

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

FORM 10-Q

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from to __

Commission File Number: 001-39731

CARTER BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia

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

NA

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

As of November 1, 2024 there were 23,072,014 shares of the registrant’s common stock issued and outstanding.

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CARTER BANKSHARES, INC.

PART 1

ITEM 1 – FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands Except per Share Data)	September 30, 2024 (unaudited)	December 31, 2023 (audited)
ASSETS		
Cash and Due From Banks, including Interest-bearing Deposits of \$61,603 at September 30, 2024 and \$14,853 at December 31, 2023	\$ 104,992	\$ 54,529
Securities Available-for-Sale, at Fair Value (amortized cost of \$810,935 and \$870,546, respectively)	742,635	779,003
Equity Securities	5,207	—
Loans Held-for-Sale	390	—
Portfolio Loans	3,595,861	3,505,910
Allowance for Credit Losses	(80,909)	(97,052)
Portfolio Loans, net	3,514,952	3,408,858
Bank Premises and Equipment, net	73,433	73,707
Other Real Estate Owned, net	1,512	2,463
Federal Home Loan Bank Stock, at Cost	7,437	21,626
Bank Owned Life Insurance	59,203	58,115
Other Assets	103,674	114,238
Total Assets	\$ 4,613,435	\$ 4,512,539
LIABILITIES		
Deposits:		
Noninterest-Bearing Demand	\$ 628,901	\$ 685,218
Interest-Bearing Demand	649,005	481,506
Money Market	504,206	513,664
Savings	372,881	454,876
Certificates of Deposit	1,930,075	1,586,651
Total Deposits	4,085,068	3,721,915
Federal Home Loan Bank Borrowings	90,000	393,400
Reserve for Unfunded Commitments	3,105	3,193
Other Liabilities	48,437	42,788
Total Liabilities	4,226,610	4,161,296
SHAREHOLDERS' EQUITY		
Common Stock, Par Value \$1.00 per share, Authorized 100,000,000 Shares; Outstanding shares 23,072,014 at September 30, 2024 and 22,956,304 at December 31, 2023	23,072	22,957
Additional Paid-in Capital	91,732	90,642
Retained Earnings	325,326	309,083
Accumulated Other Comprehensive Loss	(53,305)	(71,439)
Total Shareholders' Equity	386,825	351,243
Total Liabilities and Shareholders' Equity	\$ 4,613,435	\$ 4,512,539

See accompanying notes to unaudited consolidated financial statements.

CARTER BANKSHARES, INC.

PART 1

ITEM 1 – FINANCIAL STATEMENTS (continued)

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands Except per Share Data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
INTEREST INCOME				
Loans, including fees				
Taxable	\$ 47,813	\$ 39,578	\$ 138,025	\$ 117,235
Non-Taxable	643	768	2,027	2,403
Investment Securities				
Taxable	7,266	7,793	22,730	22,874
Non-Taxable	67	160	202	488
Federal Reserve Bank Excess Reserves	560	165	1,277	553
Interest on Bank Deposits	36	6	74	33
Dividend Income	210	416	892	971
Total Interest Income	56,595	48,886	165,227	144,557
Interest Expense				
Interest Expense on Deposits	25,518	15,328	68,958	34,629
Interest Expense on Federal Funds Purchased	—	107	—	354
Interest on Other Borrowings	2,279	6,057	10,960	14,684
Total Interest Expense	27,797	21,492	79,918	49,667
NET INTEREST INCOME	28,798	27,394	85,309	94,890
(Recovery) Provision for Credit Losses	(432)	1,105	75	2,605
Provision (Recovery) for Unfunded Commitments	191	(130)	(88)	314
Net Interest Income After (Recovery) Provision for Credit Losses	29,039	26,419	85,322	91,971
NONINTEREST INCOME				
(Losses) Gains on Sales of Securities, net	—	(1)	36	(10)
Service Charges, Commissions and Fees	1,820	1,783	5,547	5,380
Debit Card Interchange Fees	1,907	1,902	5,926	5,941
Insurance Commissions	1,063	868	2,611	1,550
Bank Owned Life Insurance Income	375	348	1,088	1,028
Commercial Loan Swap Fee Income	—	—	—	114
Other	257	370	792	1,030
Total Noninterest Income	5,422	5,270	16,000	15,033
NONINTEREST EXPENSE				
Salaries and Employee Benefits	14,603	13,956	43,019	41,257
Occupancy Expense, net	3,944	3,547	11,485	10,548
FDIC Insurance Expense	1,529	1,368	4,782	2,711
Other Taxes	878	856	2,680	2,446
Advertising Expense	585	363	1,470	1,133
Telephone Expense	324	500	1,083	1,339
Professional and Legal Fees	1,193	1,512	4,248	4,005
Data Processing	1,337	1,076	3,462	2,854
Debit Card Expense	889	816	2,453	2,066
Other	2,151	3,288	6,454	8,035
Total Noninterest Expense	27,433	27,282	81,136	76,394
Income Before Income Taxes	7,028	4,407	20,186	30,610
Income Tax Provision	1,399	780	3,943	5,338
Net Income	\$ 5,629	\$ 3,627	\$ 16,243	\$ 25,272
Earnings per Common Share				
Basic Earnings per Common Share	\$ 0.24	\$ 0.16	\$ 0.70	\$ 1.07
Diluted Earnings per Common Share	\$ 0.24	\$ 0.16	\$ 0.70	\$ 1.07
Average Shares Outstanding – Basic & Diluted	22,832,619	22,946,179	22,810,114	23,407,071

See accompanying notes to unaudited consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net Income	\$ 5,629	\$ 3,627	\$ 16,243	\$ 25,272
Other Comprehensive Income (Loss):				
Net Unrealized Gains (Losses) on Securities Available-for-Sale:				
Net Unrealized Gains (Losses) Arising during the Period	20,910	(14,773)	23,279	(10,176)
Reclassification Adjustment for Losses (Gains) included in Net Income	—	1	(36)	10
Tax Effect	(4,582)	3,197	(5,109)	2,222
Net Unrealized Gains (Losses) Recognized in Other Comprehensive Income (Loss)	16,328	(11,575)	18,134	(7,944)
Other Comprehensive Income (Loss)	16,328	(11,575)	18,134	(7,944)
Comprehensive Income (Loss)	\$ 21,957	\$ (7,948)	\$ 34,377	\$ 17,328

See accompanying notes to unaudited consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in Thousands)	Three Months Ended September 30, 2024				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at June 30, 2024	\$ 23,073	\$ 91,274	\$ 319,697	\$ (69,633)	\$ 364,411
Net Income	—	—	5,629	—	5,629
Other Comprehensive Income, Net of Tax	—	—	—	16,328	16,328
Forfeiture of Restricted Stock (736 shares)	(1)	—	—	—	(1)
Recognition of Restricted Stock Compensation Expense	—	458	—	—	458
Balance at September 30, 2024	\$ 23,072	\$ 91,732	\$ 325,326	\$ (53,305)	\$ 386,825

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

(Dollars in Thousands)	Nine Months Ended September 30, 2024				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2023	\$ 22,957	\$ 90,642	\$ 309,083	\$ (71,439)	\$ 351,243
Net Income	—	—	16,243	—	16,243
Other Comprehensive Income, Net of Tax	—	—	—	18,134	18,134
Forfeiture of Restricted Stock (12,405 shares)	(13)	(106)	—	—	(119)
Issuance of Restricted Stock (128,115 shares)	128	(128)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	1,324	—	—	1,324
Balance at September 30, 2024	\$ 23,072	\$ 91,732	\$ 325,326	\$ (53,305)	\$ 386,825

CARTER BANKSHARES, INC.

