments to align with the methodology applied in determining the allowance under CECL. Our new segmentation breaks out Other loans from our original loan segments: CRE, C&I, Construction and Residential Mortgages. At January 1, 2021 related to the adoption of Topic 326, the initial break-out of other loans totaled $379.9 million consisting of loans that would otherwise have been included in the following loan segments: $140.8 million of CRE, $78.1 million of C&I, $50.8 million of Residential Mortgages and $110.2 million of Construction. This segment of loans includes unique risk attributes considered inconsistent with current underwriting standards. The analysis applied to the Other loans segment, at adoption, resulted in current expected credit losses of $51.3 million.

Deferred costs and fees included in the portfolio balances above were $4.5 million and $3.0 million at December 31, 2021 and December 31, 2020, respectively. Discounts on purchased 1-4 family loans included in the portfolio balances above were $190.6 thousand and $219.2 thousand at December 31, 2021 and December 31, 2020, respectively.

Mortgage loans held-for-sale were $0.2 million and $25.4 million as of December 31, 2021 and December 31, 2020, respectively. In addition to mortgage loans held-for-sale, the Company had $9.8 million in loans held-for-sale in connection with sale of Bank branches at December 31, 2020 that closed in the second quarter of 2021.

Troubled Debt Restructurings

The following table summarizes the TDRs as of the dates presented:

	December 31, 2021			December 31, 2020		
(Dollars in Thousands)	**Performing TDRs**	**Nonperforming TDRs**	**Total TDRs**	**Performing TDRs**	**Nonperforming TDRs**	**Total TDRs**
Commercial						
Commercial Real Estate	$ 2,679	$ 2,742	$ 5,421	$ 6,151	$ 21,667	$ 27,818
Commercial and Industrial	14	—	14	—	—	—
Total Commercial TDRs	**2,693**	**2,742**	**5,435**	**6,151**	**21,667**	**27,818**
Consumer						
Residential Mortgages	—	—	—	50,618	—	50,618
Other Consumer	—	—	—	—	—	—
Total Consumer TDRs	—	—	—	**50,618**	—	**50,618**
Construction	527	808	1,335	52,481	3,319	55,800
Other	169,372	—	169,372	—	—	—
Total TDRs(1)	**$ 172,592**	**$ 3,550**	**$ 176,142**	**$ 109,250**	**$ 24,986**	**$ 134,236**

(1) Refer to Note 1, Basis of Presentation for details of reclassification of our portfolio segments related to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

In order to maximize the collection of loan balances, the Company evaluates troubled loan accounts on a case-by-case basis to determine if a loan modification would be appropriate. Loan modifications may be utilized when there is a reasonable chance that an appropriate modification would allow our client to continue servicing the debt. A loan is a TDR if both of the following exist: 1) the debtor is experiencing financial difficulties, and 2) a creditor has granted a concession to the debtor that it would not normally grant. Nonaccrual loans that are modified can be placed back on accrual status when both principal and interest are current and it is probable that the Company will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement. As of December 31, 2021, there were minimal commitments to lend additional funds for loans identified as TDRs.

TDRs increased $41.9 million, or 31.2% to $176.1 million at December 31, 2021 compared to $134.2 million at December 31, 2020. The Company had $78.0 million new additions, primarily due to the restructured loans related to one large relationship, offset by $26.1 million of principal pay-downs and $10.0 million in charge-offs for the resolution of our two largest nonperforming credits during the year ended December 31, 2021. During the year ended December 31, 2021, the Company had six loans that were modified totaling $78.0 million. These loans were included in the Other category and restructured with enhanced pricing and collateral position of the relationships, during the third and fourth quarters of 2021. TDRs of $3.6 million and $25.0 million as of December 31, 2021 and December 31, 2020, respectively, were loans modified as TDRs that experienced a payment default subsequent to the rework date and were classified as nonperforming. During the year ended December 31, 2021, the Company modified no loans that constituted a TDR that had significant commitments to lend additional funds. During the year ended December 31, 2020, the Bank modified one loan totaling $3.1 million that constituted a TDR that had minimal commitments to lend additional funds.

There were no TDR payment defaults during the years ended December 31, 2021 and 2020. For purposes of this disclosure, a TDR payment default occurs when, within 12 months of the original TDR modification, either a full or partial charge-off occurs or a TDR becomes 90 days or more past due.

The specific reserve portion of the ACL on TDRs, if required, is determined by discounting the restructured cash flow at the original effective rate of the loan before modification or is based on the fair value of the collateral less cost to sell, if repayment of the loan is collateral dependent. If the resulting amount is less than the recorded book value, the Company either establishes a valuation allowance as a component of the ACL or charges off the individually evaluated loan balance if it determines that such amount is a quantifiable loss. This method is used consistently for all segments of the portfolio.

The following table presents nonperforming assets as of the dates presented:

	Nonperforming Assets	
(Dollars in Thousands)	**December 31, 2021**	**December 31, 2020**
Nonperforming Assets		
Nonaccrual loans	$ 3,847	$ 7,018
Nonaccrual TDRs	3,550	24,986
Total Nonaccrual Loans	**7,397**	**32,004**
Other Real Estate Owned, or (“OREO”)	10,916	15,722
Total Nonperforming Assets	**$ 18,313**	**$ 47,726**

As of December 31, 2021 and December 31, 2020, the Company had $254 thousand and $67 thousand, respectively, of residential real estate in the process of foreclosure. We also had $62 thousand at December 31, 2021 and $109 thousand at December 31, 2020 in residential real estate included in OREO.

Loans to principal officers, directors and their affiliates during 2021 were as follows:

(Dollars in Thousands)	**2021**
Beginning Balance	$ 39,205
Loans Associated with Retired Director and Affiliates	(37,017)
New Loans	768
Repayments	(331)
Balance at End of Year	**$ 2,625**

NOTE 6 - ALLOWANCE FOR CREDIT LOSSES

The Company maintains an ACL at a level determined to be adequate to absorb expected credit losses associated with the Company’s financial instruments over the life of those instruments as of the balance sheet date. Refer to Note 1, Basis of Presentation for details of reclassification of our portfolio segments related to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument. The Company develops and documents a systematic ACL methodology based on the following portfolio segments: 1) CRE, 2) 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 segmentation in the CECL model is different from the segmentation in the Incurred Loss model. The following is a discussion of the key risks by portfolio segment that management assesses in preparing the ACL.

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

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

Residential Mortgages are loans secured by first and second liens such as home equity loans, home equity lines of credit and 1-4 family residential mortgages, including purchase 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 acquisition loans without a defined source of amortization, and iv) loan structures on operating lines of credit dependent on the value of real estate rather than trading assets. Management continuously assesses underwriting standards, but significantly enhanced these standards in 2018. Our model is based on our best estimate of facts known with the most current information. Certain portions of the CECL model are inherently subjective and include, but are not limited to estimates with respect to: prepayment speeds, the timing of prepayments, potential losses given default, discount rates and the timing of future cash flows. Management utilizes widely published economic forecasts as the basis for the regression analysis used to estimate the probability of default in the baseline model. The peaks and troughs of these forecasts serve as guardrails for potential subjective adjustments. In addition to considering the outcomes based on the range of forecasts, management recognizes that the assumptions used in economic forecasts may not perfectly align with our market area, risk profile or unique attributes of our portfolio along with other important considerations. Severe changes in forecasts can also create significant variability and management must assess not only the absolute balance of reserves but also consider the appropriateness of the velocity of change. Therefore, management developed a framework to assess the tolerance and reasonableness of the CECL modeling process by challenging certain elements of the forecasts, when appropriate. These outcomes, known as “challenger models,” provide opportunities to examine and subjectively adjust the CECL model output and are designed to be counter cyclical, thereby reducing variability.

Credit Quality Indicators:

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

The Company has a loan review policy and an annual scope report that details the level of loan review for commercial loans in a given year. Primary objectives of loan reviews include the identification of emerging risks and patterns that might influence potential future losses. In concert with significant enhancements to the underwriting process, the scope of loan review has been broadened since 2019 to include assurance testing with respect to the accuracy of the underwriting function. Since 2020 and continuing into 2021, the Company used a four step approach for loan review in the following categories:

- A review of the largest twenty pass-rated loan relationships, which represents approximately a quarter of total loans;
- A sampling of new loans originated to include an examination of the evidence of appropriate approval, adherence to loan policy and the completeness and accuracy of the analysis contained in the approval document;
- A sampling of Large Loan Relationships (“LLRs”) which are defined as loan relationships with aggregate exposure of at least $2.0 million that are not part of the top twenty review; and
- Concentration focus reviews of identified segments that represent concentration risk, represented by collateral types including but not limited to hospitality, multifamily and retail with the goal of examining patterns of loss history, document exceptions, policy exceptions and emerging trends in risk characteristics.

The Company’s internally assigned grades are as follows:

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

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

Substandard – Assets that are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. Such assets are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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

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

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

				Risk Rating				
(Dollars in Thousands)	**2021**	**2020**	**2019**	**2018**	**2017**	**2016 and Prior**	**Revolving**	**Total**
Commercial Real Estate								
Pass	$ 195,441	$ 165,100	$ 215,575	$ 292,857	$ 115,024	$ 292,197	$ 38,382	$ 1,314,576
Special Mention	229	—	—	—	4,205	826	—	5,260
Substandard	—	—	314	2,742	215	145	—	3,416
Doubtful	—	—	—	—	—	—	—	—
Total Commercial Real Estate	**$ 195,670**	**$ 165,100**	**$ 215,889**	**$ 295,599**	**$ 119,444**	**$ 293,168**	**$ 38,382**	**$ 1,323,252**
Commercial and Industrial								
Pass	$ 55,173	$ 50,087	$ 15,648	$ 38,298	$ 23,575	$ 150,656	$ 3,857	$ 337,294
Special Mention		—	—	8	—	—	—	8
Substandard	14	—	308	4,815	2,798	—	139	8,074
Doubtful	—	—	—	—	—	—	—	—
Total Commercial and Industrial	**$ 55,187**	**$ 50,087**	**$ 15,956**	**$ 43,121**	**$ 26,373**	**$ 150,656**	**$ 3,996**	**$ 345,376**
Residential Mortgages								
Pass	$ 155,892	$ 91,023	$ 63,682	$ 73,333	$ 8,640	$ 48,087	$ 13,237	$ 453,894
Special Mention	—	—	—	—	—	553	—	553
Substandard	—	—	1,008	743	188	1,602	—	3,541
Doubtful	—	—	—	—	—	—	—	—
Total Residential Mortgages	**$ 155,892**	**$ 91,023**	**$ 64,690**	**$ 74,076**	**$ 8,828**	**$ 50,242**	**$ 13,237**	**$ 457,988**
Other Consumer								
Pass	$ 9,353	$ 10,199	$ 979	$ 450	$ 186	$ 23,048	$ 339	$ 44,554
Special Mention	—	—	—	—	—	—	—	—
Substandard	11	3	11	57	30	—	—	112
Doubtful	—	—	—	—	—	—	—	—
Total Other Consumer	**$ 9,364**	**$ 10,202**	**$ 990**	**$ 507**	**$ 216**	**$ 23,048**	**$ 339**	**$ 44,666**
Construction								
Pass	$ 140,639	$ 82,523	$ 24,336	$ 9,739	$ 5,328	$ 3,407	$ 15,269	$ 281,241
Special Mention	—	—	175	—	—	429	—	604
Substandard	—	107	809	95	—	91	—	1,102
Doubtful	—	—	—	—	—	—	—	—
Total Construction	**$ 140,639**	**$ 82,630**	**$ 25,320**	**$ 9,834**	**$ 5,328**	**$ 3,927**	**$ 15,269**	**$ 282,947**
Other								
Pass	$ —	$ —	$ —	$ —	$ 122,848	$ 62,399	$ —	$ 185,247
Special Mention	—	—	—	—	—	3,281	—	3,281
Substandard	—	—	—	87,329	40,882	41,161	—	169,372
Doubtful	—	—	—	—	—	—	—	—
Total Other Loans	**$ —**	**$ —**	**$ —**	**$ 87,329**	**$ 163,730**	**$ 106,841**	**$ —**	**$ 357,900**
Total Portfolio Loans								
Pass	$ 556,498	$ 398,932	$ 320,220	$ 414,677	$ 275,601	$ 579,794	$ 71,084	$ 2,616,806
Special Mention	229	—	175	8	4,205	5,089	—	9,706
Substandard	25	110	2,450	95,781	44,113	42,999	139	185,617
Doubtful	—	—	—	—	—	—	—	—
Total Portfolio Loans	**$ 556,752**	**$ 399,042**	**$ 322,845**	**$ 510,466**	**$ 323,919**	**$ 627,882**	**$ 71,223**	**$ 2,812,129**

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

(Dollars in Thousands)	2021	2020	2019	2018	2017	2016 and Prior	Revolving	Total
Commercial Real Estate								
Performing	$ 195,670	$ 165,100	$ 215,575	$ 292,857	$ 119,229	$ 293,102	$ 38,382	$ 1,319,915
Nonperforming	—	—	314	2,742	215	66	—	3,337
Total Commercial Real Estate	**$ 195,670**	**$ 165,100**	**$ 215,889**	**$ 295,599**	**$ 119,444**	**$ 293,168**	**$ 38,382**	**$ 1,323,252**
Commercial and Industrial								
Performing	$ 55,187	$ 50,087	$ 15,648	$ 43,117	$ 26,373	$ 150,656	$ 3,857	$ 344,925
Nonperforming	—	—	308	4	—	—	139	451
Total Commercial and Industrial	**$ 55,187**	**$ 50,087**	**$ 15,956**	**$ 43,121**	**$ 26,373**	**$ 150,656**	**$ 3,996**	**$ 345,376**
Residential Mortgages								
Performing	$ 155,892	$ 91,023	$ 63,682	$ 73,564	$ 8,640	$ 49,399	$ 13,237	$ 455,437
Nonperforming	—	—	1,008	512	188	843	—	2,551
Total Residential Mortgages	**$ 155,892**	**$ 91,023**	**$ 64,690**	**$ 74,076**	**$ 8,828**	**$ 50,242**	**$ 13,237**	**$ 457,988**
Other Consumer								
Performing	$ 9,364	$ 10,202	$ 979	$ 450	$ 211	$ 23,048	$ 339	$ 44,593
Nonperforming	—	—	11	57	5	—	—	73
Total Other Consumer	**$ 9,364**	**$ 10,202**	**$ 990**	**$ 507**	**$ 216**	**$ 23,048**	**$ 339**	**$ 44,666**
Construction								
Performing	$ 140,639	$ 82,523	$ 24,511	$ 9,834	$ 5,328	$ 3,858	$ 15,269	$ 281,962
Nonperforming	—	107	809	—	—	69	—	985
Total Construction	**$ 140,639**	**$ 82,630**	**$ 25,320**	**$ 9,834**	**$ 5,328**	**$ 3,927**	**$ 15,269**	**$ 282,947**
Other								
Performing	$ —	$ —	$ —	$ 87,329	$ 163,730	$ 106,841	$ —	$ 357,900
Nonperforming	—	—	—		—	—	—	—
Total Other Loans	**$ —**	**$ —**	**$ —**	**$ 87,329**	**$ 163,730**	**$ 106,841**	**$ —**	**$ 357,900**
Total Portfolio Loans								
Performing	$ 556,752	$ 398,935	$ 320,395	$ 507,151	$ 323,511	$ 626,904	$ 71,084	$ 2,804,732
Nonperforming	—	107	2,450	3,315	408	978	139	7,397
Total Portfolio Loans	**$ 556,752**	**$ 399,042**	**$ 322,845**	**$ 510,466**	**$ 323,919**	**$ 627,882**	**$ 71,223**	**$ 2,812,129**

Age Analysis of Past-Due Loans by Class

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

	December 31, 2021					
(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	$ 1,319,686	$ 229	$ —	$ 229	$ 3,337	$ 1,323,252
Commercial & Industrial	344,628	80	217	297	451	345,376
Residential Mortgages	454,754	683	—	683	2,551	457,988
Other Consumer	44,132	367	94	461	73	44,666
Construction	281,962	—	—	—	985	282,947
Other	357,900	—	—	—	—	357,900
Total[(1)]	**$ 2,803,062**	**$ 1,359**	**$ 311**	**$ 1,670**	**$ 7,397**	**$ 2,812,129**

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

	December 31, 2020					
(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	$ 1,428,092	$ 3,487	$ 329	$ 3,816	$ 21,891	$ 1,453,799
Commercial & Industrial	556,324	194	190	384	456	557,164
Residential Mortgages	466,688	1,347	—	1,347	4,135	472,170
Other Consumer	56,890	278	295	573	184	57,647
Construction	400,775	193	91	284	5,331	406,390
Other	—	—	—	—	—	—
Total	**$ 2,908,769**	**$ 5,499**	**$ 905**	**$ 6,404**	**$ 31,997**	**$ 2,947,170**

Loans past due 90 days or more and still accruing were zero at December 31, 2021 and 2020. Loans past due 90 days are automatically transferred to nonaccrual status. Loans past due 30 to 89 days or more and still accruing decreased $4.7 million to $1.7 million at December 31, 2021 compared to $6.4 million at December 31, 2020, primarily in the commercial real estate segment.