PART 1

ITEM 1 – FINANCIAL STATEMENTS (continued)

Nine Months Ended September 30, 2023

(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2022	\$ 23,957	\$ 104,693	\$ 285,593	\$ (85,616)	\$ 328,627
Cumulative Effect of the Adoption of ASU 2023-02	—	—	106	—	106
Balance at January 1, 2023	23,957	104,693	285,699	(85,616)	328,733
Net Income	—	—	25,272	—	25,272
Other Comprehensive Loss, Net of Tax	—	—	—	(7,944)	(7,944)
1% Excise Tax on Stock Buybacks	—	(153)	—	—	(153)
Repurchase of Common Stock (1,132,232 shares)	(1,132)	(15,284)	—	—	(16,416)
Forfeiture of Restricted Stock (4,284 shares)	(4)	(38)	—	—	(42)
Issuance of Restricted Stock (135,497 shares)	135	(135)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	1,171	—	—	1,171
Balance at September 30, 2023	\$ 22,956	\$ 90,254	\$ 310,971	\$ (93,560)	\$ 330,621

See accompanying notes to unaudited consolidated financial statements.

CARTER BANKSHARES, INC.

PART 1

ITEM 1 – FINANCIAL STATEMENTS (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	Nine Months Ended September 30,	
	2024	2023
Net Income	\$ 16,243	\$ 25,272
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
(Recovery) Provision for Credit Losses, including Provision (Recovery) for Unfunded Commitments	(13)	2,919
Origination of Loans Held-for-Sale	(6,233)	(5,524)
Proceeds From Loans Held-for-Sale	5,932	5,614
Depreciation/Amortization of Bank Premises and Equipment	5,216	4,689
Provision for Deferred Taxes	1,377	256
Net Amortization of Securities	2,735	3,696
Unrealized Gain on Equity Securities	(207)	—
Tax Credit Amortization	354	1,438
Gains on Sales of Loans Held-for-Sale	(89)	(90)
(Gains) Losses on Sales of Securities, net	(36)	10
Commercial Loan Swap Derivative Loss (Income)	112	(90)
Increase in the Value of Life Insurance Contracts	(1,088)	(1,028)
Balance Sheet Hedge Fair Value Adjustment	(103)	—
Recognition of Restricted Stock Compensation Expense	1,324	1,171
Decrease (Increase) in Other Assets	1,754	(826)
(Decrease) Increase in Other Liabilities	(1,791)	1,348
Net Cash Provided By Operating Activities	25,487	38,855
INVESTING ACTIVITIES		
Securities Available-for-Sale:		
Proceeds from Sales	10,617	15,054
Proceeds from Maturities, Redemptions, and Pay-downs	54,910	38,896
Purchases	(8,615)	(24,938)
Purchase of Equity Securities	(5,000)	—
Purchase of Bank Premises and Equipment, Net	(4,996)	(7,979)
Redemption (Purchase) of Federal Home Loan Bank Stock, net	14,189	(17,621)
Loan Originations, net	(98,866)	(264,010)
Payments Received on Other Real Estate Owned	—	299
Proceeds from Sales and Payments of Other Real Estate Owned	2,984	4,818
Net Cash Used In Investing Activities	(34,777)	(255,481)
FINANCING ACTIVITIES		
Net Change in Demand, Money Markets and Savings Accounts	19,729	(324,172)
Increase in Certificates of Deposits	343,424	250,028
(Repayments) Proceeds from Federal Home Loan Bank Borrowings, net	(303,400)	333,585
Repayments from Federal Funds Purchased, net	—	(17,870)
Repurchase of Common Stock	—	(16,416)
Net Cash Provided By Financing Activities	59,753	225,155
Net Increase in Cash and Cash Equivalents	50,463	8,529
Cash and Cash Equivalents at Beginning of Period	54,529	46,869
Cash and Cash Equivalents at End of Period	\$ 104,992	\$ 55,398
SUPPLEMENTARY DATA		
Cash Interest Paid	\$ 79,122	\$ 45,031
Cash Paid for Income Taxes	457	5,658
Transfer from Loans to Other Real Estate Owned	1,181	—
Transfer from Fixed Assets to Other Real Estate Owned	—	1,388
Right-of-use Asset Recorded in Exchange for Lease Liabilities	2,511	—
Stock Repurchase Excise Tax Settled in Subsequent Period	—	(153)

See accompanying notes to unaudited consolidated financial statements.

NOTE 1 – BASIS OF PRESENTATION

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

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

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

Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the Consolidated Financial Statements and the disclosures provided, and actual results could differ from those estimates.

Accounting Standards Adopted in 2024

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

Accounting Standards Issued but Not Yet Adopted

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

CARTER BANKSHARES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1 – BASIS OF PRESENTATION – (continued)**

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

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

Recently Issued Disclosure Rules

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

NOTE 2 – EARNINGS PER COMMON SHARE

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

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

(Dollars in Thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator for Earnings per Common Share – Basic and Diluted				
Net Income	\$ 5,629	\$ 3,627	\$ 16,243	\$ 25,272
Less: Income allocated to participating shares	58	33	165	208
Net Income Allocated to Common Shareholders - Basic & Diluted	\$ 5,571	\$ 3,594	\$ 16,078	\$ 25,064
Denominator:				
Weighted Average Shares Outstanding, including Shares Considered Participating Securities	23,072,376	23,157,563	23,043,705	23,600,946
Less: Average Participating Securities	239,757	211,384	233,591	193,875
Weighted Average Common Shares Outstanding - Basic & Diluted	22,832,619	22,946,179	22,810,114	23,407,071
Earnings per Common Share – Basic	\$ 0.24	\$ 0.16	\$ 0.70	\$ 1.07
Earnings per Common Share – Diluted	\$ 0.24	\$ 0.16	\$ 0.70	\$ 1.07

CARTER BANKSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 3 - INVESTMENT SECURITIES

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

(Dollars in Thousands)	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agency Securities	27,986	51	(562)	27,475
Residential Mortgage-Backed Securities	107,515	7	(8,713)	98,809
Commercial Mortgage-Backed Securities	23,524	55	(538)	23,041
Other Commercial Mortgage-Backed Securities	24,097	—	(1,830)	22,267
Asset Backed Securities	128,726	13	(7,593)	121,146
Collateralized Mortgage Obligations	165,377	16	(8,975)	156,418
States and Political Subdivisions	262,960	—	(31,788)	231,172
Corporate Notes	70,750	—	(8,443)	62,307
Total Debt Securities	\$ 810,935	\$ 142	\$ (68,442)	\$ 742,635