There were no nonaccrual or past due loans related to loans held-for-sale in December 31, 2021. As of December 31, 2020 loans held-for-sale in connection with sale of Bank branches included $7 thousand in nonaccrual status and $7 thousand that were past due.

The following table presents loans on nonaccrual status and loans past due 90 days or more and still accruing by class of loan as of December 31, 2021. For the twelve months ended December 31, 2021, the amount of interest income on nonaccrual loans was immaterial. There were no loans at December 31, 2021 that were past due more than 90 days and still accruing.

	As of and for the December 31, 2021			
(Dollars in Thousands)	Beginning of Period Nonaccrual	End of Period Nonaccrual	Nonaccrual With No Related Allowance	Past Due 90+ Days Still Accruing
Commercial Real Estate	$ 21,891	$ 3,337	$ —	$ —
Commercial and Industrial	456	451	—	—
Residential Mortgages	4,135	2,551	—	—
Other Consumer	184	73	—	—
Construction	5,331	985	808	—
Other	—	—	—	—
Total Portfolio Loans	**$ 31,997**	**$ 7,397**	**$ 808**	**$ —**

A loan is considered impaired when it is transferred to nonaccrual status, or remains on accrual status, but is considered a TDR. Impaired loans with a commitment of $1.0 million or more are individually evaluated. During the year ended December 31, 2021, no material amount of interest income was recognized on individually evaluated loans subsequent to their classification as individually evaluated loans.

The following table presents the amortized cost basis of collateral-dependent individually evaluated loans as of December 31, 2021. Changes in the fair value of the types of collateral for individually evaluated loans are reported as credit loss expense or a reversal of credit loss expense in the period of change.

(Dollars in Thousands)	December 31, 2021 Real Estate
Commercial Real Estate	$ 2,742
Commercial and Industrial	—
Residential Mortgages	—
Other Consumer	—
Construction	808
Other	—
Total	**$ 3,550**

The following tables presents activity in the ACL and ALL for the periods presented:

(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other[1]	Total
	December 31, 2021						
Allowance for Credit Losses on Loans:							
Balance, Beginning of Year	$ 36,428	$ 5,064	$ 2,099	$ 2,479	$ 8,004	$ —	$ 54,074
Impact of CECL Adoption	6,587	1,379	3,356	(877)	(80)	51,277	61,642
Provision for Credit Losses on Loans	(6,215)	(2,249)	(982)	1,561	781	10,454	3,350
Charge-offs	(19,662)	(374)	(273)	(2,256)	(1,859)	—	(24,424)
Recoveries	159	291	168	586	93	—	1,297
Net (Charge-offs) / Recoveries	**(19,503)**	**(83)**	**(105)**	**(1,670)**	**(1,766)**	**—**	**(23,127)**
Balance, End of Year	**$ 17,297**	**$ 4,111**	**$ 4,368**	**$ 1,493**	**$ 6,939**	**$ 61,731**	**$ 95,939**

[1] In connection with our adoption of Topic 326, we made changes to our loan portfolio segments to align with the methodology applied in determining the allowance under CECL. Our new segmentation breaks out Other loans from our original loan segments: CRE, C&I, residential mortgages and construction. The allowance balance at the beginning of period was reclassified to Other from their original loan segments: CRE, C&I, residential mortgages and construction to conform to current presentation.

(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Total
	December 31, 2020					
Allowance for Credit Losses on Loans:						
Balance, Beginning of Year	$ 24,706	$ 3,601	$ 1,736	$ 3,299	$ 5,420	$ 38,762
Provision for Credit Losses on Loans	11,055	1,527	594	2,434	2,396	18,006
Charge-offs	(40)	(66)	(258)	(3,991)	—	(4,355)
Recoveries	707	2	27	737	188	1,661
Net (Charge-offs) / Recoveries	**667**	**(64)**	**(231)**	**(3,254)**	**$ 188**	**(2,694)**
Balance, End of Year	**$ 36,428**	**$ 5,064**	**$ 2,099**	**$ 2,479**	**$ 8,004**	**$ 54,074**

(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Total
	December 31, 2019					
Allowance for Credit Losses on Loans:						
Balance, Beginning of Year	$ 23,897	$ 1,058	$ 6,129	$ 2,728	$ 5,387	$ 39,199
Provision for Credit Losses on Loans	878	2,565	(4,205)	4,370	(204)	3,404
Charge-offs	(69)	(22)	(197)	(4,401)	(393)	(5,082)
Recoveries	—	—	9	602	630	1,241
Net (Charge-offs) / Recoveries	**(69)**	**(22)**	**(188)**	**(3,799)**	**237**	**(3,841)**
Balance, End of Year	**$ 24,706**	**$ 3,601**	**$ 1,736**	**$ 3,299**	**$ 5,420**	**$ 38,762**

The adoption of Topic 326 resulted in an increase to our ACL of $61.6 million on January 1, 2021. The Day 1 model introduced a segmented pool of loans for discrete analysis. This segmented pool had an aggregate principal balance of $379.9 million at January 1, 2021, the initial break-out, and included unique risk attributes considered inconsistent with current underwriting standards. The analysis applied to this pool resulted in expected credit losses of $51.3 million, at adoption, and is disclosed in the Other segment in the 2021 tables below.

Our CECL methodology introduced a modified discounted cash flow methodology based on expected cash flow changes in the future for the Other segment. A significant population of the Other segment was not impaired under the probable incurred loss model and therefore not subject to a collateral dependent specific reserve analysis. For the population of the Other segment that was impaired under the incurred loss model, based on collateral values, the specific reserves totaled zero. Certain portions of the CECL model are inherently subjective and include, but are not limited to, estimates with respect to: prepayment speeds, the timing of prepayments, potential losses given default, discount rates and the timing of future cash flows. Management utilizes widely published economic forecasts as the basis for the regression analysis used to estimate the probability of default in the baseline model. The peaks and troughs of these forecasts serve as guardrails for potential subjective adjustments. In addition to considering the outcomes based on the range of forecasts, management recognizes that the assumptions used in economic forecasts may not perfectly align with our market area, risk profile or unique attributes of our portfolio along with other important considerations. Severe changes in forecasts can also create significant variability and management must assess not only the absolute balance of reserves but also consider the appropriateness of the velocity of change. Therefore, management developed a framework to assess the tolerance and reasonableness of the CECL modeling process by challenging certain elements of the forecasts, when appropriate. These outcomes, known as “challenger models,” provide opportunities to examine and subjectively adjust the CECL model output and are designed to be counter cyclical, thereby reducing variability. An expected credit loss of $51.3 million upon adoption was established based on the discounted cash flow method with a discount rate, which was quantitatively adjusted.

The ACL increased $41.8 million to $95.9 million at December 31, 2021 compared to $54.1 million at December 31, 2020 primarily due to the Day 1 adoption of CECL of $61.6 million. During the year ended December 31, 2021 adjustments to the CECL model were made to account for additional potential deterioration in credit quality with respect to certain loans on deferral. Following the conclusion of the deferral program on June 30, 2021, management observed that $62.2 million of loans that were previously in the deferral program were recovering at rates much lower than peers. Accordingly, management attempted workout strategies with these clients. After workout strategies were exhausted unsatisfactorily, these loans were sold during the third and fourth quarters of 2021. During the third quarter of 2021, $50.2 million of loans were sold related to nine notes within two performing relationships that had been previously reserved and released. During the fourth quarter of 2021, we sold $12.0 million of loans related to two notes, which resulted in $2.2 million net charge-offs and added $0.5 million to provision expense.

The ACL was $95.9 million, or 3.41% of total portfolio loans at December 31, 2021, as compared to $54.1 million, or 1.83% of total portfolio loans, at December 31, 2020.

Net charge-offs were $23.1 million in 2021 as compared to $2.7 million in 2020. The increase in charge-offs of $20.4 million was primarily attributable to the resolution of five problem relationships during 2021, in which the majority were previously reserved. As a percentage of average total portfolio loans, net charge-offs were 0.79% and 0.09% for the years ended December 31, 2021 and December 31, 2020, respectively. Nonperforming loans as a percentage of total portfolio loans were 0.26% and 1.09% as of December 31, 2021 and December 31, 2020, respectively.

A release of $1.3 million was recorded in 2021 for the provision for unfunded commitments. Per the guidance related to CECL, unfunded loan commitments are included as part of the provision for credit losses rather than noninterest expense, where it was previously recorded.

The following tables represent credit exposures by internally assigned risk ratings as of December 31, 2021 and 2020:

	December 31, 2021						
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other	Total
Pass	$ 1,314,576	$ 337,294	$ 453,894	$ 44,554	$ 281,241	$ 185,247	$ 2,616,806
Special Mention	5,260	8	553	—	604	3,281	9,706
Substandard	3,416	8,074	3,541	112	1,102	169,372	185,617
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total Portfolio Loans	**$ 1,323,252**	**$ 345,376**	**$ 457,988**	**$ 44,666**	**$ 282,947**	**$ 357,900**	**$ 2,812,129**
Performing Loans	$ 1,319,915	$ 344,925	$ 455,437	$ 44,593	$ 281,962	$ 357,900	$ 2,804,732
Nonaccrual Loans	3,337	451	2,551	73	985	—	7,397
Total Portfolio Loans	**$ 1,323,252**	**$ 345,376**	**$ 457,988**	**$ 44,666**	**$ 282,947**	**$ 357,900**	**$ 2,812,129**

	December 31, 2020					
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Total
Pass	$ 1,281,106	$ 478,536	$ 415,773	$ 57,418	$ 289,781	$ 2,522,614
Special Mention	126,535	48	723	6	58,899	186,211
Substandard	46,158	78,580	55,674	223	57,710	238,345
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total Portfolio Loans	**$ 1,453,799**	**$ 557,164**	**$ 472,170**	**$ 57,647**	**$ 406,390**	**$ 2,947,170**
Performing Loans	$ 1,431,908	$ 556,708	$ 468,035	$ 57,463	$ 401,059	$ 2,915,173
Nonaccrual Loans	21,891	456	4,135	184	5,331	31,997
Total Portfolio Loans	**$ 1,453,799**	**$ 557,164**	**$ 472,170**	**$ 57,647**	**$ 406,390**	**$ 2,947,170**

Special mention, substandard and doubtful loans at December 31, 2021 decreased $229.2 million to $195.3 million compared to $424.5 million at December 31, 2020, with a decrease of $176.5 million in special mention and a decrease of $52.7 million in substandard. The variances between loan segments for the years ended 2021 and 2020 primarily relates to the Other loan segment breakout due to the adoption of CECL. The special mention decrease between 2021 and 2020 relates primarily to the restructuring of a loan relationship of $177.2 million in connection with the dismissal of a lawsuit disclosed in the second quarter 2021 Form 10-Q and on Form 8-K dated September 8, 2021. The Bank believes that it is fully secured on all loans outstanding related to the lawsuit with an enhanced collateral position, including cross-collateralizations and executed documents reaffirming the legality, validity and binding nature of all loan documents that were executed in favor the the Bank. The decrease in substandard from the year ended December 31, 2020 is primarily due to payoffs and charge-offs totaling $55.7 on five large commercial relationships.

At December 31, 2020 $7 thousand of loans with a risk rating of substandard were held-for-sale in connection with the sale of Bank branches.

Prior to the adoption of Topic 326 on January 1, 2021, we calculated our ALL using an incurred loan loss methodology. The following tables are disclosures related to the allowance for credit losses in prior periods.

The following tables present the balances in the ACL and the recorded investment in the loan balances based on impairment method as of December 31, 2020 and 2019.

	December 31, 2020					
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Total
Allowance for Loan Losses on Loans:						
Individually Evaluated for Impairment	$ 13,773	$ —	$ —	$ —	$ 1,477	$ 15,250
Collectively Evaluated for Impairment	22,655	5,064	2,099	2,479	6,527	38,824
Total Allowance for Loan Losses	**$ 36,428**	**$ 5,064**	**$ 2,099**	**$ 2,479**	**$ 8,004**	**$ 54,074**
Total Portfolio Loans:						
Individually Evaluated for Impairment	$ 27,666	$ —	$ 50,618	$ —	$ 56,987	$ 135,271
Collectively Evaluated for Impairment	1,426,133	557,164	421,552	57,647	349,403	2,811,899
Total Portfolio Loans	**$ 1,453,799**	**$ 557,164**	**$ 472,170**	**$ 57,647**	**$ 406,390**	**$ 2,947,170**

The recorded investment in loans excludes accrued interest receivable. Individually evaluated impaired loans do not include certain TDR loans which are less than $1.0 million.

The following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance, if applicable, at December 31, 2020 and 2019.

	December 31, 2020				
(Dollars in Thousands)	Unpaid Principal Balance	Recorded Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a Specific Valuation Allowance:					
Commercial Real Estate	$ 3,236	$ 3,236	$ —	$ 4,201	$ 128
Construction	55,248	55,248	—	56,941	1,871
Residential Mortgages	50,618	50,618	—	51,716	1,906
Loans with a Specific Valuation Allowance:					
Commercial Real Estate	24,430	24,430	13,773	27,780	163
Commercial and Industrial	—	—	—	184	—
Construction	1,739	1,739	1,477	1,739	—
Total by Category:					
Commercial Real Estate	27,666	27,666	13,773	31,981	291
Commercial and Industrial	—	—	—	184	—
Construction	56,987	56,987	1,477	58,680	1,871
Residential Mortgages	50,618	50,618	—	51,716	1,906
Total Impaired Loans	**$ 135,271**	**$ 135,271**	**$ 15,250**	**$ 142,561**	**$ 4,068**

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

	December 31, 2019				
(Dollars in Thousands)	Unpaid Principal Balance	Recorded Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a Specific Valuation Allowance:					
Commercial Real Estate	$ 4,487	$ 4,487	$ —	$ 5,885	$ 131
Construction	59,053	59,053	—	59,558	3,056
Residential Mortgages	52,966	52,966	—	57,079	5,862
Loans with a Specific Valuation Allowance:					
Commercial Real Estate	28,769	28,769	5,779	31,201	—
Commercial and Industrial	390	390	390	434	—
Construction	—	—	—	1,716	—
Total by Category:					
Commercial Real Estate	33,256	33,256	5,779	37,086	131
Commercial and Industrial	390	390	390	434	—
Construction	59,053	59,053	—	61,274	3,056
Residential Mortgages	52,966	52,966	—	57,079	5,862
Total Impaired Loans	**$ 145,665**	**$ 145,665**	**$ 6,169**	**$ 155,873**	**$ 9,049**

NOTE 7 - FAIR VALUE MEASUREMENTS

Financial assets measured at fair value on a recurring basis at December 31, 2021 are summarized below:

	December 31, 2021			
(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				
Securities Available-for-Sale:				
U.S. Treasury Securities	$ 4,413	$ 4,413	$ —	$ —
U.S. Government Agency Securities	3,478	—	3,478	—
Residential Mortgage-Backed Securities	110,013	—	110,013	—
Commercial Mortgage-Backed Securities	4,168	—	4,168	—
Asset Backed Securities	81,863	—	81,863	—
Collateralized Mortgage Obligations	287,614	—	287,614	—
Small Business Administration	108,914	—	108,914	—
States and Political Subdivisions	262,202	—	262,202	—
Corporate Notes	59,735	—	51,177	8,558
Total Securities Available-for-Sale	922,400	4,413	909,429	8,558
Derivatives	3,508	—	3,508	—
Total	**$ 925,908**	**$ 4,413**	**$ 912,937**	**$ 8,558**
Liabilities				
Derivatives	$ 3,682	$ —	$ 3,682	$ —
Total	**$ 3,682**	**$ —**	**$ 3,682**	**$ —**

Financial assets measured at fair value on a recurring basis at December 31, 2020 are summarized below:

	December 31, 2020			
(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				
Securities Available-for-Sale:				
Residential Mortgage-Backed Securities	$ 44,724	$ —	$ 44,724	$ —
Commercial Mortgage-Backed Securities	5,447	—	5,447	—
Asset Backed Securities	133,557	—	133,557	—
Collateralized Mortgage Obligations	218,359	—	218,359	—
Small Business Administration	99,145	—	99,145	—
States and Political Subdivisions	252,622	—	252,622	—
Corporate Notes	24,825	—	14,462	10,363
Total Securities Available-for-Sale	778,679	—	768,316	10,363
Derivatives	4,493	—	4,493	—
Total	**$ 783,172**	**$ —**	**$ 772,809**	**$ 10,363**
Liabilities				
Derivatives	$ 4,756	$ —	$ 4,756	$ —
Total	**$ 4,756**	**$ —**	**$ 4,756**	**$ —**

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2021 or December 31, 2020.