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

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

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

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Proceeds from Sales of Securities Available-for-Sale	\$ —	\$ —	\$ 10,617	\$ 15,054
Gross Realized Gains	\$ —	\$ —	\$ 36	\$ 129
Gross Realized Losses	—	(1)	—	(139)
Net Realized (Losses) Gains	—	(1)	36	(10)
Tax Impact	\$ —	\$ —	\$ 8	\$ (2)

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

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

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

(Dollars in Thousands)	September 30, 2024	
	Amortized Cost	Fair Value
Due in One Year or Less	\$ 23	\$ 23
Due after One Year through Five Years	23,711	22,476
Due after Five Years through Ten Years	272,978	242,763
Due after Ten Years	64,984	55,692
Residential Mortgage-Backed Securities	107,515	98,809
Commercial Mortgage-Backed Securities	23,524	23,041
Other Commercial Mortgage-Backed Securities	24,097	22,267
Collateralized Mortgage Obligations	165,377	156,418
Asset Backed Securities	128,726	121,146
Total Debt Securities	\$ 810,935	\$ 742,635

At September 30, 2024 and December 31, 2023, there were no holdings of securities of any one issuer, other than those securities issued by the U.S. Government and its Agencies, in an amount greater than 10% of shareholders' equity. The carrying value of securities pledged for various regulatory and legal requirements was \$309.3 million at September 30, 2024 and \$215.5 million at December 31, 2023.

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

(Dollars in Thousands)	September 30, 2024								
	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Government Agency Securities	5	3,014	(19)	20	16,824	(543)	25	19,838	(562)
Residential Mortgage-Backed Securities	—	—	—	40	97,853	(8,713)	40	97,853	(8,713)
Commercial Mortgage-Backed Securities	1	116	—	43	14,589	(538)	44	14,705	(538)
Other Commercial Mortgage-Backed Securities	—	—	—	8	22,267	(1,830)	8	22,267	(1,830)
Asset Backed Securities	1	1,213	(10)	27	78,923	(7,583)	28	80,136	(7,593)
Collateralized Mortgage Obligations	3	11,957	(10)	75	138,132	(8,965)	78	150,089	(8,975)
States and Political Subdivisions	—	—	—	153	231,172	(31,788)	153	231,172	(31,788)
Corporate Notes	—	—	—	21	62,307	(8,443)	21	62,307	(8,443)
Total Debt Securities	10	\$ 16,300	\$ (39)	387	\$ 662,067	\$ (68,403)	397	\$ 678,367	\$ (68,442)

(Dollars in Thousands)	December 31, 2023								
	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Government Agency Securities	7	\$ 6,567	\$ (67)	15	\$ 15,848	\$ (689)	22	\$ 22,415	\$ (756)
Residential Mortgage-Backed Securities	—	—	—	43	99,150	(11,576)	43	99,150	(11,576)
Commercial Mortgage-Backed Securities	3	1,073	(3)	50	18,692	(748)	53	19,765	(751)
Other Commercial Mortgage-Backed Securities	—	—	—	9	21,856	(2,666)	9	21,856	(2,666)
Asset Backed Securities	2	2,530	(84)	52	137,476	(10,742)	54	140,006	(10,826)
Collateralized Mortgage Obligations	—	—	—	85	161,533	(12,863)	85	161,533	(12,863)
States and Political Subdivisions	—	—	—	153	222,108	(41,449)	153	222,108	(41,449)
Corporate Notes	—	—	—	21	59,360	(11,390)	21	59,360	(11,390)
Total Debt Securities	12	\$ 10,170	\$ (154)	428	\$ 736,023	\$ (92,123)	440	\$ 746,193	\$ (92,277)

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

The Company did not record an allowance for credit losses, (“ACL”), on its investment securities as of September 30, 2024 or December 31, 2023 as there was no related impairment. The Company regularly reviews debt securities for expected credit loss using both qualitative and quantitative criteria, as necessary, based on the composition of the portfolio at period end.

As of September 30, 2024, management does not intend to sell any security in an unrealized loss position and it is not more than likely that it will be required to sell any such security before the recovery of its amortized cost basis. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread fluctuations, general financial market uncertainty and market volatility. These conditions should not prohibit the Company from receiving its contractual principal and interest payments on its debt securities. The fair value is expected to recover as the securities approach their maturity date or repricing date. It should be noted that we may occasionally sell securities to take advantage of market opportunities or as part of a strategic initiative.

As of September 30, 2024, the Company determined the unrealized losses detailed in the table above are not related to credit; therefore, no ACL has been recognized on the Company’s securities. Should the impairment of any of these securities become credit related, the impairment will be recognized by establishing an ACL through provision for credit losses in the period the credit related impairment is identified, while any non-credit loss will be recognized in accumulated other comprehensive loss, net of applicable taxes. During the three and nine months ended September 30, 2024 and September 30, 2023, the Company had no credit related net investment impairment losses.

Equity Securities

During the second quarter of 2024, the Company purchased \$5.0 million of equity securities with carrying value totaling \$5.2 million at September 30, 2024. These securities are separately reported as “equity securities” on the Company’s Consolidated Balance Sheets. The equity securities consist of our investment in a market-rate bond mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing to low- and moderate-income borrowers and renters, including those in Majority Minority Census Tracts. The Company’s investment in the mutual fund is eligible for investment credit under the Community Reinvestment Act.

During the three and nine months ended September 30, 2024, the Company recognized an unrealized fair value gain of \$181.5 thousand and \$207.1 thousand, respectively, on these equity securities. This unrealized fair value gain is recorded in Other Income on the Consolidated Statements of Income.

NOTE 4 – LOANS

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023
Commercial		
Commercial Real Estate	\$ 1,857,997	\$ 1,670,631
Commercial and Industrial	241,474	271,511
Total Commercial Loans	2,099,471	1,942,142
Consumer		
Residential Mortgages	782,930	787,929
Other Consumer	29,813	34,277
Total Consumer Loans	812,743	822,206
Construction	399,502	436,349
Other	284,145	305,213
Total Portfolio Loans	3,595,861	3,505,910
Loans Held-for-Sale	390	—
Total Loans	\$ 3,596,251	\$ 3,505,910

Loan Restructurings

The Company evaluates all loan restructurings in accordance with ASU 2022-02 for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are only for modifications that directly affect cash flows.

A loan that is considered a restructured loan may be subject to the individually evaluated loan analysis if the commitment is \$1.0 million or greater and/or based on management's discretion; otherwise, the restructured loan remains in the appropriate segment in the ACL model. For a discussion with respect to reserve calculations regarding individually evaluated loans refer to the "Nonrecurring Basis" section in Note 6, Fair Value Measurements, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q.

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

(Dollars in Thousands)	Restructured Loans					
	Three Months Ended September 30, 2024			Nine Months Ended September 30, 2024		
	Number of Contracts	Amortized Cost Basis	% of Total Class of Financing Receivable	Number of Contracts	Amortized Cost Basis	% of Total Class of Financing Receivable
Accruing Restructured Loans						
Commercial Real Estate	—	\$ —	— %	—	\$ —	— %
Commercial and Industrial	2	13,604	5.63 %	2	13,604	5.63 %
Residential Mortgages	—	—	— %	—	—	— %
Other Consumer	—	—	— %	—	—	— %
Construction	—	—	— %	—	—	— %
Other	—	—	— %	—	—	— %
Total Accruing Restructured Loans	2	\$ 13,604	5.63 %	2	\$ 13,604	5.63 %
Nonaccrual Restructured Loans						
Commercial Real Estate	—	\$ —	— %	1	\$ 434	0.02 %
Commercial and Industrial	—	—	— %	—	—	— %
Residential Mortgages	1	2,106	0.27 %	1	2,106	0.27 %
Other Consumer	—	—	— %	—	—	— %
Construction	—	—	— %	—	—	— %
Other	—	—	— %	11	280,905	98.86 %
Total Nonaccrual Restructured Loans	1	\$ 2,106	0.27 %	13	\$ 283,445	97.98 %
Total Restructured Loans	3	\$ 15,710	4.91 %	15	\$ 297,049	93.75 %

There were no loans to borrowers experiencing financial difficulty restructured during the three and nine months ended September 30, 2023.

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

CARTER BANKSHARES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOTE 4 – LOANS (continued)

The following table presents the aging analysis of modifications to borrowers experiencing financial difficulty in the last 12 months as of September 30, 2024:

(Dollars in Thousands)	Payment Status (Amortized Cost Basis)			Total
	Current	30-89 Days Past Due	90+ Days Past Due	
Accruing Restructured Loans				
Commercial Real Estate	\$ —	\$ —	\$ —	\$ —
Commercial and Industrial	13,604	—	—	13,604
Residential Mortgages	—	—	—	—
Other Consumer	—	—	—	—
Construction	—	—	—	—
Other	—	—	—	—
Total Accruing Restructured Loans	\$ 13,604	\$ —	\$ —	\$ 13,604
Nonaccrual Restructured Loans				
Commercial Real Estate	\$ 434	\$ —	\$ —	\$ 434
Commercial and Industrial	—	—	—	—
Residential Mortgages	2,106	—	—	2,106
Other Consumer	—	—	—	—
Construction	—	—	—	—
Other	280,905	—	—	280,905
Total Nonaccrual Restructured Loans	\$ 283,445	\$ —	\$ —	\$ 283,445
Total Restructured Loans	\$ 297,049	\$ —	\$ —	\$ 297,049

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

(Dollars in Thousands)	For the Three Months Ended September 30, 2024				% of Portfolio Segment
	Principal Deferral	Accelerated Maturity Date/Modified Rate	Total		
Commercial Real Estate	\$ —	\$ —	\$ —	—	— %
Commercial and Industrial	13,604	—	13,604	5.63	%
Residential Mortgages	—	2,106	2,106	0.27	%
Other Consumer	—	—	—	—	%
Construction	—	—	—	—	%
Other	—	—	—	—	%
Total	\$ 13,604	\$ 2,106	\$ 15,710	4.91	%

(Dollars in Thousands)	For the Nine Months Ended September 30, 2024						% of Portfolio Segment
	Principal Deferral	Accelerated Maturity Date/Modified Rate	Term Extension/Payment Delay	Term Extension/Payment Delay/Interest Rate Reduction	Total		
Commercial Real Estate	\$ —	\$ —	\$ 434	\$ —	\$ 434	0.02	%
Commercial and Industrial	13,604	—	—	—	13,604	5.63	%
Residential Mortgages	—	2,106	—	—	2,106	0.27	%
Other Consumer	—	—	—	—	—	—	%
Construction	—	—	—	—	—	—	%
Other	—	—	—	280,905	280,905	98.86	%
Total	\$ 13,604	\$ 2,106	\$ 434	\$ 280,905	\$ 297,049	93.75	%

CARTER BANKSHARES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOTE 4 – LOANS (continued)

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

	For the Three Months Ended September 30, 2024		
	Weighted Average Principal Deferral	Weighted Average Accelerated Maturity Date	Weighted Average Modified Rate
Commercial Real Estate	—	—	—
Commercial & Industrial	0.58 years	—	— %
Residential Mortgage	—	19.26 years	4.63 %
Other	—	—	— %
Total	0.58 years	19.26 years	4.63 %

	For the Nine Months Ended September 30, 2024				
	Weighted Average Principal Deferral	Weighted Average Accelerated Maturity Date	Weighted-Average Modified Rate	Weighted-Average Term Extension/Payment Delay	Weighted-Average Interest Rate Reduction
Commercial Real Estate	—	—	— %	4.91 years	— %
Commercial & Industrial	0.58 years	—	— %	—	— %
Residential Mortgage	—	19.26 years	4.63 %	—	— %
Other	—	—	— %	2.58 years	0.66 %
Total	0.58 years	19.26 years	4.63 %	7.49 years	0.66 %

At September 30, 2024 and December 31, 2023, the Bank had no commitments to lend any additional funds on restructured loans. A payment default is defined as a loan having a payment past due 90 days or more. There were no payment defaults for during the three and nine months ended September 30, 2024 and September 30, 2023 related to loans that were modified within the 12 months prior to default. For purposes of this disclosure, a default occurs when, within 12 months of the original modification, either a full or partial charge-off occurs or the loan becomes 90 days or more past due.

As of September 30, 2024 and December 31, 2023, the Bank had zero and \$2.0 million, respectively, of loans in the process of foreclosure.

NOTE 5 – ALLOWANCE FOR CREDIT LOSSES

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

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

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

risk for this segment. The ability of each municipality to increase taxes and fees to offset debt service requirements give this type of loan a very low risk profile in the continuum of the Company's loan portfolio.

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

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

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

Other loans, which includes the Company's largest lending relationship, has unique risk attributes considered inconsistent with our current underwriting standards. The ACL reserve for the Other segment is based on a discounted cash flow methodology and reserves will fluctuate based on expected cash flow changes in the future. These inconsistencies may include, but are not limited to i) transaction and/or relationship sizes that exceed limits established in 2018, ii) overreliance on secondary, tertiary or guarantor cash flow, iii) land acquisition loans without a defined source of amortization, iv) loan structures on operating lines of credit dependent on the value of real estate rather than trading assets, and v) indirect liabilities of certain guarantees resulting from the nonpayment of financial obligations. Management continuously assesses underwriting standards, but significantly enhanced these standards in 2018.

Current Expected Credit Losses ("CECL") Model

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

Credit Quality Indicators:

The Company's portfolio grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on debt service coverage,

collateral values and other subjective factors. Mortgage and consumer loans are defaulted to a pass grade until a loan migrates to past due status.