We have invested in subordinated debt of other financial institutions. We have two securities totaling $8.6 million that are considered to be Level 3 securities at December 31, 2021 and two totaling $10.4 million at December 31, 2020. The change in the fair value of Level 3 securities available-for-sale from $10.4 million at December 31, 2020 to $8.6 million at December 31, 2021 is attributable to a new security in the second quarter of 2021 for $3.5 million offset by the calculated change in fair value of $0.3 million and the call of a security totaling $5.0 million. The Level 3 fair value is benchmarked to other securities that have observable market values in Level 2 using comparable financial ratio analysis specific to the industry in which the underlying company operates. The underwriting includes considerations of capital adequacy, asset quality trends, management's ability to continue efficient and profitable operations, the institution's core earnings ability, liquidity management platform and current on and off-balance sheet interest rate risk exposures.

Financial assets measured at fair value on a nonrecurring basis at December 31, 2021 and 2020 are summarized below:

	December 31, 2021			
(Dollars in Thousands)	Level 1	Level 2	Level 3	Fair Value
OREO	$ —	$ —	$ 10,916	$ 10,916
Individually Evaluated Loans	$ —	$ —	$ 1,777	$ 1,777

	December 31, 2020			
(Dollars in Thousands)	Level 1	Level 2	Level 3	Fair Value
OREO	$ —	$ —	$ 15,722	$ 15,722
Impaired Loans	$ —	$ —	$ 10,919	$ 10,919

Individually evaluated loans had a net carrying amount of $1.8 million at December 31, 2021 with a valuation allowance of $1.0 million. Impaired loans had a net carrying amount of $10.9 million at December 31, 2020 with a valuation allowance of $15.3 million.

OREO, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of $10.9 million as of December 31, 2021, compared with $15.7 million at December 31, 2020. Write-downs of $3.5 million were recorded on OREO for the year ended December 31, 2021 compared to $1.5 million for the year ended December 31, 2020.

The following tables summarize the Company’s assets that were measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020:

			December 31, 2021		
(Dollars in Thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Weighted Range**	**Average**
Assets					
Impaired Loans	$ 1,777	Discounted Appraisals	Management's Discount & Estimated Selling Costs	53.0 %	53.0 %
Total Impaired Loans	**$ 1,777**				
Other Real Estate Owned	$ 9,946	Appraisals	Estimated Selling Costs	10.0 %	10.0 %
Other Real Estate Owned	190	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %
Other Real Estate Owned	780	Discounted Internal Valuations	Management’s Discount & Estimated Selling Costs	5.0 % — % 50.7 %	20.3 %
Total Other Real Estate Owned	**$ 10,916**				

			December 31, 2020		
(Dollars in Thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Weighted Range**	**Average**
Assets					
Impaired Loans	$ 1,163	Discounted Appraisals	Estimated Selling Costs	43.0 %	43.0 %
Impaired Loans	$ 9,494	Discounted Appraisals	Estimated Selling Costs & Qualitative Adjustments	12.0 % — % 50.0 %	33.2 %
Impaired Loans	262	Discounted Appraisals	Estimated Selling Costs	20.9 %	20.9 %
Total Impaired Loans	**$ 10,919**				
Other Real Estate Owned	$ 11,972	Appraisals	Estimated Selling Costs	6.0 % — % 10.0 %	6.5 %
Other Real Estate Owned	1,260	Discounted Cash Flow	Discount Rate	6.3 %	6.3 %
Other Real Estate Owned	1,583	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %
Other Real Estate Owned	907	Discounted Internal Valuations	Management’s Discount & Estimated Selling Costs	33.7 % — % 73.5 %	55.5 %
Total Other Real Estate Owned	**$ 15,722**				

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 judgement to adjust the baseline discount rate when appropriate.

The carrying values and estimated fair values of our financial instruments at December 31, 2021 and December 31, 2020 are presented in the following tables. Fair values for December 31, 2021 and December 31, 2020 are estimated under the exit price notion in accordance with ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.”

GAAP requires disclosure of fair value information about financial instruments carried at book value on the Consolidated Balance Sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

		Fair Value Measurements at December 31, 2021			
(Dollars in Thousands)	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Cash Equivalents	$ 277,799	$ 36,698	$ 241,101	$ —	$ 277,799
Securities Available-for-Sale	922,400	4,413	909,429	8,558	922,400
Loans Held-for-Sale	228	—	—	228	228
Portfolio Loans, net	2,716,190	—	—	2,689,578	2,689,578
Federal Home Loan Bank Stock, at Cost	2,352	—	—	NA	NA
Other Assets- Interest Rate Derivatives	3,508	—	3,508	—	3,508
Accrued Interest Receivable	17,178	17	3,462	13,699	17,178
Financial Liabilities:					
Deposits	$ 3,698,476	$ 747,909	$ 1,606,249	$ 1,369,228	$ 3,723,386
Other Liabilities- Interest Rate Derivatives	3,682	—	3,682	—	3,682
FHLB Borrowings	7,000	—	—	7,035	7,035
Accrued Interest Payable	1,378	—	—	1,378	1,378

		Fair Value Measurements at December 31, 2020			
(Dollars in Thousands)	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Cash Equivalents	$ 241,942	$ 38,535	$ 203,407	$ —	$ 241,942
Securities Available-for-Sale	778,679	—	768,316	10,363	778,679
Loans Held-for-Sale	25,437	—	—	25,437	25,437
Portfolio Loans, net	2,893,096	—	—	2,854,244	2,854,244
Loans Held-for-Sale in Connection with Sale of Bank Branches, at the lower cost or fair value	9,835	—	—	9,835	9,835
Federal Home Loan Bank Stock, at Cost	5,093	—	—	NA	NA
Other Assets- Interest Rate Derivatives	4,493	—	4,493	—	4,493
Accrued Interest Receivable	32,157	—	2,887	29,270	32,157
Financial Liabilities:					
Deposits	$ 3,599,911	$ 699,229	$ 1,285,912	$ 1,640,587	$ 3,625,728
Deposits Held for Assumption in Connection with Sale of Bank Branches	84,717	9,506	18,699	56,512	84,717
Other Liabilities- Interest Rate Derivatives	4,756	—	4,756	—	4,756
FHLB Borrowings	35,000	—	—	35,461	35,461
Accrued Interest Payable	2,131	—	—	2,131	2,131

NOTE 8 - PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation as follows:

	December 31,	
(Dollars in Thousands)	2021	2020
Land	$ 20,763	$ 27,673
Bank Premises	55,463	60,571
Furniture and Equipment	34,529	31,339
Leasehold Improvements	854	613
Total Premises and Equipment	**111,609**	**120,196**
Accumulated Depreciation	(36,312)	(34,889)
Total	**$ 75,297**	**$ 85,307**

At December 31, 2021, we had no bank premises and equipment held-for-sale and $2.3 million at December 31, 2020.

Depreciation expense is included under occupancy expense, net in the Consolidated Statements of Income (Loss) totaling $6.2 million in 2021, $6.1 million in 2020, and $5.3 million in 2019.

Real estate on closed branches was valued based on recent comparative market values received from a real estate broker. Write-downs in the amount of $3.2 million, $1.1 million and $0.8 million were recognized during 2021, 2020 and 2019, respectively. The net remaining carrying value of $1.0 million and $2.5 million is classified as held-for-sale in OREO in the Consolidated Balance Sheets as of December 31, 2021 and 2020, respectively.

The Company leases offices from non-related parties under various terms, some of which contain contingent rentals tied to a price index. Rental expense for these leases was $72 thousand in 2021, $99 thousand in 2020, and $37 thousand for 2019.

The Company currently has two depository locations, a loan production office, and a commercial banking office under lease contracts. We have included $3.3 million and $1.5 million in right-of-use assets in other assets on its Consolidated Balance Sheets at December 31, 2021 and 2020, respectively. The Company has included $3.4 million and $1.6 million in lease liabilities in other liabilities on its Consolidated Balance Sheets at December 31, 2021 and 2020, respectively.

NOTE 9 - OTHER REAL ESTATE OWNED

The following table presents OREO activity as of the dates presented:

	Year Ended December 31,		
(Dollars in Thousands)	**2021**	**2020**	**2019**
Beginning of Year Balance	$ 15,722	$ 18,324	$ 33,681
Loans Transferred to OREO	59	755	302
Transfer of Closed Retail Offices to OREO	12,013	2,221	1,694
Capitalized Expenditures	—	19	—
Direct Write-Downs	(3,472)	(1,483)	(4,457)
Cash Proceeds from Pay-downs	(452)	(483)	(580)
Sales of OREO	(12,954)	(3,631)	(12,316)
End of Year Balance	**$ 10,916**	**$ 15,722**	**$ 18,324**

At December 31, 2021, 2020, and 2019, the balance of OREO includes $9.9 million, $13.2 million, and $15.3 million, respectively, of foreclosed properties recorded as a result of obtaining physical possession of the asset. At December 31, 2021 and 2020, the recorded investment of foreclosed residential real estate was $62 thousand and $109 thousand, respectively. At December 31, 2021 and 2020, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process is $254 thousand and $67 thousand, respectively.

Income and expenses applicable to foreclosed assets include the following:

	Year Ended December 31,		
(Dollars in Thousands)	**2021**	**2020**	**2019**
Provision for Losses	$ 3,472	$ 1,483	$ 4,457
Operating Expenses, net of Rental Income	317	317	(164)
Net Loss (Gain) on Sales	150	(48)	275
OREO Expense	**$ 3,939**	**$ 1,752**	**$ 4,568**

NOTE 10 – GOODWILL

Accounting guidance requires companies to test goodwill impairment at least annually, or more frequently, if an event occurs or circumstances change which are considered to be triggering events that would more likely than not reduce the fair value of its goodwill below the carrying value of the reporting unit. Throughout 2020 as we monitored our performance, the Company experienced further declines in their stock price in relation to other bank indices primarily due to the COVID-19 pandemic. Together with the declines in their stock price and the length of time that the market value of the reporting unit had been below its book value, the Company completed another interim quantitative goodwill impairment analysis as of September 30, 2020.

Various valuation methodologies were considered when completing the quantitative impairment test to determine the estimated fair value of the reporting unit which is then compared to its carrying value, including goodwill. Upon completion of the quantitative impairment analysis the Company estimated fair value of the reporting unit to be less than the carrying value. As such, at September 30, 2020, the Company recorded a goodwill impairment of $62.2 million, which represented the entire amount of goodwill allocated to the reporting unit. This was a non-cash charge to earnings and had no impact on our regulatory capital ratios, cash flows, liquidity position, or our overall financial strength.

NOTE 11 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In accordance with applicable accounting guidance for derivatives and hedging, all derivatives are recognized as either assets or liabilities on the Consolidated Balance Sheet at fair value. Interest rate swaps are contracts in which a series of interest rate flows (fixed and variable) are exchanged over a prescribed period. The notional amounts on which the interest payments are based are not exchanged. These derivative positions relate to transactions in which the Company enters into an interest rate swap with a commercial customer while at the same time entering into an offsetting interest rate swap with another financial institution, or counterparty. In connection with each transaction, the Company originates a floating rate loan to the customer at a notional amount. In turn, the customer contracts with the counterparty to swap the stream of cash flows associated with the floating interest rate loan with the Company for a stream of fixed interest rate cash flows based on the same notional amount as the Company's loan. The transaction allows the customer to effectively convert a variable rate loan to a fixed rate loan with the Company receiving a variable rate. These agreements could have floors or caps on the contracted interest rates.

Pursuant to agreements with various financial institutions, the Company may receive collateral or may be required to post collateral based upon mark-to-market positions. Beyond unsecured threshold levels, collateral in the form of cash or securities may be made available to counterparties of interest rate swap transactions. Based upon current positions and related future collateral requirements relating to them, management believes any effect on our cash flow or liquidity position to be immaterial.

Derivatives contain an element of credit risk, the possibility that the Company will incur a loss because a counterparty, which may be a financial institution or a customer, fails to meet its contractual obligations. All derivative contracts with financial institutions may be executed only with counterparties approved by the Asset and Liability Committee ("ALCO") and all derivatives with customers are approved by a team of qualified members from senior management who have been trained to understand the risk associated with interest rate swaps and have past industry experience. Interest rate swaps are considered derivatives but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives are recorded in current earnings in the Consolidated Statements of Income (Loss).

The following table indicates the amounts representing the fair value of derivative assets and derivative liabilities at December 31:

Fair Values of Derivative Instruments
Asset Derivatives (Included in Other Assets)

(Dollars in Thousands)	2021			2020		
	Number of Transactions	Notional Amount	Fair Value	Number of Transactions	Notional Amount	Fair Value
Derivatives not Designated as Hedging Instruments						
Interest Rate Lock Commitments – Mortgage Loans	—	$ —	$ —	1	$ 151	$ —
Interest Rate Swap Contracts – Commercial Loans	66	446,490	3,508	38	255,572	4,493
Total Derivatives not Designated as Hedging Instruments	**66**	**$ 446,490**	**$ 3,508**	**39**	**$ 255,723**	**$ 4,493**

Fair Values of Derivative Instruments
Liability Derivatives (Included in Other Liabilities)

(Dollars in Thousands)	2021			2020		
	Number of Transactions	Notional Amount	Fair Value	Number of Transactions	Notional Amount	Fair Value
Derivatives not Designated as Hedging Instruments						
Forward Sale Contracts – Mortgage Loans	—	$ —	$ —	1	$ 151	$ —
Interest Rate Swap Contracts – Commercial Loans	66	446,490	3,682	38	255,572	4,756
Total Derivatives not Designated as Hedging Instruments	**66**	**$ 446,490**	**$ 3,682**	**39**	**$ 255,723**	**$ 4,756**

The following table indicates the income (loss) recognized in income on derivatives for the years ended December 31:

(Dollars in Thousands)	2021	2020	2019
Derivatives not Designated as Hedging Instruments			
Interest Rate Lock Commitments – Mortgage Loans	$ —	$ (1)	$ —
Forward Sale Contracts – Mortgage Loans	—	1	—
Interest Rate Swap Contracts – Commercial Loans	89	(214)	(22)
Total Derivative Income (Loss)	**$ 89**	**$ (214)**	**$ (22)**

Presenting offsetting derivatives that are subject to legally enforceable netting arrangements with the same party is permitted. For example, we may have a derivative asset and a derivative liability with the same counterparty to a swap transaction and are permitted to offset the asset position and the liability position resulting in a net presentation.