The Company has a loan review policy and annual scope report that details the level of loan review for loans in a given year. The annual loan review provides the Credit Risk Committee with an independent analysis of the following: 1) credit quality of the loan portfolio, 2) compliance with the loan policy, 3) adequacy of documentation in credit files and 4) validity of risk ratings. Since 2020 and continuing through 2024, the Company used a five step approach for loan review in the following categories:

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

The Company’s internally assigned grades are as follows:

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

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

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

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

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

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

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

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

(Dollars in Thousands)	September 30, 2024								Total Portfolio Loans
	Risk Rating								
	2024	2023	2022	2021	2020	2019 and Prior	Revolving		
Commercial Real Estate									
Pass	\$ 151,923	\$ 283,359	\$ 439,591	\$ 247,998	\$ 132,974	\$ 556,933	\$ 38,288	\$	\$ 1,851,066
Special Mention	—	—	—	—	—	62	—	—	62
Substandard	—	—	6,194	—	—	636	39	—	6,869
Total Commercial Real Estate	\$ 151,923	\$ 283,359	\$ 445,785	\$ 247,998	\$ 132,974	\$ 557,631	\$ 38,327	\$	\$ 1,857,997
YTD Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and Industrial									
Pass	\$ 8,216	\$ 24,041	\$ 14,899	\$ 24,171	\$ 21,085	\$ 120,375	\$ 25,524	\$	\$ 238,311
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	739	1,037	38	—	1,349	—	3,163
Total Commercial and Industrial	\$ 8,216	\$ 24,041	\$ 15,638	\$ 25,208	\$ 21,123	\$ 120,375	\$ 26,873	\$	\$ 241,474
YTD Gross Charge-offs	\$ —	\$ —	\$ —	\$ 21	\$ 18	\$ 1	\$ —	\$	\$ 40
Residential Mortgages									
Pass	\$ 24,174	\$ 68,991	\$ 253,922	\$ 185,238	\$ 70,366	\$ 125,542	\$ 50,122	\$	\$ 778,355
Special Mention	—	—	—	—	—	93	—	—	93
Substandard	—	—	—	—	2,106	1,612	764	—	4,482
Total Residential Mortgages	\$ 24,174	\$ 68,991	\$ 253,922	\$ 185,238	\$ 72,472	\$ 127,247	\$ 50,886	\$	\$ 782,930
YTD Gross Charge-offs	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ 31	\$ —	\$	\$ 32
Other Consumer									
Pass	\$ 16,722	\$ 6,060	\$ 2,918	\$ 1,172	\$ 2,753	\$ 136	\$ 32	\$	\$ 29,793
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	6	—	14	—	—	—	—	20
Total Other Consumer	\$ 16,722	\$ 6,066	\$ 2,918	\$ 1,186	\$ 2,753	\$ 136	\$ 32	\$	\$ 29,813
YTD Gross Charge-offs	\$ 178	\$ 89	\$ 787	\$ 294	\$ 21	\$ 20	\$ —	\$	\$ 1,389
Construction									
Pass	\$ 51,209	\$ 172,647	\$ 138,440	\$ 11,740	\$ 8,638	\$ 10,374	\$ 6,171	\$	\$ 399,219
Special Mention	—	—	—	—	—	52	—	—	52
Substandard	—	—	—	187	44	—	—	—	231
Total Construction	\$ 51,209	\$ 172,647	\$ 138,440	\$ 11,927	\$ 8,682	\$ 10,426	\$ 6,171	\$	\$ 399,502
YTD Gross Charge-offs	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ 156	\$ —	\$	\$ 157
Other									
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,240	\$ —	\$	\$ 3,240
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	280,905	—	—	—	—	—	—	—	280,905
Total Other Loans	\$ 280,905	\$ —	\$ —	\$ —	\$ —	\$ 3,240	\$ —	\$	\$ 284,145
YTD Gross Charge-offs	\$ 15,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$	\$ 15,000
Total Portfolio Loans									
Pass	\$ 252,244	\$ 555,098	\$ 849,770	\$ 470,319	\$ 235,816	\$ 816,600	\$ 120,137	\$	\$ 3,299,984
Special Mention	—	—	—	—	—	207	—	—	207
Substandard	280,905	6	6,933	1,238	2,188	2,248	2,152	—	295,670
Total Portfolio Loans	\$ 533,149	\$ 555,104	\$ 856,703	\$ 471,557	\$ 238,004	\$ 819,055	\$ 122,289	\$	\$ 3,595,861
Current YTD Period:									
YTD Gross Charge-offs	\$ 15,178	\$ 90	\$ 788	\$ 315	\$ 39	\$ 208	\$ —	\$	\$ 16,618

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

(Dollars in Thousands)	December 31, 2023							
	Risk Rating							
	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Total Portfolio Loans
Commercial Real Estate								
Pass	\$ 259,171	\$ 434,639	\$ 173,667	\$ 142,494	\$ 124,176	\$ 503,965	\$ 30,917	\$ 1,669,029
Special Mention	—	—	206	—	—	72	—	278
Substandard	—	—	—	—	101	1,223	—	1,324
Total Commercial Real Estate	\$ 259,171	\$ 434,639	\$ 173,873	\$ 142,494	\$ 124,277	\$ 505,260	\$ 30,917	\$ 1,670,631
YTD Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and Industrial								
Pass	\$ 24,863	\$ 18,061	\$ 37,566	\$ 24,566	\$ 2,636	\$ 137,395	\$ 23,535	\$ 268,622
Special Mention	—	—	—	2,837	—	—	—	2,837
Substandard	—	—	—	18	14	1	19	52
Total Commercial and Industrial	\$ 24,863	\$ 18,061	\$ 37,566	\$ 27,421	\$ 2,650	\$ 137,396	\$ 23,554	\$ 271,511
YTD Gross Charge-offs	\$ —	\$ —	\$ 45	\$ —	\$ 16	\$ 2	\$ —	\$ 63
Residential Mortgages								
Pass	\$ 79,247	\$ 250,603	\$ 194,014	\$ 77,805	\$ 43,633	\$ 96,238	\$ 42,550	\$ 784,090
Special Mention	—	—	—	—	—	525	—	525
Substandard	—	—	1,142	—	860	1,070	242	3,314
Total Residential Mortgages	\$ 79,247	\$ 250,603	\$ 195,156	\$ 77,805	\$ 44,493	\$ 97,833	\$ 42,792	\$ 787,929
YTD Gross Charge-offs	\$ —	\$ —	\$ 136	\$ —	\$ —	\$ 67	\$ —	\$ 203
Other Consumer								
Pass	\$ 22,809	\$ 4,494	\$ 2,396	\$ 3,936	\$ 26	\$ 187	\$ 354	\$ 34,202
Special Mention	—	—	—	—	—	—	—	—
Substandard	14	6	55	—	—	—	—	75
Total Other Consumer	\$ 22,823	\$ 4,500	\$ 2,451	\$ 3,936	\$ 26	\$ 187	\$ 354	\$ 34,277
YTD Gross Charge-offs	\$ 232	\$ 1,451	\$ 744	\$ 83	\$ 126	\$ 29	\$ —	\$ 2,665
Construction								
Pass	\$ 118,120	\$ 162,794	\$ 122,087	\$ 10,837	\$ 5,155	\$ 6,280	\$ 8,048	\$ 433,321
Special Mention	—	—	—	—	—	60	—	60
Substandard	—	64	—	2,090	—	814	—	2,968
Total Construction	\$ 118,120	\$ 162,858	\$ 122,087	\$ 12,927	\$ 5,155	\$ 7,154	\$ 8,048	\$ 436,349
YTD Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 42	\$ —	\$ 42
Other								
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,300	\$ —	\$ 3,300
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	301,913	—	301,913
Total Other Loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 305,213	\$ —	\$ 305,213
YTD Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total Portfolio Loans								
Pass	\$ 504,210	\$ 870,591	\$ 529,730	\$ 259,638	\$ 175,626	\$ 747,365	\$ 105,404	\$ 3,192,564
Special Mention	—	—	206	2,837	—	657	—	3,700
Substandard	14	70	1,197	2,108	975	305,021	261	309,646
Total Portfolio Loans	\$ 504,224	\$ 870,661	\$ 531,133	\$ 264,583	\$ 176,601	\$ 1,053,043	\$ 105,665	\$ 3,505,910
Current YTD Period:								
YTD Gross Charge-offs	\$ 232	\$ 1,451	\$ 925	\$ 83	\$ 142	\$ 140	\$ —	\$ 2,973