The following table indicates the gross amounts of commercial loan swap derivative assets and derivative liabilities, the amounts offset and the carrying values are included in the Consolidated Balance Sheets at December 31:

	Asset Derivatives (Included in Other Assets)		Liability Derivatives (Included in Other Liabilities)	
(Dollars in Thousands)	2021	2020	2021	2020
Derivatives not Designated as Hedging Instruments				
Gross Amounts Recognized	$ 3,508	$ 4,493	$ 3,682	$ 4,756
Gross Amounts Offset	—	—	—	—
Net Amounts Presented in the Consolidated Balance Sheets	3,508	4,493	3,682	4,756
Gross Amounts Not Offset [(1)]	—	—	(4,080)	(5,220)
Net Amount	**$ 3,508**	**$ 4,493**	**$ (398)**	**$ (464)**

[(1)] *Amounts represent collateral posted for the periods presented.*

NOTE 12 – DEPOSITS

The following table presents the composition of deposits at December 31:

(Dollars in Thousands)	2021	2020	$ Change	% Change
Noninterest-Bearing Demand	$ 747,909	$ 699,229	$ 48,680	7.0 %
Interest-Bearing Demand	452,644	366,201	86,443	23.6 %
Money Market	463,056	294,229	168,827	57.4 %
Savings	690,549	625,482	65,067	10.4 %
Certificates of Deposits	1,344,318	1,614,770	(270,452)	(16.7) %
Deposits Held for Assumption in Connection with Sale of Bank Branches	—	84,717	(84,717)	NM
Total	**$ 3,698,476**	**$ 3,684,628**	**$ 13,848**	**0.4 %**

NM - percentage not meaningful

Deposits are our primary source of funds. We believe that our deposit base is stable and that we have the ability to attract new depositors while diversifying the deposit composition. Total deposits at December 31, 2021 increased $13.8 million, or 0.4%, from December 31, 2020. We had increases in all of our core deposits. The increases included $168.8 million in money market accounts due to our deposit acquisition strategy, a $86.4 million increase in interest-bearing demand deposits, a $65.1 million increase in savings accounts due to promotions and an increase of $48.7 million in noninterest-bearing demand accounts. Offsetting these increases was $270.5 million, or 16.7% declines in CDs compared to December 31, 2020 due to the intentional runoff of higher cost CDs. Also impacting the decrease was $84.7 million of deposits held-for-assumption, at December 31, 2020, in connection with the sale of four bank branches which were sold during the second quarter of 2021. Noninterest-bearing deposits comprised 20.2% and 19.0% of total deposits at December 31, 2021 and December 31, 2020, respectively.

All deposit accounts are insured by the FDIC up to the maximum amount allowed by law. The Dodd-Frank Act, signed into law on July 21, 2010, makes permanent the $250,000 limit for federal deposit insurance and the coverage limit applies per depositor, per insured depository institution for each account ownership. Time deposits that exceed the FDIC Insurance limit of

$250,000, excluding deposits held-for-assumption, at year-end 2021 and 2020 were $147.1 million and $181.1 million, respectively.

Certificates of Deposit maturing as of December 31:

(Dollars in Thousands)	2021
2022	$ 565,385
2023	344,037
2024	149,408
2025	175,974
2026	107,917
Thereafter	1,597
Total	**$ 1,344,318**

Overdrafts reclassified to loans were $0.5 million at both December 31, 2021 and December 31, 2020.

Total deposit dollars from executive officers, directors, and their related interests at December 31, 2021 and 2020, respectively, were $3.0 million and $6.7 million.

NOTE 13 – FEDERAL HOME LOAN BANK BORROWINGS

Borrowings serve as an additional source of liquidity for the Company. FHLB Borrowings were $7.0 million and $35.0 million at December 31, 2021 and December 31, 2020, respectively. FHLB borrowings are fixed 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 at December 31, 2021. Total loans pledged as collateral were $1.1 billion and $0.8 billion at December 31, 2021 and December 31, 2020, respectively. There were no securities available-for-sale pledged as collateral at both December 31, 2021 and December 31, 2020. The Company continues to methodically pledge additional eligible loans and expect continued progress in additional pledging throughout the year. The Company has a maximum borrowing capacity of approximately $1.0 billion, or 25% of the Company's assets, as of December 31, 2021. The Company had the capacity to borrow up to an additional $667.3 million and $510.5 million from the FHLB at December 31, 2021 and December 31, 2020, respectively, based upon calculated collateral values.

The following table represents the balance of long-term borrowings, the weighted average interest rate, and interest expense for the years ended December 31:

(Dollars in Thousands)	2021	2020	2019
Long-term Borrowings	$ 7,000	$ 35,000	$ 10,000
Weighted Average Interest Rate	1.61 %	1.13 %	1.63 %
Interest Expense	$ 313	$ 361	$ 38

During the year ending December 31, 2021 the Company retired four FHLB advances totaling $28.0 million with a weighted average cost to borrow of 1.0%. One FHLB advance totaling $3.0 million was repaid at maturity. The remaining FHLB advances totaling $25.0 million were repaid ahead of their scheduled maturity date and had unamortized prepayment fees related to the early repayment of the borrowings totaling $43 thousand at December 31, 2021. The FHLB borrowing of $7.0 million was prepaid in January 2022 outside of its scheduled maturity.

Scheduled annual maturities and weighted average interest rates for FHLB borrowings for each of the five years subsequent to December 31, 2021 and thereafter are as follows:

(Dollars in Thousands)	Balance	Weighted Average Rate
2022	$ 4,000	1.60 %
2023	—	— %
2024	3,000	1.63 %
2025	—	— %
2026	—	— %
Thereafter	—	— %
Total FHLB Borrowings	**$ 7,000**	**1.61 %**

NOTE 14 - EMPLOYEE BENEFIT PLANS

The Company has adopted an integrated profit sharing plan, which allows for elective deferrals and non-elective contributions. Associates participate in the profit sharing plan following completion of six (6) months of service and upon reaching the age of twenty years and six months as of January 1. Vesting is based on years of service to the Company, with a year being any year an employee works a minimum of 1,000 hours.

The following table details the vesting schedule based on years of service for participants:

1 Year of Service	0% Vested
2 Years of Service	20% Vested
3 Years of Service	40% Vested
4 Years of Service	60% Vested
5 Years of Service	100% Vested

Any participant who has reached the age of 62 is fully vested regardless of length of service. Each participant in the plan (who has not reached age 62) becomes 100% vested after five (5) years of service. The non-elective contribution to the plan is determined each year by the Company's Board of Directors (the "Board") and thus may fluctuate in amount from year to year. The contribution by the Company, which includes contributions to the nonqualified plan discussed below, was $1.8 million in 2021, $1.0 million in 2020 and $1.4 million in 2019. These amounts are included in salaries and employee benefits in the Consolidated Statements of Income (Loss).

Beginning in 2020, our integrated profit sharing plan includes a Company match based upon an associate's elective deferral. This elective deferral is subject to dollar limits announced annually by the Internal Revenue Service ("IRS"). Elective deferrals are matched equal to 100% of the first 3% deferred and 50% of the next 2%, producing a maximum 4% match. Expense for this deferral match was $1.3 million, $1.2 million and $1.1 million for the years ended December 31, 2021, 2020 and 2019, respectively.

The Bank entered into a Nonqualified Profit Sharing Plan originally on December 30, 1996, which was subsequently amended and restated effective December 20, 2007. The purpose of the Nonqualified Profit Sharing Plan was to provide additional benefits to be paid to the executive upon the occurrence of a "Distributable Event," which is either termination or death. The board of directors of the Bank (the "Bank Board") approved the amended plan on December 20, 2007. Since its inception, the Bank's former Chairman and Chief Executive Officer was the only executive who participated in the Nonqualified Profit Sharing Plan. In April 2017, a Distributable Event occurred, in which distributions will occur over 45 quarterly payments. The value of the plan was $0.9 million as of December 31, 2021, and was solely comprised of cash. The quarterly distributions began on January 1, 2018 and will continue to be paid out in equal quarterly installments approximating $30 thousand.

On December 15, 2020, the Bank adopted an unfunded, nonqualified deferred compensation plan, called the Nonqualified Deferred Compensation Plan, to provide (i) certain key executives of the Bank (beginning after the date of adoption) the opportunity to defer to a later year on a pre-tax basis certain compensation without being subject to the dollar limits that apply to these associates under the Bank's tax-qualified integrated profit-sharing plan and (ii) the Bank's non-employee directors (beginning in January 2022) the opportunity to defer to a later year on a pre-tax basis certain director fees. The compensation and fees (and related earnings) deferred under this plan are held in a grantor trust until paid to the participants and remain subject to the claims of the creditors of the Bank and Company until paid to the participants. The balance in the nonqualified deferred compensation plan at December 31, 2021 and December 31, 2020 was $161 thousand and $12 thousand, respectively.

NOTE 15 – INCENTIVE AND RESTRICTED STOCK PLAN

The Bank Board adopted the Carter Bank & Trust 2018 Omnibus Equity Incentive Plan on March 29, 2018 based on the recommendation of the Bank's Nominating and Compensation Committee (now, a committee of the Company, the "Committee"), which became effective on June 27, 2018. In connection with the Reorganization, the Company adopted and assumed Carter Bank & Trust 2018 Omnibus Equity Incentive Plan as its own (now the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan, or, for purposes of this discussion, the "Plan"). The Plan reserves a total 2,000,000 shares of common stock for issuance and provides for the grant to key associates and non-employee directors of the Company and its subsidiaries of awards that may include one or more of the following: stock options, restricted stock, restricted stock units, stock appreciation rights, stock awards, performance units and performance cash awards (collectively, the "awards"). Subject to accelerated vesting under certain circumstances, the Plan requires a minimum vesting period of one year for awards subject to time-based conditions and a minimum performance period of one year for awards subject to achievement or satisfaction of performance goals. These minimums are applicable to awards other than those granted as part of a retainer for the service of non-employee directors. The Committee will determine the vesting period on the awards. No awards may be granted under the Plan more than ten years from the effective date of the Plan. For purposes of this Note 15, references to the "Company" mean the "Bank' with respect to actions prior to the Reorganization.

Restricted Stock

The Company periodically issues restricted stock to non-employee directors, executive officers and associates pursuant to the Plan. As of December 31, 2021, 214,517 restricted shares had been granted under the Plan and 10,952 restricted shares had been forfeited.

The Company granted 50,120 and 39,019 restricted shares of common stock to key personnel under the Plan during 2021 and 2020, respectively. These grants were approved by the Committee as compensation for substantial contributions to the Company's performance, including contribution during our recent core systems conversion. These key personnel time-based restricted shares vest in one-third annual installments over three years after the grant date. The closing price of our stock was used to determine the fair value on the date of the grant.

There were 32,370 and 16,137 restricted shares of common stock issued to non-employee directors under the Plan during 2021 and 2020, respectively. These grants were approved by the Committee as compensation for the Company's performance. The Committee approved accelerated vesting of these non-employee director restricted shares in January 2020 to fully vest one year after the grant date. The restricted shares granted in 2021 fully vest one year after the grant date. The closing price of our stock was used to determine the fair value on the date of the grant.

If any award granted under the Plan terminates, expires, or lapses for any reason other than by virtue of exercise or settlement of the award, or if shares issued pursuant to awards are forfeited, any stock subject to such award again shall be available for future awards under the Plan.

Compensation expense for restricted shares of stock is recognized ratably over the period of service, generally the entire vesting period, based on fair value on the grant date. The Company recognized compensation expense of $1.0 million, $1.0 million and $0.4 million for 2021, 2020, and 2019, respectively.

As of December 31, 2021 and 2020, there was $844 thousand and $907 thousand, respectively, of total unrecognized compensation cost related to restricted stock that will be recognized as compensation expense over a weighted average period of 1.64 years and 1.68 years, respectively.

The following table provides information about restricted stock granted under the Plan for the years ended December 31:

	Restricted Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2019	**72,473**	**$ 17.44**
Granted	55,156	19.23
Vested	(37,908)	16.94
Forfeited	(4,344)	19.06
Non-vested at December 31, 2020	**85,377**	**18.73**
Granted	82,490	12.81
Vested	(48,027)	18.63
Forfeited	(6,205)	12.82
Non-vested at December 31, 2021	**113,635**	**$ 14.80**

NOTE 16 - FEDERAL AND STATE INCOME TAXES

The components of the provision for income tax expense were as follows:

(Dollars in Thousands)	2021	2020	2019
Current	$ 994	$ 2,399	$ 1,285
Deferred	3,114	(1,627)	(76)
Income Tax Provision	**$ 4,108**	**$ 772**	**$ 1,209**

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:

	2021		2020		2019	
(Dollars in Thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Federal Income Tax at Statutory Rate	$ 7,497	21.0	$ (9,468)	21.0	$ 5,835	21.0
State Income Tax, net of Federal Benefit	20	0.1	455	(1.0)	220	0.8
Tax-exempt Interest, net of Disallowance	(1,131)	(3.2)	(1,757)	3.9	(2,128)	(7.7)
Federal Tax Credits, net of Basis Reduction	(1,559)	(4.4)	(948)	2.2	(2,032)	(7.3)
Change in Valuation Allowance	(529)	(1.5)	(374)	0.8	(424)	(1.5)
Income from Bank Owned Life Insurance	(290)	(0.8)	(294)	0.7	(302)	(1.1)
Goodwill Impairment	—	—	13,060	(29.1)	—	—
Other	100	0.3	98	(0.2)	40	0.2
Income Tax Provision and Effective Income Tax Rate	**$ 4,108**	**11.5**	**$ 772**	**(1.7)**	**$ 1,209**	**4.4**

Realization of deferred tax assets is dependent upon the generation of future taxable income. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities and the projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Based on its assessment, management recorded a valuation allowance on deferred tax assets related to its equity investments in partnerships that will generate capital losses upon exiting the investments. The Company has not identified prudent and feasible strategies to generate future capital gains to offset the capital losses. Management has determined that it is more likely than not that all other deferred tax assets will be realized in future periods so no additional valuation allowance is necessary at December 31, 2021 and 2020.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

(Dollars in Thousands)	2021	2020
Deferred Tax Assets		
Allowance for Credit Losses	$ 20,906	$ 11,580
Valuation Adjustments on Other Real Estate Owned	1,392	1,537
Tax Credit Carryforwards	1,781	1,771
Equity Investment in Partnerships	304	837
Accrued Interest on Nonaccrual Loans	843	1,900
Operating Lease Liabilities	736	349
Other	1,765	1,057
Gross Deferred Tax Assets	27,727	19,031
Less: Valuation Allowance	(309)	(838)
Total Deferred Tax Assets	**$ 27,418**	**$ 18,193**

(Dollars in Thousands)	2021	2020
Deferred Tax Liabilities		
Fixed Asset Depreciation	$ (4,300)	$ (5,512)
Acquisition-Related Fair Value Adjustments	(3,069)	(4,063)
Deferred Loan Income	(1,005)	(649)
Operating Lease Right-of-Use Assets	(712)	(321)
Net Unrealized Gain on Available-for-Sale Securities	(452)	(4,179)
Other	(98)	(59)
Total Deferred Tax Liabilities	**(9,636)**	**(14,783)**
Net Deferred Tax Assets	**$ 17,782**	**$ 3,410**

The Company had federal tax credit carryforwards of $1.8 million at both December 31, 2021 and December 31, 2020. The federal tax credits consist primarily of new market credits and historic rehabilitation credits that, if not used, will expire in 2041.

At December 31, 2021 and 2020, the Company had no ASC 740-10 unrecognized tax benefits or accrued interest and penalties recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. The Company recognizes interest and penalties on unrecognized tax benefits in income tax expense.

The Company is subject to U.S. federal income tax, as well as, various taxation of other state and local jurisdictions. The Company is generally no longer subject to examination by federal, state and local taxing authorities for years prior to December 31, 2018.

NOTE 17 – TAX EFFECTS ON OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the change in components of other comprehensive (loss) income for the years ended December 31, net of tax effects:

(Dollars in Thousands)	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
2021			
Net Unrealized Losses Arising during the Period	$ (10,877)	$ 2,284	$ (8,593)
Reclassification Adjustment for Gains included in Net Income	(6,869)	1,443	(5,426)
Other Comprehensive Loss	**$ (17,746)**	**$ 3,727**	**$ (14,019)**
2020			
Net Unrealized Gains Arising during the Period	$ 26,621	$ (5,590)	$ 21,031
Reclassification Adjustment for Gains included in Net Loss	(6,882)	1,445	(5,437)
Other Comprehensive Income	**$ 19,739**	**$ (4,145)**	**$ 15,594**
2019			
Net Unrealized Gains Arising during the Period	$ 15,108	$ (3,173)	$ 11,935
Reclassification Adjustment for Gains included in Net Income	(2,205)	463	(1,742)
Other Comprehensive Income	**$ 12,903**	**$ (2,710)**	**$ 10,193**

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Commitments to extend credit, which amounted to $513.5 million at December 31, 2021 and $591.2 million at December 31, 2020, represent agreements to lend to customers with fixed expiration dates or other termination clauses. The Company provides lines of credit to our clients to finance the completion of construction projects and revolving lines of credit to operating companies to finance their working capital needs. Lines of credit for construction projects represented $283.9 million, or 55.3%, and $391.4 million, or 66.2%, of the commitments to extend credit at December 31, 2021 and December 31, 2020, 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 $27.1 million at December 31, 2021 and $29.3 million at December 31, 2020.

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. Results for reporting periods beginning after January 1, 2021 are presented under Topic 326, while prior period amounts continue to be reported in other expense on our Consolidated Statements of Income (Loss). The life-of-loan reserve for unfunded commitments is included in other liabilities on our Consolidated Balance Sheets.

The activity in the life-of-loss reserve on unfunded loan commitments for the year ended December 31, 2021 is as follows:

(Dollars in Thousands)		December 31, 2021
Life-of-Loss Reserve on Unfunded Loan Commitments		
Balance at beginning of period	$	144
Impact of Adopting ASU 2016-13		2,908
January 1, 2021		3,052
Provision for unfunded commitments		(1,269)
Balance at end of period	**$**	**1,783**

Amounts are added to the provision for unfunded commitments through a charge to current earnings in the provision for unfunded commitments. The provision for unfunded commitments was a release of $1.3 million for the year ended December 31, 2021.

Litigation

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.

NOTE 19 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions and return on investment. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts: Service charges on deposit accounts consist of overdraft fees, service charges on returned checks, stop payment fees, check chargeback fees, minimum balance fees, and other deposit account related fees. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on returned checks are recognized at the point in time that a check is returned. Transaction-based fees, which include services such as stop payment fees, check chargeback fees, and other deposit account related fees are recognized at the point in time the Company fulfills the customer's request. Minimum balance fees are system-assessed at the point in time that a customer's balance is below the required minimum for the product. Service charges on deposits are withdrawn from the customer's account balance.

Other Fees and Other Income: Other fees and other income consists of safe deposit rents, money order fees, check cashing and cashiers' check fees, wire transfer fees, letter of credit fees, check order income, and other miscellaneous fees. These fees are largely transaction-based; therefore, the Company's performance obligation is satisfied and the resultant revenue is recognized at the point in time the service is rendered. Payments for transaction-based fees are generally received immediately or in the following month by a direct charge to a customer's account.

Debit Card Interchange Fees: The Company earns interchange fees from debit cardholder transactions conducted through a card payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Insurance: Commission income is earned based on customer transactions. The commission income is recognized when the transaction is complete. The Company also receives a return on its investment in Bankers Insurance, LLC on an annual basis based on the income of the insurance company and percentage of ownership.

OREO Income: The Company owns properties acquired through foreclosure that are included in other real estate owned, net on the Consolidated Balance Sheet. If the Company rents any of those properties, the resultant income is recognized at the point of receipt since the performance obligation has been satisfied. The rents are generally received monthly.

Gains/Losses on Sales of OREO: The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

The following table summarizes the point of revenue recognition and the income recognized for each of the revenue streams for the years ended December 31:

(Dollars in Thousands)	Point of Revenue Recognition	2021	2020	2019
In-Scope Revenue Streams				
Service Charges on Deposit Accounts	At a point in time	$ 5,036	$ 3,518	$ 3,919
Other Fees and Other Income	At a point in time	3,233	2,497	1,789
Debit Card Interchange Fees	At a point in time	7,226	5,857	5,160
Commercial Loan Swap Fee Income	At a point in time	2,416	4,051	—
Insurance				
Customer Commissions	At a point in time	91	73	120
Annual Commission on Investment	Over time	1,681	1,366	1,105
Special Production Payout	Over time	129	289	—
Other Real Estate Owned Income	At a point in time	90	340	689
Gains (Losses) on Sale of Other Real Estate Owned	At a point in time	***	***	***
Total In-Scope Revenue Streams		**19,902**	**17,991**	**12,782**
Out of Scope Revenue Streams				
Gain on Sales of Securities, net		6,869	6,882	2,205
Bank Owned Life Insurance Income		1,380	1,400	1,436
Other		730	307	447
Total Noninterest Income		**$ 28,881**	**$ 26,580**	**$ 16,870**

***Reported net with Losses on Sales and Write-downs of Other Real Owned in Noninterest Expense

NOTE 20 – PARENT COMPANY CONDENSED FINANCIAL INFORMATION

Balance Sheets

(Dollars in Thousands)	December 31, 2021	2020
ASSETS		
Cash	$ 5,142	$ 639
Investment in Bank Subsidiary	402,190	439,553
Other Assets	571	—
Total Assets	**$ 407,903**	**$ 440,192**
LIABILITIES		
Other Liabilities	$ 307	$ 18
Total Shareholders' Equity	407,596	440,174
Total Liabilities and Shareholders' Equity	**$ 407,903**	**$ 440,192**

Statements of Net Income

(Dollars in Thousands)	2021	December 31, 2020	2019
Dividends from Subsidiaries	$ 6,000	$ 1,000	$ —
Total Expenses	(2,238)	(594)	—
Income Before Income Tax Benefit and Undistributed Net Income of Bank Subsidiary	**3,762**	**406**	**—**
Income Tax Benefit	(446)	—	—
Income Before Undistributed Net Income of Bank Subsidiary	**4,208**	**406**	**—**
Equity in Undistributed Net Income (Loss) of Bank Subsidiary	27,382	(46,264)	—
Net Income (Loss)	**$ 31,590**	**$ (45,858)**	**$ —**

Statements of Cash Flows

(Dollars in Thousands)	2021	December 31, 2020	2019
OPERATING ACTIVITIES			
Net Income (Loss)	$ 31,590	$ (45,858)	$ —
Equity in Undistributed Net (Income) Loss of Bank Subsidiary	(27,382)	46,264	—
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities			
Stock Compensation Expense	1,040	215	—
Increase in Other Assets	(571)	—	—
(Decrease) Increase in Intercompany Liability	(17)	18	—
Net Cash Provided by Operating Activities	**4,660**	**639**	—
INVESTING ACTIVITIES			
Investments in Subsidiaries	—	—	—
Net Cash Used in Investing Activities	**—**	**—**	**—**
FINANCING ACTIVITIES			
Stock Repurchase Plan Settlements	(157)	—	—
Cash Dividends Paid to Common Shareholders	—	—	—
Net Cash Used In Financing Activities	**(157)**	**—**	**—**
Net Increase in Cash	4,503	639	—
Cash at Beginning of Year	639	—	—
Cash at End of Year	**$ 5,142**	**$ 639**	**$ —**

NOTE 21 - CAPITAL ADEQUACY

The Company and the Bank are subject to various capital requirements administered by the federal banking regulators. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators in relation to 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 as shown in the following table.

The final rules implementing Basel Committee on Banking Supervision’s capital guidelines for U.S. Banks (“Basel III rules”) became effective on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, we must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in at the rate of 0.625% per year and was 2.5% on January 1, 2019. Management believes as of December 31, 2021, the Company and the Bank met all capital adequacy requirements to which we are subject and satisfied the applicable capital conservation buffer requirements.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2021 and 2020, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

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

	Actual		Minimum Regulatory Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2021						
Leverage Ratio						
Carter Bankshares, Inc.	$ 443,940	10.62 %	$ 167,184	4.00 %	NA	NA
Carter Bank & Trust	438,533	10.49 %	167,170	4.00 %	$ 208,962	5.00 %
Common Equity Tier 1 (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 443,940	14.21 %	$ 140,606	4.50 %	NA	NA
Carter Bank & Trust	438,533	14.04 %	140,580	4.50 %	$ 203,061	6.50 %
Tier 1 Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 443,940	14.21 %	$ 187,475	6.00 %	NA	NA
Carter Bank & Trust	438,533	14.04 %	187,441	6.00 %	$ 249,921	8.00 %
Total Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 483,124	15.46 %	$ 249,967	8.00 %	NA	NA
Carter Bank & Trust	477,710	15.29 %	249,921	8.00 %	$ 312,401	10.00 %
As of December 31, 2020						
Leverage Ratio						
Carter Bankshares, Inc.	$ 424,453	10.26 %	$ 165,514	4.00 %	NA	NA
Carter Bank & Trust	423,832	10.24 %	165,514	4.00 %	$ 206,892	5.00 %
Common Equity Tier 1 (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 424,453	13.08 %	$ 146,077	4.50 %	NA	NA
Carter Bank & Trust	423,832	13.06 %	146,078	4.50 %	$ 211,001	6.50 %
Tier 1 Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 424,453	13.08 %	$ 194,769	6.00 %	NA	NA
Carter Bank & Trust	423,832	13.06 %	194,770	6.00 %	$ 259,694	8.00 %
Total Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 465,198	14.33 %	$ 259,692	8.00 %	NA	NA
Carter Bank & Trust	464,578	14.31 %	259,694	8.00 %	$ 324,617	10.00 %

The Company was incorporated on October 7, 2020 in connection with the Reorganization. The Reorganization was completed on November 20, 2020 pursuant to an Agreement and Plan of Reorganization among the Bank, the Company and CBT Merger Sub, Inc., and the Bank survived the Reorganization as a wholly-owned subsidiary of the Company. In the Reorganization, each of the outstanding shares of the Bank's common stock was converted into and exchanged for one newly issued share of the Company's common stock.

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

NOTE 22 - QUARTERLY FINANCIAL DATA (Unaudited)

The following summarizes the quarterly results of operations for the years ended December 31:

	2021			
(Dollars in Thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Total Interest Income	$ 32,957	$ 33,094	$ 34,913	$ 32,933
Total Interest Expense	6,428	5,891	5,512	4,883
Net Interest Income	**26,529**	**27,203**	**29,401**	**28,050**
Provision for Credit Losses	1,857	967	(413)	939
Provision for Unfunded Commitments	(282)	(603)	(60)	(324)
Net Interest Income after Provision for Credit Losses	**24,954**	**26,839**	**29,874**	**27,435**
Total Noninterest Income	8,952	7,238	6,915	5,776
Total Noninterest Expense	23,605	27,759	24,685	26,236
Income Before Income Taxes	**10,301**	**6,318**	**12,104**	**6,975**
Income Tax Expense	926	886	931	1,365
Net Income	**$ 9,375**	**$ 5,432**	**$ 11,173**	**$ 5,610**
Earnings Per Share	**$ 0.36**	**$ 0.21**	**$ 0.42**	**$ 0.21**

	2020			
(Dollars in Thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Total Interest Income	$ 37,836	$ 35,617	$ 33,986	$ 33,502
Total Interest Expense	10,572	9,355	8,550	7,349
Net Interest Income	**27,264**	**26,262**	**25,436**	**26,153**
Provision for Credit Losses	4,798	5,473	2,914	4,821
Net Interest Income after Provision for Credit Losses	**22,466**	**20,789**	**22,522**	**21,332**
Total Noninterest Income	6,952	6,064	7,975	5,589
Total Noninterest Expense	24,748	22,886	87,300	23,841
Income (Loss) Before Income Taxes	**4,670**	**3,967**	**(56,803)**	**3,080**
Income Tax Expense (Benefit)	247	(488)	875	138
Net Income (Loss)	**$ 4,423**	**$ 4,455**	**$ (57,678)**	**$ 2,942**
Earnings (Loss) Per Share	**$ 0.17**	**$ 0.17**	**$ (2.19)**	**$ 0.11**

	2019			
(Dollars in Thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Total Interest Income	$ 39,139	$ 40,068	$ 40,154	$ 39,759
Total Interest Expense	11,243	12,113	12,084	11,333
Net Interest Income	**27,896**	**27,955**	**28,070**	**28,426**
Provision for Credit Losses	1,627	1,369	1,390	(982)
Net Interest Income after Provision for Credit Losses	**26,269**	**26,586**	**26,680**	**29,408**
Total Noninterest Income	3,804	4,401	4,156	4,509
Total Noninterest Expense	22,110	22,656	22,777	30,486
Income Before Income Taxes	**7,963**	**8,331**	**8,059**	**3,431**
Income Tax Expense (Benefit)	422	504	458	(175)
Net Income	**$ 7,541**	**$ 7,827**	**$ 7,601**	**$ 3,606**
Earnings Per Share	**$ 0.29**	**$ 0.30**	**$ 0.29**	**$ 0.14**

Crowe LLP
Independent Member Crowe Global

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Carter Bankshares, Inc. and Subsidiaries
Martinsville, Virginia

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Carter Bankshares, Inc. and Subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income (loss), comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2021 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter below.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses

In accordance with Accounting Standards Update (the "ASU") 2016-13, *Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* the Company adopted Accounting Standards Codification ("ASC") 326 as of January 1, 2021 as described in Notes 1 and 6 of the consolidated financial statements using the modified retrospective method. Also see explanatory paragraph above. The ASU requires the Company's loan portfolio, measured at amortized cost, to be presented at the net amount expected to be collected. The Company disclosed the impact of adoption of this standard on January 1, 2021 with a $61.6 million increase to the allowance for credit losses and a $50.7 million decrease to retained earnings for the cumulative effect adjustment recorded upon adoption. Provision expense for the year ending December 31, 2021 was $3.4 million and the allowance for credit losses as of December 31, 2021 was $95.9 million.

The Company's methodology for estimating the allowance for credit losses includes segmentation, quantitative analysis, and qualitative analysis. The Company's loan portfolio is segmented by homogeneous loan types that behave similarly to economic cycles. The quantitative analysis includes using a discounted cash flow (DCF) model for determining the allowance for credit losses. Economic forecasts are used in the model to estimate the probability of default and loss given default through regression. Model assumptions include, but are not limited to the discount rate, prepayments, and curtailments. The qualitative analysis is determined based on management's review and analysis of internal, external and model risks, including adjustment made to the model output and economic forecast if it is incompatible with known market conditions based on management's experience and perspective.

We identified the allowance for credit losses as a critical audit matter because of the extent of auditor judgment applied and significant audit effort to evaluate the significant subjective and complex judgments made by management in the development of the estimate. The principal considerations resulting in our determination included the following:

- Significant audit effort and auditor judgment to evaluate the segmentation, quantitative, and qualitative analysis used in the calculation

The primary procedures performed to address this critical audit matter include:

Testing the effectiveness of internal controls over:

- The Company's selection of the DCF model, including evaluation of the segmentation, quantitative analysis, and qualitative analysis as part of the adoption of the new accounting standard
- The completeness and accuracy of data used in the model

- The Company’s review of the allowance for credit loss calculation, including the review of the Company’s judgments used in developing the segmentation, quantitative analysis, and qualitative analysis and the relevance and reliability of data used as the basis for adjustments for the model

Substantively testing management’s estimate, which included:

- Assessing the reasonableness of management’s selection of segmentation, quantitative analysis, and qualitative analysis as part of the adoption of the new accounting standard
- Evaluating management’s judgment for developing the segmentation, quantitative, and qualitative analysis, including assessing the relevance and reliability of data used to develop the model
- Evaluating the mathematical accuracy of the discounted cash flow model, including evaluating the completeness and accuracy of loan data used in the model

/s/ Crowe LLP

We have served as the Company's auditor since 2019.