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

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

(Dollars in Thousands)	September 30, 2024							Total Portfolio Loans
	2024	2023	2022	2021	2020	2019 and Prior	Revolving	
Commercial Real Estate								
Performing	\$ 151,923	\$ 283,359	\$ 445,482	\$ 247,998	\$ 132,974	\$ 556,995	\$ 38,288	\$ 1,857,019
Nonperforming	—	—	303	—	—	636	39	978
Total Commercial Real Estate	\$ 151,923	\$ 283,359	\$ 445,785	\$ 247,998	\$ 132,974	\$ 557,631	\$ 38,327	\$ 1,857,997
Commercial and Industrial								
Performing	\$ 8,216	\$ 24,041	\$ 15,638	\$ 24,171	\$ 21,085	\$ 120,375	\$ 26,854	\$ 240,380
Nonperforming	—	—	—	1,037	38	—	19	1,094
Total Commercial and Industrial	\$ 8,216	\$ 24,041	\$ 15,638	\$ 25,208	\$ 21,123	\$ 120,375	\$ 26,873	\$ 241,474
Residential Mortgages								
Performing	\$ 24,174	\$ 68,991	\$ 253,922	\$ 185,238	\$ 70,366	\$ 125,635	\$ 50,122	\$ 778,448
Nonperforming	—	—	—	—	2,106	1,612	764	4,482
Total Residential Mortgages	\$ 24,174	\$ 68,991	\$ 253,922	\$ 185,238	\$ 72,472	\$ 127,247	\$ 50,886	\$ 782,930
Other Consumer								
Performing	\$ 16,722	\$ 6,060	\$ 2,918	\$ 1,172	\$ 2,753	\$ 136	\$ 32	\$ 29,793
Nonperforming	—	6	—	14	—	—	—	20
Total Other Consumer	\$ 16,722	\$ 6,066	\$ 2,918	\$ 1,186	\$ 2,753	\$ 136	\$ 32	\$ 29,813
Construction								
Performing	\$ 51,209	\$ 172,647	\$ 138,440	\$ 11,740	\$ 8,638	\$ 10,426	\$ 6,171	\$ 399,271
Nonperforming	—	—	—	187	44	—	—	231
Total Construction	\$ 51,209	\$ 172,647	\$ 138,440	\$ 11,927	\$ 8,682	\$ 10,426	\$ 6,171	\$ 399,502
Other								
Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,240	\$ —	\$ 3,240
Nonperforming	280,905	—	—	—	—	—	—	280,905
Total Other Loans	\$ 280,905	\$ —	\$ —	\$ —	\$ —	\$ 3,240	\$ —	\$ 284,145
Total Portfolio Loans								
Performing	\$ 252,244	\$ 555,098	\$ 856,400	\$ 470,319	\$ 235,816	\$ 816,807	\$ 121,467	\$ 3,308,151
Nonperforming	280,905	6	303	1,238	2,188	2,248	822	287,710
Total Portfolio Loans	\$ 533,149	\$ 555,104	\$ 856,703	\$ 471,557	\$ 238,004	\$ 819,055	\$ 122,289	\$ 3,595,861

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

(Dollars in Thousands)	December 31, 2023							Total Portfolio Loans
	2023	2022	2021	2020	2019	2018 and Prior	Revolving	
Commercial Real Estate								
Performing	\$ 259,171	\$ 434,639	\$ 173,873	\$ 142,494	\$ 124,176	\$ 504,037	\$ 30,917	\$ 1,669,307
Nonperforming	—	—	—	—	101	1,223	—	1,324
Total Commercial Real Estate	\$ 259,171	\$ 434,639	\$ 173,873	\$ 142,494	\$ 124,277	\$ 505,260	\$ 30,917	\$ 1,670,631
Commercial and Industrial								
Performing	\$ 24,863	\$ 18,061	\$ 37,566	\$ 27,403	\$ 2,636	\$ 137,395	\$ 23,535	\$ 271,459
Nonperforming	—	—	—	18	14	1	19	52
Total Commercial and Industrial	\$ 24,863	\$ 18,061	\$ 37,566	\$ 27,421	\$ 2,650	\$ 137,396	\$ 23,554	\$ 271,511
Residential Mortgages								
Performing	\$ 79,247	\$ 250,603	\$ 194,014	\$ 77,805	\$ 43,633	\$ 96,794	\$ 42,550	\$ 784,646
Nonperforming	—	—	1,142	—	860	1,039	242	3,283
Total Residential Mortgages	\$ 79,247	\$ 250,603	\$ 195,156	\$ 77,805	\$ 44,493	\$ 97,833	\$ 42,792	\$ 787,929
Other Consumer								
Performing	\$ 22,809	\$ 4,494	\$ 2,412	\$ 3,936	\$ 26	\$ 187	\$ 354	\$ 34,218
Nonperforming	14	6	39	—	—	—	—	59
Total Other Consumer	\$ 22,823	\$ 4,500	\$ 2,451	\$ 3,936	\$ 26	\$ 187	\$ 354	\$ 34,277
Construction								
Performing	\$ 118,120	\$ 162,858	\$ 122,087	\$ 10,837	\$ 5,155	\$ 6,340	\$ 8,048	\$ 433,445
Nonperforming	—	—	—	2,090	—	814	—	2,904
Total Construction	\$ 118,120	\$ 162,858	\$ 122,087	\$ 12,927	\$ 5,155	\$ 7,154	\$ 8,048	\$ 436,349
Other								
Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,300	\$ —	\$ 3,300
Nonperforming	—	—	—	—	—	301,913	—	301,913
Total Other Loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 305,213	\$ —	\$ 305,213
Total Portfolio Loans								
Performing	\$ 504,210	\$ 870,655	\$ 529,952	\$ 262,475	\$ 175,626	\$ 748,053	\$ 105,404	\$ 3,196,375
Nonperforming	14	6	1,181	2,108	975	304,990	261	309,535
Total Portfolio Loans	\$ 504,224	\$ 870,661	\$ 531,133	\$ 264,583	\$ 176,601	\$ 1,053,043	\$ 105,665	\$ 3,505,910

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

(Dollars in Thousands)	September 30, 2024					
	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	\$ 1,856,591	\$ 428	\$ —	\$ 428	\$ 978	\$ 1,857,997
Commercial and Industrial	240,380	—	—	—	1,094	241,474
Residential Mortgages	777,569	829	50	879	4,482	782,930
Other Consumer	29,524	98	171	269	20	29,813
Construction	398,069	1,202	—	1,202	231	399,502
Other	3,240	—	—	—	280,905	284,145
Total	\$ 3,305,373	\$ 2,557	\$ 221	\$ 2,778	\$ 287,710	\$ 3,595,861