Washington, D.C.
March 11, 2022

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's CEO and Chief Financial Officer ("CFO") (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2021. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to the Company's management, including our CEO and CFO as appropriate, to allow timely decisions regarding required disclosure.

Based on and as of the date of such evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective in all material respects, as of the end of the period covered by this Report.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, (as defined in Exchange Act Rule 13a-15(f)). Our internal control over financial reporting is a process designed by or under the supervision of, our CEO and CFO to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of specific controls or internal control over financial reporting overall to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Based on this assessment, management concludes that, as of December 31, 2021, the Company's system of internal control over financial reporting is effective and meets the criteria of the "Internal Control Integrated Framework (2013)." Crowe LLP, our independent registered public accounting firm, has issued a report on the effectiveness of Company's internal control over financial reporting as of December 31, 2021, which is included herein.

Changes in Internal Control Over Financial Reporting

No other changes were made to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2021 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

ITEM 9C. DISCLOSURES REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth below, the information required by Part III, Item 10 of Form 10-K will be incorporated herein from the sections entitled – “Delinquent Section 16(a) Reports,” if applicable, “Proposal 1 -- Election of Directors,” “Independence and Committee Memberships,” “Executive Officers of the Registrant,” and "Corporate Governance" in our proxy statement relating to our May 25, 2022 annual meeting of shareholders.

Code of Ethics

The Company has adopted a Code of Conduct (the “Code”) that applies to its directors, executive officers and employees and is available on the Company’s website at www.CBTCares.com under “Investor – Corporate Information – Governance Documents.” The Company intends to provide any required disclosure of any amendment to or waiver of the Code that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on www.CBTCares.com under “Investor – Corporate Information – Governance Documents” promptly following the amendment or waiver. The information contained on or connected to the Company’s website is not incorporated by reference in this Annual Report on Form 10-K and should not be considered part of this or any other report or document that we file or furnish to the SEC.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Part III, Item 11 of Form 10-K will be incorporated herein from the sections entitled “Executive Compensation” and “Director Compensation” in our proxy statement relating to our May 25, 2022 annual meeting of shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except as set forth below, the information required by Part III, Item 12 of Form 10-K will be incorporated herein from the sections entitled “Principal Beneficial Owners of Carter Bankshares Inc. Common Stock” and “Beneficial Ownership of Carter Bankshares, Inc. Common Stock by Directors and Officers” in our proxy statement relating to our May 25, 2022 annual meeting of shareholders.

Equity Compensation Plan Information

The following table provides summary information as of December 31, 2021 related to the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Plan, the only equity compensation plan under which the Company’s securities are authorized for issuance.

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
Equity compensation plan approved by shareholders	—	$—	1,796,435
Equity compensation plans not approved by shareholders	—	—	
Total	—	$—	**1,796,435**

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Part III, Item 13 of Form 10-K will be incorporated herein from the sections entitled “Related Person Transactions” and “Corporate Governance -- Director Independence” in our proxy statement relating to our May 25, 2022 annual meeting of shareholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Part III, Item 14 of Form 10-K will be incorporated herein from the section entitled Independent Registered Public Accounting Firm in our proxy statement relating to our May 25, 2022 annual meeting of shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K and are incorporated by reference and found where noted below.

Consolidated Financial Statements: The following Consolidated Financial Statements are included in Part II, Item 8 of this Annual Report on Form 10-K. No financial statement schedules are being filed because the required information is inapplicable or is presented in the Consolidated Financial Statements or related notes.

(b) Exhibits

2.1	Agreement and Plan of Reorganization by and among Carter Bank & Trust, Carter Bankshares, Inc. and CBT Merger Sub, Inc., dated November 9, 2020 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on November 23, 2020)
3.1	Articles of Incorporation of Carter Bankshares, Inc., effective October 7, 2020 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 23, 2020)
3.2	Bylaws of Carter Bankshares, Inc., as adopted October 28, 2020 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on November 23, 2020)
4.1	Description of Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on November 23, 2020)
10.1*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Wendy S. Bell (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.2*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Litz Van Dyke (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)

10.3*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Phyllis Q. Karavatakis (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.4*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Jane Ann Davis (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.5*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Bradford N. Langs (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.6*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Matthew M. Speare (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.7*	Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan, effective November 20, 2020 (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed with the SEC on December 3, 2020)
10.7.1*	Form of Time-Based Restricted Stock Agreement (for employee) for use after November 20, 2020 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.7.1 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.7.2*	Form of Time-Based Restricted Stock (for non-employee director) for use after November 20, 2020 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.7.2 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.7.3*	Form of Time-Based Restricted Stock Agreement (for employee: LTIP) for use after March 2, 2022, under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 2, 2022)
10.7.4*	Form of Performance Unit Agreement (for employee) for use after March 2, 2022 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 2, 2022)
10.7.5*	Form of Time-Based Restricted Stock Agreement (for employee: annual) for use on or after February 17, 2022 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on March 2, 2022)
10.8*	Carter Bankshares, Inc. Amended and Restated Annual Incentive Plan as amended and restated February 18, 2021 (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.9*	Amended and Restated Change of Control Severance Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Arthur Loran Adams (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.10*	Amended and Restated Change of Control Severance Agreement, dated and effective as of November 20, 2020 by and between Carter Bankshares, Inc., Carter Bank & Trust and Tony E. Kallsen (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES – (continued)

10.11*	Carter Bank & Trust Nonqualified Deferred Compensation Plan (executive component) - Virginia Bankers Association Model Plan (for executives) as restated as of January 1, 2018 and incorporating all amendments through November 1, 2020 (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.11.1*	Adoption Agreement for Virginia Bankers Association Model Plan (for executives) as restated as of January 1, 2018 and updated January 1, 2020, effective as of January 1, 2022 (filed herewith)
10.11.2*	162(m) Amendment to Virginia Bankers Association Model Plan (for executives) adopted November 13, 2020 (incorporated by reference to Exhibit 10.11.2 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.12*	Carter Bank & Trust Nonqualified Deferred Compensation Plan (director component) - Virginia Bankers Association Model Plan (for directors) as restated as of January 1, 2018 and incorporating all amendments through November 1, 2020 (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.12.1*	Adoption Agreement for Virginia Bankers Association Model Plan (for directors) as restated as of January 1, 2018 and updated January 1, 2020, effective as of January 1, 2022 (filed herewith)
21.1	Subsidiaries of Carter Bankshares, Inc. (filed herewith)
23.1	Consent of Crowe LLP (filed herewith)
31.1	Certification by principal executive officer pursuant to Rule 13a-14(a) (filed herewith)
31.2	Certification by principal financial officer pursuant to Rule 13a-14(a) (filed herewith)
32.1	Certification by principal executive officer pursuant to 18 U.S.C. §1350 (filed herewith)
32.2	Certification by principal financial officer pursuant to 18 U.S.C. §1350 (filed herewith)
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibits 101)

* Denotes management contract.

ITEM 16. FORM 10-K SUMMARY

None.

CARTER BANKSHARES, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CARTER BANKSHARES, INC.
(Registrant)

By:	/s/ Litz H. Van Dyke
Name:	Litz H. Van Dyke
Title:	Chief Executive Officer (Principal Executive Officer)
Date:	March 11, 2022
By:	/s/ Wendy S. Bell
Name:	Wendy S. Bell
Title:	Chief Financial Officer (Principal Financial and Accounting Officer)
Date:	March 11, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ James W. Haskins	By:	/s/ Litz H. Van Dyke
Name:	James W. Haskins	Name:	Litz H. Van Dyke
Title:	Chairman of the Board	Title:	Director and Chief Executive Officer
Date:	March 11, 2022	Date:	March 11, 2022
By:	/s/ Phyllis Q. Karavatakis	By:	/s/ Michael R. Bird
Name:	Phyllis Q. Karavatakis	Name:	Michael R. Bird
Title:	Vice Chairman of the Board	Title:	Director
Date:	March 11, 2022	Date:	March 11, 2022
By:	/s/ Kevin S. Bloomfield	By:	/s/ Robert M. Bolton
Name:	Kevin S. Bloomfield	Name:	Robert M. Bolton
Title:	Director	Title:	Director
Date:	March 11, 2022	Date:	March 11, 2022
By:	/s/ Robert W. Conner	By:	/s/ Gregory W. Feldmann
Name:	Robert W. Conner	Name:	Gregory W. Feldmann
Title:	Director	Title:	Director
Date:	March 11, 2022	Date:	March 11, 2022

CARTER BANKSHARES, INC. AND SUBSIDIARIES

By:	/s/ Lanny A. Kyle, O.D.	By:	/s/ Elizabeth Lester Walsh
Name:	Lanny A. Kyle, O.D.	Name:	Elizabeth Lester Walsh
Title:	Director	Title:	Director
Date:	March 11, 2022	Date:	March 11, 2022
By:	/s/ Catharine L. Midkiff	By:	/s/ E. Warren Matthews
Name:	Catharine L. Midkiff	Name:	E. Warren Matthews
Title:	Director	Title:	Director
Date:	March 11, 2022	Date:	March 11, 2022

Exhibit 10.11.1

NON-QUALIFIED DEFERRED COMPENSATION PLAN FOR EXECUTIVES
(As Restated Effective January 1, 2018)
ADOPTION AGREEMENT

(Updated Form January 1, 2020)

This Adoption Agreement is the companion document that allows an employer to sponsor and adopt the Virginia Bankers Association Model Non-Qualified Deferred Compensation Plan for Executives (the "Plan"). Each Employer named below hereby adopts the Plan through this Adoption Agreement (the "Adoption Agreement"), to be effective as of the date(s) specified below, and elects the following specifications and provides the following information relating thereto.

In completing this Adoption Agreement, if additional space is required, insert additional sheets.

Adoption Agreement Contents

1. EMPLOYER(S) ADOPTING PLAN.

(a) Name of Plan Sponsor: Carter Bank & Trust	(b) Plan Sponsor's Telephone Number: 276-629-3331
(c) Address of Plan Sponsor: 9112 Virginia Avenue Bassett, VA 24055-4859	(d) Plan Sponsor's EIN: 20-5539935 (e) Plan Sponsor's Tax Year End: 12/31

(f) Other Participating Employers Adopting the Plan:

☒ (1) All Affiliates are automatically participating Employers in the Plan, except for the following:
____
____.

☐ (2) Each participating Employer is listed individually on the attachment captioned "List of Participating Employers," which shall be updated as needed from time to time in compliance with ARTICLE XV of the basic plan document.

2. GENERAL PLAN INFORMATION.

(a) Name of Plan:

Carter Bank & Trust Nonqualified Deferred Compensation Plan

(b) Name, Address and EIN of Plan Administrator(s): [If other than Plan Sponsor, appointment must be by resolution]

3. STATUS OF PLAN AND EFFECTIVE DATE(S).

(a) Effective Date of Plan: The Effective Date of the Plan is October 1, 2020.

(b) Plan Status. The adoption of the Plan through this Adoption Agreement is:

☐ (1) Initial Establishment. The initial adoption and establishment of the Plan.

☒ (2) Restated Plan. An amendment and restatement of the Plan (a Restated Plan).

(A) Effective Date of this Restatement. The Effective Date of this Restatement is January 1, 2022.

(B) Prior Plan. The Plan was last maintained under document dated ____________________, ______ and was known as the ____
____
____
____.

(C) 409A Transitional Provisions (grandfathering election):

☐ Election NOT to Grandfather Pre-January 1, 2005 Vested Balances. If this Option is elected, all Deferral Accounts shall be subject to the rules set forth in the post-December 31, 2004 restatements.

If the Option is not elected, the Deferral Accounts attributable to transfers from predecessor plans prior to December 31, 2004 and contributions that are vested as of December 31, 2004 shall be segregated from the Deferral Accounts attributable to contributions that are not vested as of December 31, 2004 and to contributions and transfers made on and after January 1, 2005. The terms of the Plan in effect on and after January 1, 2005 shall only apply to transfers and contributions that are not vested as of December 31, 2004 and to contributions and transfers made on and after January 1, 2005.

☐ (3) Special or Other Transitional Provisions. [Use attachment if additional space is needed]

[Enter any special provisions including alternate definitions or other transitional provisions relating to any Predecessor Plan Account and the Plan as restated]________________________________
____
____
____
____

☐ (c) If elected, this Plan is intended to be paired with a qualified cash or deferred arrangement as described in subparagraph 3.1(d) of the basic plan document.

If Elected – Name of the paired plan ____

4. DEFINITIONS AND OTHER OPTIONAL PROVISIONS.

(a) Compensation Paragraph 1.10

Compensation is used throughout the basic plan document for different purposes. The following specific rules apply.

(1) General Definition. The Compensation definition in paragraph 1.10 of the basic plan document is modified as follows:

(A) Salary. Base salary and base wages subject to the following modifications or limitations:

____
____
____
____
____
____

[Consider whether to fix the date for determining Salary. Consider whether to revise to exclude reductions for 401(k) and cafeteria plan contributions. Other revisions may be desired.]

(B) Discretionary or Other Bonus. All discretionary or other Bonuses unless otherwise provided:

____
____
____
____
____
____

[List excluded bonus or incentive programs. The Plan Sponsor may elect a Special Deferral Election Period for Performance-Based Compensation.]

(2) Specific Definitions. When used with respect to each type of contribution under the Plan, Compensation shall include:

(A) Employee Deferral Contributions. [Check all that apply]

☒ (a) Salary.

☐ (b) Bonuses.

☐ (c) Commissions.

☒ (d) Other. Annual Score Card Cash Bonus __________ [Describe – In defining Compensation for deferral purposes, please note that elections to defer compensation generally must be made in the year prior to performance period for which the right to the compensation arises. Plan Sponsors should consult with counsel in determining the types of compensation and any special timing rules.]

(B) Employer Non-Elective Contributions. [Check all that apply]

☐ (a) Salary.

☐ (b) Bonuses.

☐ (c) Commissions.

☐ (d) Other. ______________________________
[Describe – In defining Compensation for deferral purposes, please note that elections to defer compensation generally must be made in the year prior to performance period for which the right to the compensation arises. Plan Sponsors should consult with counsel in determining the types of compensation and any special timing rules.]

(C) Employer Matching Contributions. [Check all that apply]

☐ (a) Salary.

☐ (b) Bonuses.

☐ (c) Commissions.

☐ (d) Other. ______________________________
[Describe – In defining Compensation for deferral purposes, please note that elections to defer compensation generally must be made in the year prior to performance period for which the right to the compensation arises. Plan Sponsors should consult with counsel in determining the types of compensation and any special timing rules.]

(b) Eligible Employee
Paragraph 1.17

Eligible Employee shall mean only the following:

☐ (1) Determination by Board. Any individual who is designated as an Eligible Employee by resolution of the ☐ Plan Sponsor's ☐ Employer's Board. A copy of the resolution shall be attached to and incorporated by reference into the Plan.

☐ (2) Determination by CEO. Any individual who is designated in writing as an Eligible Employee by resolution of the ☐ Plan Sponsor's ☐ Employer's Chief Executive Officer. A copy of the Chief Executive Officer's designation shall be attached to and incorporated by reference into the Plan.