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

(Dollars in Thousands)	December 31, 2023					
	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	\$ 1,668,988	\$ 125	\$ 194	\$ 319	\$ 1,324	\$ 1,670,631
Commercial and Industrial	271,420	5	34	39	52	271,511
Residential Mortgages	782,765	1,846	35	1,881	3,283	787,929
Other Consumer	33,813	247	158	405	59	34,277
Construction	430,057	3,388	—	3,388	2,904	436,349
Other	3,300	—	—	—	301,913	305,213
Total	\$ 3,190,343	\$ 5,611	\$ 421	\$ 6,032	\$ 309,535	\$ 3,505,910

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

(Dollars in Thousands)	September 30, 2024			
	Nonaccrual without an Allowance for Credit Losses	Nonaccrual with an Allowance for Credit Losses	Total Nonaccrual Loans	Past Due 90+ Days Still Accruing
Commercial Real Estate	\$ —	\$ 978	\$ 978	\$ —
Commercial and Industrial	—	1,094	1,094	—
Residential Mortgages	2,106	2,376	4,482	—
Other Consumer	—	20	20	—
Construction	—	231	231	—
Other	—	280,905	280,905	—
Total	\$ 2,106	\$ 285,604	\$ 287,710	\$ —

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

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

A loan is considered nonperforming when we transfer the interest methodology from accrual to nonaccrual. Nonaccrual status recognizes that the collection in full of both principal and interest is unlikely. Without applying additional scrutiny at a granular level, management believes delinquency to be a leading indicator with respect to the likelihood of collection in full of both principal and interest. Accordingly, management automatically transfers loans to nonaccrual status if they are 90 or more days' delinquent. Management reserves the right to exercise discretion at the individual loan level. For example, we may elect to transfer a loan to nonaccrual regardless of the delinquency status if we believe the collection in full of both principal and interest to be unlikely. We may also elect to retain a loan that is 90 or more days' delinquent in accrual status if we believe the loan is well secured and in the process of collection. Nonaccrual loans, and loans that have been characterized as Restructured Loans may be individually evaluated for credit losses in the Allowance for Credit Losses model if the loan commitment is \$1.0 million or greater and/or based on management's discretion; unless we elect to maintain the loan in the general pool. During the three and nine months ended September 30, 2024 and September 30, 2023, respectively, no material amount of interest income was recognized on nonperforming loans subsequent to their classification as nonperforming loans.

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

The following table presents the amortized cost basis of individually evaluated loans as of the periods presented. Changes in the fair value of the types of collateral and discounted cash flow modeling for individually evaluated loans are reported as a (recovery) or provision for credit loss on loans in the period of change.

(Dollars in Thousands)	September 30, 2024			December 31, 2023		
	Fair Value - Real Estate	Discounted Cash Flow	Total	Fair Value - Real Estate	Discounted Cash Flow	Total
Commercial Real Estate	\$ —	\$ —	\$ —	\$ 453	\$ —	\$ 453
Commercial and Industrial	1,037	—	1,037	—	—	—
Residential Mortgages	2,106	—	2,106	1,142	—	1,142
Other Consumer	—	—	—	—	—	—
Construction	—	—	—	2,898	—	2,898
Other	—	280,905	280,905	—	301,913	301,913
Total	\$ 3,143	\$ 280,905	\$ 284,048	\$ 4,493	\$ 301,913	\$ 306,406

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

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

	Three Months Ended September 30, 2024						
(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans
Allowance for Credit Losses on Loans:							
Balance at Beginning of Period	\$ 19,817	\$ 3,194	\$ 10,744	\$ 760	\$ 9,217	\$ 52,954	\$ 96,686
Provision (Recovery) for Credit Losses on Loans	250	(238)	(224)	288	526	(1,034)	(432)
Charge-offs	—	(21)	(5)	(421)	(1)	(15,000)	(15,448)
Recoveries	—	1	5	97	—	—	103
Net Charge-offs	—	(20)	—	(324)	(1)	(15,000)	(15,345)
Balance at End of Period	\$ 20,067	\$ 2,936	\$ 10,520	\$ 724	\$ 9,742	\$ 36,920	\$ 80,909

	Nine Months Ended September 30, 2024						
(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans
Allowance for Credit Losses on Loans:							
Balance at Beginning of Period	\$ 19,873	\$ 3,286	\$ 10,879	\$ 868	\$ 7,792	\$ 54,354	\$ 97,052
Provision (Recovery) for Credit Losses on Loans	194	(313)	(356)	877	2,107	(2,434)	75
Charge-offs	—	(40)	(32)	(1,389)	(157)	(15,000)	(16,618)
Recoveries	—	3	29	368	—	—	400
Net Charge-offs	—	(37)	(3)	(1,021)	(157)	(15,000)	(16,218)
Balance at End of Period	\$ 20,067	\$ 2,936	\$ 10,520	\$ 724	\$ 9,742	\$ 36,920	\$ 80,909

	Three Months Ended September 30, 2023						
(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans
Allowance for Credit Losses on Loans:							
Balance at Beginning of Period	\$ 19,144	\$ 3,293	\$ 10,386	\$ 1,058	\$ 6,603	\$ 53,660	\$ 94,144
Provision (Recovery) for Credit Losses on Loans	346	(256)	356	515	144	—	1,105
Charge-offs	—	(50)	(133)	(731)	—	—	(914)
Recoveries	—	—	10	129	—	—	139
Net Charge-offs	—	(50)	(123)	(602)	—	—	(775)
Balance at End of Period	\$ 19,490	\$ 2,987	\$ 10,619	\$ 971	\$ 6,747	\$ 53,660	\$ 94,474

	Nine Months Ended September 30, 2023						
(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans
Allowance for Credit Losses on Loans:							
Balance at Beginning of Period	\$ 17,992	\$ 3,980	\$ 8,891	\$ 1,329	\$ 6,942	\$ 54,718	\$ 93,852
Provision (Recovery) for Credit Losses on Loans	1,498	(947)	1,919	1,346	(153)	(1,058)	2,605
Charge-offs	—	(51)	(203)	(2,039)	(42)	—	(2,335)
Recoveries	—	5	12	335	—	—	352
Net Charge-offs	—	(46)	(191)	(1,704)	(42)	—	(1,983)
Balance at End of Period	\$ 19,490	\$ 2,987	\$ 10,619	\$ 971	\$ 6,747	\$ 53,660	\$ 94,474

NOTE 6 – FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

Recurring Basis

Securities Available-for-Sale: The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges, if available. This valuation method is classified as Level 1 in the fair value hierarchy. For securities where quoted prices are not available, fair values are calculated on market prices of similar securities, or matrix pricing, which is a mathematical technique, used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Matrix pricing relies on the securities' relationship to similarly traded securities, benchmark curves, and the benchmarking of like securities. Matrix pricing utilizes observable market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. In instances where broker quotes are used, these quotes are obtained from market makers or broker-dealers recognized to be market participants. This valuation method is classified as Level 2 in the fair value hierarchy. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. This valuation method is classified as Level 3 in the fair value hierarchy.