☐ (3) Determined by Classification or Grade. Any individual who is classified under the Employer's personnel practices and policies as employed in the following grades or classifications:

____

____

			______________________________________ [List executive classification to be included in plan coverage] ☒ (4) Determined by Position or Title. Any individual who is employed in the following positions with the Employer: Executive Management Team ______________________________________ ______________________________________ ______________________________________ ______________________________________ ______________________________________ [List the executive positions to be included in plan coverage]
	(c)	Plan Year Paragraph 1.24	In the case of a Restated Plan which prior to the Effective Date of this Restatement was maintained on the basis of a Plan Year beginning on a date other than January 1, the Plan Year shall begin on ________, ____ and end on _________, ______, with the short Plan Year beginning on ___________________________, _______ and ending on December 31, ________. Thereafter, the Plan Year shall be the 12-month period beginning each January 1.
	(d)	Effective Date of Coverage Paragraph 2.1	The effective date of coverage for an Eligible Employee shall be [Check one] ☒ (1) Immediate. The first day of the first payroll period beginning on or after the date the individual became an Eligible Employee. ☐ (2) Monthly. The first day of the first payroll period beginning on or after the first day of _________ [Complete with 1st, 2nd, or other] month next following the date the individual became an Eligible Employee. ☐ (3) Semi-Annually. The first day of the Plan Year or the first day of the seventh month of the Plan Year on or next following the date the individual became an Eligible Employee. ☐ (4) Annually. The first day of the Plan Year on or next following the date the individual became an Eligible Employee.
☐	(e)	Special Election Period for Performance-Based Compensation Subparagraph 3.2(d)	If this Option is elected, the Plan Sponsor may permit Eligible Employees to make Deferred Compensation Elections with respect to Performance-Based Compensation prior to the annual filing deadline established by the Administrator which deadline shall be no later than six (6) months prior to the end of the period for which such Bonus is earned, as described in subparagraph 3.2(d) of the basic plan document. Otherwise, except for new participants, all Deferred Compensation Elections for all Bonuses must be made prior to the annual filing deadline established by the Administrator, which deadline shall be no later than the end of the calendar year or end of the Plan Sponsor's fiscal year, immediately preceding the applicable year to which the Bonus relates.

			In order to be Performance-Based Compensation, (i) the Bonus must be earned over a period of at least twelve (12) months, (ii) the Bonus must be based on pre-established organizational or individual performance criteria for which the outcome is substantially uncertain at the time of establishment, (iii) such criteria are established in writing no later than ninety (90) days after the beginning of the period of service to which the Bonus and performance relate, and (iv) such criteria are not substantially certain to be met at the time established. See more specific definition in Treas. Reg. 1.409A-1(e).
☒	(f)	Cancellation of Deferred Compensation Election For Disability Paragraph 3.5	If this Option is elected, the Plan Sponsor: ☐ (1) Mandatory Cancellation. Will cancel the Deferred Compensation Election of an Eligible Employee who experiences a Disability as defined in subparagraph 3.5(b). ☒ (2) Optional Cancellation. May permit an Eligible Employee who experiences a Disability as defined in subparagraph 3.5(b) to cancel his Deferred Compensation Election. If this Option is not selected, no cancellation will be required or permitted upon the occurrence of a Disability.
	(g)	Rules Relating to "Specified Employee" Delay Subparagraph 9.1(c)	For purposes of applying the 6-month delay required by Section 409A for a Participant who is a "specified employee" (i.e., a "key employee" of any publicly-traded company): (1) Specified Employee Identification Date. Specified employees shall be identified in the following manner: [Check one of the following and complete, if applicable] ☐ (A) Established By Board Action or Other Document of Plan Sponsor. The identification date and its effective date shall be established by the Plan Sponsor through the document set forth below, which may be an action of its Board or other written document: ______________________________ ______________________________ [Describe document establishing specified employee identification date] ☒ (B) Default Dates in Regulations. The identification date shall be December 31 and effective for distributions to be made during the 12-month period beginning on or after the following April 1, as provided in Treas. Reg. 1.409A-1(i). ☐ (C) Alternative Identification Date. The identification date shall be ________________ (identification date) and effective for distributions to be made during the 12-month period beginning on or after the following ________________ [enter date not later than the first day of the 4th month following the identification date] **The Specified Employee Identification Date must be the same date for all deferred compensation plans, programs, and agreements of the Plan Sponsor and its Affiliates.**

(2) Compensation to be Used in Determining Specified Employees. Specified employees are (A) the 50 highest paid officers (or if less, the greater of 3 or 10% of employees) with compensation in excess of $175,000 (for 2017) (as adjusted from time to time), (B) 1% owners with compensation in excess of $150,000, or (C) 5% owners. The definition of compensation for this purpose shall be determined in the following manner: [Check one of the following and complete, if applicable]

☐ (A) Board Action or Other Document of Plan Sponsor. The compensation used to identify specified employees shall be established by the Plan Sponsor though the document set forth below which may be an action of its Board or other written document that applies to all deferred compensation plans, programs, and agreements of the Plan Sponsor and its Affiliates. ______________________________________

____

[Describe document establishing compensation definition]

☒ (B) VBA Plan. The compensation used to identify specified employees shall be the Total Compensation definition elected under the VBA Plan.

☐ (C) Alternative Compensation Definition. The compensation used to determine specified employees shall be determined in the following manner ____________________

____

______________ [Describe the document establishing compensation definition or describe compensation based on an acceptable definition under Section 415 of the Code]

(3) Payment Rules Following Required Delay Period. Upon the expiration of the required 6-month delay: [Check one of the following]

☐ (A) Catch-Up Missed Payments. Payments to which a specified employee would otherwise have been entitled during the 6-month delay will be accumulated and paid on the first day of the 7th month following the date of Separation from Service for reasons other than death.

☒ (B) Each Payment Delayed. Each payment to which a specified employee would otherwise have been entitled during the 6-month delay will be delayed for 6 months.

☒ (h) Rules Relating to Final Check of Year

If this Option is elected, Compensation payable after the last day of the calendar year solely for services performed during the final payroll period which contains the last day of the year will be treated as Compensation for services performed in the taxable year in which the payroll period began.

If this Option is not elected, Compensation payable after the last day of the calendar year solely for services performed during the final payroll period which contains the last day of the year will be treated as Compensation for services performed in the subsequent taxable year in which the payment is made.

Any change in election relating to the final check of the Participant's taxable year may not be effective for 12 months from the date the amendment is adopted and executed.

5. EMPLOYER CONTRIBUTIONS.

(a) Employer Contributions Paragraph 4.1

The following contributions by the Employer are elected:

☐ (1) None. Employer contributions are not permitted.

☐ (2) Employer Non-Elective Contribution.

(A) Amount. Each Employer shall make an Employer Non-Elective Contribution for each Plan Year in such amount, if any, which the Employer shall determine.

☐ (i) Flexible Formula - Such amount, if any, which the Board of the Employer shall determine by resolution.

☐ (ii) Compensation Formula - ______% [Insert percentage] of the Compensation for such Plan Year, plus any additional amount that the Board of the Employer shall determine by resolution.

☐ (iii) Fixed Amount - $_____________________ [Insert amount], plus any additional amount that the Board of the Employer shall determine by resolution.

☐ (iv) Other - ____________________________________
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____
____
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____

(B) Participants Entitled to Employer Non-Elective Contribution. The Employer Non-Elective Contribution shall be allocated to the Employer Non-Elective Deferral Account of Participants who [Select applicable provisions which shall apply conjunctively unless otherwise noted]

☐ (i) Are employed as Eligible Employees for at least ___________________ [Insert number of months] full calendar months in such Plan Year.

☐ (ii) Are Eligible Employees at any time during such Plan Year.

☐ (iii) Are Eligible Employees on the last day of such Plan Year.

☐ (iv) If they died while Eligible Employees or retired on a Disability, Early, Normal or Delayed Retirement Date while an Eligible Employee during such Plan Year [Check one]

☐ (a) But only if they are employed as an Eligible Employee for at least ___________ [Insert number of months] full calendar months in such Plan Year.

☐ (b) Regardless of the number of months employed during such Plan Year.

☐ (v) <u>Other</u> - : ____________________________________
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____
____

☐ (3) <u>Employer Matching Contributions</u>.

(A) <u>Amount</u>. Each Employer shall make an Employer Matching Contribution for each Plan Year in an amount equal to the following percentage(s) of each Participant's Deferral Contribution for such Plan Year [Check one]

☐ (i) <u>Straight Percentage</u> - ______% [Insert percentage] of his Compensation contributed to the Plan (up to a maximum of ______% of such Compensation).

☐ (ii) <u>Contribution Weighted Percentages</u> - ______% [Insert percentage] of the first ______% [Insert percentage] of his Compensation contributed to the Plan and ______% of his Compensation contributed to the Plan (up to a maximum of ______% of such Compensation).

☐ (iii) <u>Other</u> - : ____________________________________
____
____
____
____
____

(B) Participants Entitled to Employer Matching Contribution. The Employer Matching Contribution shall be allocated to the Employer Matching Deferral Account of Participants who [Select applicable provisions which shall apply conjunctively unless otherwise noted]

☐ (i) Are employed as an Eligible Employee for at least ________ [Insert number of months] full calendar months in such Plan Year.

☐ (ii) Are Eligible Employees at any time during such Plan Year.

☐ (iii) Are Eligible Employees on the last day of such Plan Year.

☐ (iv) If they died while an Eligible Employee or retired on a Disability, Early, Normal or Delayed Retirement Date while an Eligible Employee during such Plan Year [Check one]

☐ (a) But only if they are employed as an Eligible Employee for at least _____ [Insert number of months] full calendar months in such Plan Year.

☐ (b) Regardless of the number of months employed during such Plan Year.

☐ (v) Other - : ________________________________
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____
____
____

6. VESTING.

(a) Vesting Schedule Paragraphs 6.2 and 6.3

The following vesting schedule shall apply to the Employer Deferral Account [Check one, and complete where applicable]

☐ (1) Employer Non-Elective Deferral Account. The following vesting schedule shall apply to the Employer Non-Elective Deferral Account [Check one, and complete where applicable]

☐ (A) Apply Rules Described in Qualified Plan. A Participant is vested in his Employer Non-Elective Deferral Account under the Plan in the same manner and applying the same rules applicable to employer profit sharing or other non-matching contributions under the following qualified retirement plan maintained by the Employer:________________________
____
____

☐ (B) Always 100% Vested. A Participant shall always have a non-forfeitable right to 100% of his Employer Non-Elective Deferral Account.

☐ (C) Other Applicable Rules. A Participant shall be vested in his Employer Non-Elective Deferral Account in accordance with the following rules: ______________________________

____

____

[Describe vesting provisions, including automatic vesting provisions, applicable schedule and rules for counting service]

☐ (2) Employer Matching Deferral Account. The following vesting schedule shall apply to the Employer Matching Deferral Account [Check one, and complete where applicable]

☐ (A) Apply Rules Described in Qualified Plan. A Participant is vested in his Employer Matching Deferral Account under the Plan in the same manner and applying the same rules applicable to matching contributions made under the following qualified retirement plan maintained by the Employer:______________________________

____

____

☐ (B) Always 100% Vested. A Participant shall always have a non-forfeitable right to 100% of his Employer Matching Deferral Account.

☐ (C) Other Applicable Rules. A Participant shall be vested in his Employer Matching Deferral Account in accordance with the following rules: ______________________________

____

____

[Describe vesting provisions, including automatic vesting provisions, applicable schedule and rules for counting service]

7. RETIREMENT DATES.

(a) Normal Retirement Date Paragraph 8.1	A Participant's Normal Retirement Date shall be the day the Participant reaches age 62.
(b) Early Retirement Date Paragraph 8.3	[Select and complete applicable provision(s)] ☐ (1) None. ☒ (2) No age requirement. ☐ (3) Age requirement of ______ years. ☐ (4) No service requirement.

☐ (5) Service requirement of ________________ years of continuous full-time service with the Employer.

(c)	Disability Retirement Date Paragraph 8.4	[Select and complete applicable provision(s)] ☒ (1) No age requirement. ☐ (2) Age requirement of __________________ years. ☐ (3) No service requirement. ☐ (4) Service requirement of ________________ years of continuous full-time service with the Employer.

8. TIME AND FORM OF PAYMENTS.

(a) Time of Payment
Paragraph 9.1

The Employer Non-Elective Deferral Account shall be paid on the Participant's Separation from Service. The Benefit Commencement Date for all other benefits will be determined as follows:

[Check one, and complete where applicable]

☐ (1) Selected By Plan Sponsor. The Plan Sponsor selects the following time of payment: [Select one]

☐ (A) Normal Retirement Date. The later of the Participant's Normal Retirement Date under the Plan or his Separation from Service (for reasons other than death).

☐ (B) Separation from Service. The Participant's Separation from Service for whatever reason.

☐ (C) Six Months Following Separation from Service. Six months following the Participant's Separation from Service (for reasons other than death).

If elected here ☐, the Plan Sponsor elects for payment to be accelerated upon a Change in Control, but only with respect to contributions made after this Adoption Agreement is executed, unless the Plan Sponsor previously made such an election under Option 3(b)(3).

☒ (2) Selected By Participant. The date selected by the Participant in accordance with the following:

(A) Participant's Options. The Participant may elect that his Benefit Commencement Date be based on:

☒ (i) The later of his Normal Retirement Date or his ☒ Separation from Service (for reasons other than death) or ☐ six months following his Separation from Service (for reasons other than death). [Select one]

☐ (ii) ☐ His Separation from Service (for reasons other than death), or ☐ six months following his Separation from Service (for reasons other than death). [Select one]

☐ (iii) A date certain stated clearly in his Deferred Compensation Election form which shall be without regard to when his employment with the Employer ends.

☐ (iv) The earlier of a date certain or ☐ his Separation from Service (for reasons other than death) or ☐ six months following his Separation from Service (for reasons other than death). [Select one]

☐ (v) <u>Change in Control</u>. The Participant may elect to have payment accelerated upon a Change in Control.

(b) Form of Payment to Participant Paragraph 9.2

The Employer Non-Elective Deferral Account shall be paid in a single lump sum. The form of payment to the Participant for all other benefits will be determined as follows: [Check one, and complete where applicable]

☐ (1) <u>Selected By Plan Sponsor</u>. The Plan Sponsor selects the following form of payment: [Select one]

☐ (A) <u>Lump Sum</u>. Deferral Benefits will be paid to the Participant in a single, lump-sum payment.

☐ (B) <u>Periodic Installments</u>. Deferral Benefits will be paid to the Participant in annual periodic installment payments made over the following period: [Select one]

☐ (i) Five (5) years.

☐ (ii) Ten (10) years.

☐ (iii) Fifteen (15) years.

☐ (iv) Twenty (20) years.

☒ (2) <u>Selected By Participant</u>. The Participant may elect from among the following forms of payment [Select options to be available to Participants]

☒ (A) <u>Lump Sum</u>. Deferral Benefits may be paid to the Participant in a single, lump-sum payment.

☒ (B) Periodic Installments. Deferral Benefits may be paid to the Participant in annual periodic installment payments made over the following periods:

☒ (i) Five (5) years.

☒ (ii) Ten (10) years.

☒ (iii) Fifteen (15) years.

☐ (iv) Twenty (20) years.

(c) Form of Payment to Beneficiary
Paragraph 9.2

Any unpaid portion of the Employer Non-Elective Deferral Account shall be paid in a single lump sum to the Beneficiary. The form of payment to the Beneficiary for all other unpaid benefits will be determined as follows: [Check one, and complete where applicable]

☐ (1) Selected By Plan Sponsor. The Plan Sponsor selects the following form of payment to the Beneficiary: [Select one]

☐ (A) Lump Sum. Deferral Benefits will be paid to the Beneficiary in a single, lump-sum payment.

☐ (B) Periodic Installments. Deferral Benefits will be paid to the Beneficiary in annual periodic installment payments made over the following period: [select one]

☐ (i) Five (5) years.

☐ (ii) Ten (10) years.

☐ (iii) Fifteen (15) years.

☐ (iv) Twenty (20) years.

☒ (2) Selected By Participant. The Participant may elect the form of payment to the Beneficiary from among the following forms of payment [Select options to be available to Participants]

☒ (A) Lump Sum. Deferral Benefits may be paid to the Beneficiary in a single, lump-sum payment.

☒ (B) Periodic Installments. Deferral Benefits may be paid to the Beneficiary in annual periodic installment payments made over the following periods:

☒ (i) Five (5) years.

☒ (ii) Ten (10) years.

☒ (iii) Fifteen (15) years.

☐ (iv) Twenty (20) years.

9. HARDSHIP WITHDRAWALS.

(a)	Availability Generally Paragraph 10.1	A Participant [Check one] ☐ (1) Not Permitted. May not make Hardship Withdrawals. ☒ (2) Permitted. May make a Hardship Withdrawal for an Unforeseeable Emergency from the following accounts [Check one or more] ☒ (A) Employee Deferral Account. ☐ (B) Employer Matching Deferral Account. ☐ (C) Employer Non-Elective Deferral Account. ☐ (D) Predecessor Plan Account.

10. PARTICIPANT DEEMED INVESTMENT DIRECTION.

(a)	Availability Generally Paragraph 5.2	A Participant [Check one] ☐ (1) Not Permitted. May not make deemed investment directions. ☒ (2) Permitted. May make deemed investment directions for the following accounts ("directable accounts") [Check one or more] ☒ (A) Employee Deferral Account. ☐ (B) Employer Matching Deferral Account. ☐ (C) Employer Non-Elective Deferral Account. ☐ (D) Predecessor Plan Account.
(b)	Permissible Investments	Unless the Plan Sponsor elects a different option below, a Participant's directable accounts may be invested in the investment funds which are designed to mirror the investment options available under the VBA Plan as adopted by the Plan Sponsor, to the extent legally practical, with alternate funds designated where collective investment funds may not be offered under a nonqualified plan. ☐ (1) VBA Plan Plus Company Stock. In addition to the funds available under the VBA Plan, a Company Stock Fund will also be available for directed investment. ☒ (2) VBA Plan Without Company Stock. Regardless of whether a Company Stock Fund is available under the VBA Plan, no Company Stock Fund will be available for directed investment.

☐ (3) Company Stock Only. In lieu of the funds available under the VBA Plan, a Company Stock Fund will be the only fund available for directed investment.

IN WITNESS WHEREOF, each Employer, by its duly authorized representatives, has executed this Adoption Agreement this 26 day of October , 2021 .

Carter Bank & Trust
[Enter Name of Plan Sponsor]

By /s/ Bradford Langs
Its President and Chief Strategy Officer

[SEAL]

ATTEST:

____
Its _____________________________

Carter Bank & Trust
[Enter Name of Employer]

By /s/ Paul Carney
Its Chief Human Resources Officer

[SEAL]

ATTEST:

____
Its _____________________________

____
[Enter Name of Employer]

By _____________________________
Its _____________________________

[SEAL]

ATTEST:

____
Its _____________________________

Exhibit 10.12.1

NON-QUALIFIED DEFERRED COMPENSATION PLAN FOR DIRECTORS
(As Restated Effective January 1, 2018)
ADOPTION AGREEMENT

(Updated Form January 1, 2020)

This Adoption Agreement is the companion document that allows a corporation to sponsor and adopt the Virginia Bankers Association Model Non-Qualified Deferred Compensation Plan for Directors (the "Plan"). Each Corporation named below hereby adopts the Plan through this Adoption Agreement (the "Adoption Agreement"), to be effective as of the date(s) specified below, and elects the following specifications and provides the following information relating thereto.

In completing this Adoption Agreement, if additional space is required, insert additional sheets.

Adoption Agreement Contents

1. CORPORATION(S) ADOPTING PLAN.

(a) Name of Plan Sponsor: Carter Bank & Trust	(b) Plan Sponsor's Telephone Number: 276-629-3331
(c) Address of Plan Sponsor: 9112 Virginia Avenue Bassett, VA 24055-4859	(d) Plan Sponsor's EIN: 20-5539935 (e) Plan Sponsor's Tax Year End: 12/31

(f) Other Participating Corporations Adopting the Plan:

☒ (1) All Affiliates are automatically participating Corporations in the Plan, except for the following: ____.

☐ (2) Each participating Corporation is listed individually on the attachment captioned "List of Participating Corporations," which shall be updated as needed from time to time in compliance with ARTICLE XIII of the basic plan document.

2. GENERAL PLAN INFORMATION.

(a) Name of Plan:

Carter Bank & Trust Nonqualified Deferred Compensation Plan

(b) Name, Address and EIN of Plan Administrator(s): [If other than Plan Sponsor, appointment must be by resolution]

3. STATUS OF PLAN AND EFFECTIVE DATE(S).

(a) Effective Date of Plan: The Effective Date of the Plan is October 1, 2020.

(b) Plan Status. The adoption of the Plan through this Adoption Agreement is:

☐ (1) Initial Establishment. The initial adoption and establishment of the Plan.

☒ (2) Restated Plan. An amendment and restatement of the Plan (a Restated Plan).

(A) Effective Date of this Restatement. The Effective Date of this Restatement is January 1, 2022.

(B) Prior Plan. The Plan was last maintained under document dated ____________________, _____ and was known as the ____
____
____
____.

(C) 409A Transitional Provisions (grandfathering election):

☐ Election NOT to Grandfather Pre-January 1, 2005 Vested Balances. If this Option is elected, all Deferral Accounts shall be subject to the rules set forth in the post-December 31, 2004 restatements.

If the Option is not elected, the Deferral Accounts attributable to transfers from predecessor plans prior to December 31, 2004 and contributions that are vested as of December 31, 2004 shall be segregated from the Deferral Accounts attributable to contributions that are not vested as of December 31, 2004 and to contributions and transfers made on and after January 1, 2005. The terms of the Plan in effect on and after January 1, 2005 shall only apply to transfers and contributions that are not vested as of December 31, 2004 and to contributions and transfers made on and after January 1, 2005.

☐ (3) Special or Other Transitional Provisions. [Use attachment if additional space is needed]

[Enter any special provisions including alternate definitions or other transitional provisions relating to any Predecessor Plan Account and the Plan as restated]________________________________
____
____
____
____

4. DEFINITIONS AND OTHER OPTIONAL PROVISIONS.

(a) Compensation
Paragraph 1.10

Compensation is used throughout the basic plan document for different purposes. The following specific rules apply.

(1) General Definition. The Compensation definition in paragraph 1.10 of the basic plan document is modified as follows:

(A) Retainer. Retainer is more specifically defined to mean:

____
____
____
____
____
____

(B) Fees. Fees is more specifically defined to mean:

____
____
____
____
____
____

(2) Specific Definitions. When used with respect to Deferral Contributions under the Plan, Compensation shall include: [Check one]

☐ (A) Retainer.

☐ (B) Fees.

☒ (C) Retainers and Fees.

(b) Eligible Director
Paragraph 1.19

Eligible Director shall mean only the following:

☐ (1) All Directors. Any individual serving as a Director of the Corporation.

☒ (2) All Non-Employee Directors. Any individual serving as a Director of the Corporation, except Directors who are also common law employees of the Corporation.

☐ (3) Determination by Board. Any individual who is designated as an Eligible Director by resolution of the ☐ Plan Sponsor's ☐ Corporation's Board. A copy of the resolution shall be attached to and incorporated by reference into the Plan.

(c) Plan Year
Paragraph 1.24

In the case of a Restated Plan, which prior to the Effective Date of this Restatement was maintained on the basis of a Plan Year beginning on a date other than January 1, the Plan Year shall begin on ________, ____ and end on _________, ______, with the short Plan Year beginning on __________________________, _______ and ending on December 31, ________. Thereafter, the Plan Year shall be the 12-month period beginning each January 1.

	(d)	Effective Date of Coverage Paragraph 2.1	The effective date of coverage for an Eligible Director shall be [Check one] ☒ (1) Immediate. The first day of the first payroll period beginning on or after the date the individual became an Eligible Director. ☐ (2) Monthly. The first day of the first payroll period beginning on or after the first day of _________ [Complete with 1st, 2nd, or other] month next following the date the individual became an Eligible Director. ☐ (3) Semi-Annually. The first day of the Plan Year or the first day of the seventh month of the Plan Year on or next following the date the individual became an Eligible Director. ☐ (4) Annually. The first day of the Plan Year on or next following the date the individual became an Eligible Director.
☒	(e)	Cancellation of Deferred Compensation Election For Disability Paragraph 3.5	If this Option is elected, the Plan Sponsor: ☐ (1) Mandatory Cancellation. Will cancel the Deferred Compensation Election of an Eligible Director who experiences a Disability as defined in subparagraph 3.5(b). ☒ (2) Optional Cancellation. May permit an Eligible Director who experiences a Disability as defined in subparagraph 3.5(b) to cancel his Deferred Compensation Election. If this Option is not selected, no cancellation will be required or permitted upon the occurrence of a Disability.
☒	(f)	Rules Relating to Final Check of Year	If this Option is elected, Compensation payable after the last day of the calendar year solely for services performed during the final payroll period which contains the last day of the year will be treated as Compensation for services performed in the taxable year in which the payroll period began. If this Option is not elected, Compensation payable after the last day of the calendar year solely for services performed during the final payroll period which contains the last day of the year will be treated as Compensation for services performed in the subsequent taxable year in which the payment is made. Any change in election relating to the final check of the Participant's taxable year may not be effective for 12 months from the date the amendment is adopted and executed.

5. TIME AND FORM OF PAYMENTS.

(a) Benefit Commencement Date Paragraph 7.1

Benefit Commencement Date shall mean the first day of the calendar quarter coinciding with or next following the designated time or event as follows: [Check one, and complete where applicable]

☐ (1) Selected By Plan Sponsor. The Plan Sponsor hereby selects payment commencement on the Participant's Separation from Service as a Director of the Corporation for whatever reason.

If elected here ☐, the Plan Sponsor elects for payment to be accelerated upon a Change in Control, but only with respect to contributions made after this Adoption Agreement is executed, unless the Plan Sponsor previously made such an election under Option 3(b)(3).

☒ (2) Selected By Participant. The date selected by the Participant in accordance with the following: [Select options to be available to Participant]

☒ (A) The Participant's Separation from Service as a Director (for reasons other than death).

☐ (B) A date certain stated clearly in the Participant's Deferred Compensation Election form which shall be without regard to when service as a Director ends.

☐ (D) The earlier of a date certain or Separation from Service as a Director (for reasons other than death).

☐ (E) Change in Control. The Participant may elect to have payment accelerated upon a Change in Control.

(b) Form of Payment to Participant Paragraph 7.2

The form of payment to the Participant will be determined as follows: [Check one, and complete where applicable]

☐ (1) Selected By Plan Sponsor. The Plan Sponsor selects the following form of payment: [Select One]

☐ (A) Lump Sum. Deferral Benefits will be paid to the Participant in a single, lump-sum payment.

☐ (B) Periodic Installments. Deferral Benefits will be paid to the Participant in annual periodic installment payments made over the following period: [Select One]

☐ (i) Five (5) years.

☐ (ii) Ten (10) years.

☐ (iii) Fifteen (15) years.

☐ (iv) Twenty (20) years.

☒ (2) Selected By Participant. The Participant may elect from among the following forms of payment [Select options to be available to Participants]

☒ (A) Lump Sum. Deferral Benefits may be paid to the Participant in a single, lump-sum payment.

☒ (B) Periodic Installments. Deferral Benefits may be paid to the Participant in annual periodic installment payments made over the following period:

☒ (i) Five (5) years.

☒ (ii) Ten (10) years.

☒ (iii) Fifteen (15) years.

☐ (iv) Twenty (20) years.

(c) Form of Payment to Beneficiary Paragraph 7.2

The form of payment to the Beneficiary will be determined as follows: [Check one, and complete where applicable]

☐ (1) Selected By Plan Sponsor. The Plan Sponsor selects the following form of payment to the Beneficiary: [Select One]

☐ (A) Lump Sum. Deferral Benefits will be paid to the Beneficiary in a single, lump-sum payment.

☐ (B) Periodic Installments. Deferral Benefits will be paid to the Beneficiary in annual periodic installment payments made over the following period: [Select One]

☐ (i) Five (5) years.

☐ (ii) Ten (10) years.

☐ (iii) Fifteen (15) years.

☐ (iv) Twenty (20) years.

☒ (2) Selected By Participant. The Participant may elect the form of payment to the Beneficiary from among the following forms of payment [Select options to be available to Participants]

☒ (A) Lump Sum. Deferral Benefits may be paid to the Beneficiary in a single, lump-sum payment.

		☒ (B)	Periodic Installments. Deferral Benefits may be paid to the Beneficiary in annual periodic installment payments made over the following periods: ☒ (i) Five (5) years. ☒ (ii) Ten (10) years. ☒ (iii) Fifteen (15) years. ☐ (iv) Twenty (20) years.

6. HARDSHIP WITHDRAWALS.

(a)	Availability Generally Paragraph 8.1	A Participant [Check one] ☐ (1) Not Permitted. May not make Hardship Withdrawals. ☒ (2) Permitted. May make a Hardship Withdrawal for an Unforeseeable Emergency.

7. PARTICIPANT DEEMED INVESTMENT DIRECTION.

(a)	Availability Generally Paragraph 4.2	A Participant [Check one] ☐ (1) Not Permitted. May not make deemed investment directions. ☒ (2) Permitted. May make deemed investment directions for his Deferral Account.
(b)	Permissible Investments	Unless the Plan Sponsor elects a different option below, a Participant's Deferral Account may be invested in the investment funds which are designed to mirror the investment options available under the VBA Plan as adopted by the Plan Sponsor, to the extent legally practical, with alternate funds designated where collective investment funds may not be offered under a nonqualified plan. ☐ (1) VBA Plan Plus Company Stock. In addition to the funds available under the VBA Plan, a Company Stock Fund will also be available for directed investment. ☒ (2) VBA Plan Without Company Stock. Regardless of whether a Company Stock Fund is available under the VBA Plan, no Company Stock Fund will be available for directed investment. ☐ (3) Company Stock Only. In lieu of the funds available under the VBA Plan, a Company Stock Fund will be the only fund available for directed investment.

IN WITNESS WHEREOF, each Corporation, by its duly authorized representatives, has executed this Adoption Agreement this 26 day of October, 2021.

Carter Bank & Trust
[Enter Name of Plan Sponsor]

By /s/ Bradford Langs
Its President and Chief Strategy Officer

[SEAL]

ATTEST:

____
Its ___________________________

Carter Bank & Trust
[Enter Name of Corporation]

By /s/ Paul Carney
Its Chief Human Resources Officer

[SEAL]

ATTEST:

____
Its ___________________________

____
[Enter Name of Corporation]

By ___________________________
Its ___________________________

[SEAL]

ATTEST:

____
Its ___________________________

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

Carter Bankshares, Inc., a Virginia corporation, is a financial holding company. The table below sets forth all of our subsidiaries and the state or jurisdiction of organization of such subsidiaries.

Subsidiary	**State or Jurisdiction of Organization**
Carter Bank & Trust	Virginia
CB&T Investment Company	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-251098 on Form S-8 of Carter Bankshares, Inc. and Subsidiaries of our report dated March 11, 2022 relating to the consolidated financial statements and effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10-K.

Crowe LLP

Washington, D.C.
March 11, 2022

Exhibit 31.1

CARTER BANKSHARES, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Litz H. Van Dyke, certify that:

1. I have reviewed this annual report on Form 10-K of Carter Bankshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2022

/s/ Litz H. Van Dyke
Litz H. Van Dyke
Chief Executive Officer

Exhibit 31.2

CARTER BANKSHARES, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Wendy S. Bell, certify that:

1. I have reviewed this annual report on Form 10-K of Carter Bankshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2022

/s/ Wendy S. Bell

Wendy S. Bell
Chief Financial Officer

Exhibit 32.1

CARTER BANKSHARES, INC. AND SUBSIDIARIES

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. § 1350)

Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) I, Litz H. Van Dyke, as Principal Executive Officer of Carter Bankshares, Inc., certify that, to the best of my knowledge and belief, the Annual Report on Form 10-K for the period ended December 31, 2021, which accompanies this certification fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Carter Bankshares, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose. The undersigned expressly disclaims any obligation to update the foregoing certification except as required by law.

Date: March 11, 2022

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

CARTER BANKSHARES, INC. AND SUBSIDIARIES

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. § 1350)

Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) I, Wendy S. Bell, as Principal Financial Officer of Carter Bankshares, Inc., certify that, to the best of my knowledge and belief, the Annual Report on Form 10-K for the period ended December 31, 2021, which accompanies this certification fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Carter Bankshares, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose. The undersigned expressly disclaims any obligation to update the foregoing certification except as required by law.

Date: March 11, 2022

/s/ Wendy S. Bell

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