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

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

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

Nonrecurring Basis

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

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

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

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

OREO is evaluated at the time of acquisition and is recorded at fair value as determined by an appraisal or evaluation, less costs to sell. After acquisition, most OREO assets are revalued every twelve months, or more frequently when deemed necessary by management based upon changes in market or collateral conditions. For smaller OREO assets with existing carrying values less than \$0.5 million, management may elect to re-value the assets, at minimum, once every twenty-four months based on the size of the exposure. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified

CARTER BANKSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 6 – FAIR VALUE MEASUREMENTS (continued)

appraisers. Appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets marked to fair value are classified as Level 3. At September 30, 2024 OREO assets were in compliance with the OREO policy as set forth above, and substantially all of the assets were listed for sale with credible third-party real estate brokers.

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

(Dollars in Thousands)	September 30, 2024			
	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. Government Agency Securities	27,475	—	27,475	—
Residential Mortgage-Backed Securities	98,809	—	98,809	—
Commercial Mortgage-Backed Securities	23,041	—	23,041	—
Other Commercial Mortgage-Backed Securities	22,267	—	22,267	—
Asset Backed Securities	121,146	—	121,146	—
Collateralized Mortgage Obligations	156,418	—	156,418	—
States and Political Subdivisions	231,172	—	231,172	—
Corporate Notes	62,307	—	54,720	7,587
Total Securities Available-for-Sale	742,635	—	735,048	7,587
Equity Securities	5,207	5,207	—	—
Portfolio Loan Pool Subject to Fair Value Hedge	8,484	—	8,484	—
Derivatives	13,756	—	13,756	—
Total	\$ 770,082	\$ 5,207	\$ 757,288	\$ 7,587
Liabilities				
Derivatives	\$ 21,765	\$ —	\$ 21,765	\$ —
Total	\$ 21,765	\$ —	\$ 21,765	\$ —
(Dollars in Thousands)	December 31, 2023			
	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. Government Agency Securities	43,827	—	43,827	—
Residential Mortgage-Backed Securities	99,150	—	99,150	—
Commercial Mortgage-Backed Securities	31,163	—	31,163	—
Other Commercial Mortgage-Backed Securities	21,856	—	21,856	—
Asset Backed Securities	140,006	—	140,006	—
Collateralized Mortgage Obligations	161,533	—	161,533	—
States and Political Subdivisions	222,108	—	222,108	—
Corporate Notes	59,360	—	52,041	7,319
Total Securities Available-for-Sale	779,003	—	771,684	7,319
Derivatives	17,440	—	17,440	—
Total	\$ 796,443	\$ —	\$ 789,124	\$ 7,319
Liabilities				
Derivatives	\$ 17,228	\$ —	\$ 17,228	\$ —
Total	\$ 17,228	\$ —	\$ 17,228	\$ —

We have invested in subordinated debt of other financial institutions. We have two securities totaling \$7.6 million that are considered to be Level 3 securities at September 30, 2024 and two totaling \$7.3 million at December 31, 2023, attributable to

CARTER BANKSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – FAIR VALUE MEASUREMENTS (continued)

the calculated change in fair value of \$0.3 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 are summarized below for the periods presented:

(Dollars in Thousands)	September 30, 2024			
	Level 1	Level 2	Level 3	Fair Value
OREO	\$ —	\$ —	\$ 1,512	\$ 1,512
Individually Evaluated Loans	\$ —	\$ —	\$ 579	\$ 579

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

The Company had \$0.6 million in individually evaluated loans measured at fair value on a nonrecurring basis as of September 30, 2024 and zero at December 31, 2023. The Company's largest lending relationship is classified at September 30, 2024 as an individually evaluated loan with a net carrying amount totaling \$244.0 million. The Company utilized various cash flow and discounting assumptions in the alternative modeling, instead of fair value, which resulted in a valuation allowance of \$36.9 million at September 30, 2024. When evaluating the net carrying value of this credit relationship at September 30, 2024, the Company utilized discounted cash flow valuation techniques to estimate the timing and magnitude of potential recoveries resulting from various collection processes.

OREO, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of \$1.5 million and \$2.5 million as of September 30, 2024 and December 31, 2023, respectively, primarily due to sales offset by transfers to OREO from loans. The Company had no write-downs recorded on OREO for the three and nine months ended September 30, 2024 and had \$0.9 million write-downs recorded on OREO for the nine months ended September 30, 2023.

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

(Dollars in Thousands)	September 30, 2024				
	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Range	Average
Assets					
Individually Evaluated Loans	\$ 579	Appraisal	Estimated Selling Costs	3.5 %	3.5 %
Total Individually Evaluated Loans	\$ 579				
OREO	\$ 1,041	Appraisals	Estimated Selling Costs	6.0 %	6.0 %
OREO	328	Discounted Internal Valuations	Management's Subject Discount	24.0 %	24.0 %
OREO	143	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %
Total OREO	\$ 1,512				

(Dollars in Thousands)	December 31, 2023				
	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Range	Average
OREO	\$ 130	Appraisals	Estimated Selling Costs	6.0 %	6.0 %
OREO	142	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %
OREO	2,191	Discounted Internal Valuations	Management's Subject Discount	0.0% - 24.0%	15.6 %
Total OREO	\$ 2,463				

CARTER BANKSHARES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 6 – FAIR VALUE MEASUREMENTS (continued)**

A baseline discount rate has been established for impairment measurement. This baseline discount rate was back tested against historical OREO sales, and; therefore, represents an average recovery rate based on the transaction sizes and asset types in the population examined. Management considers the unique attributes and characteristics of each specific individually evaluated loan and may use judgment to adjust the baseline discount rate when appropriate.

The carrying values and estimated fair values of our financial instruments at September 30, 2024 and December 31, 2023 are presented in the following tables. Fair values for September 30, 2024 and December 31, 2023 are estimated under the exit price notion in accordance with ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.”

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

(Dollars in Thousands)	Carrying Value	Fair Value Measurements at September 30, 2024			
		Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Cash Equivalents	\$ 104,992	\$ 43,389	\$ 61,603	\$ —	\$ 104,992
Securities Available-for-Sale	742,635	—	735,048	7,587	742,635
Equity Securities	5,207	5,207	—	—	5,207
Portfolio Loans, net	3,514,952	—	—	3,278,458	3,278,458
Federal Home Loan Bank Stock, at Cost	7,437	—	—	NA	NA
Other Assets- Interest Rate Derivatives	13,756	—	13,756	—	13,756
Accrued Interest Receivable	17,906	13	4,518	13,375	17,906
Financial Liabilities:					
Deposits	\$ 4,085,068	\$ 628,901	\$ 1,526,092	\$ 1,944,080	\$ 4,099,073
Other Liabilities- Interest Rate Derivatives	21,765	—	21,765	—	21,765
FHLB Borrowings	90,000	—	—	89,865	89,865
Accrued Interest Payable	8,084	—	2	8,082	8,084

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

NOTE 7 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

Effective July 11, 2024, the Company entered into two related pay-fixed/receive-floating interest rate swaps (the "Pay-Fixed Swap Agreements") for a combined notional amount of \$300.0 million with a combined fair value of \$8.1 million at September 30, 2024. The Pay-Fixed Swap Agreements were designated as fair value hedges in order to hedge the risk of changes in the fair value of the fixed rate loans included in the amortizing single family mortgages and CRE loans. These fair value hedges convert the hedged loans from a fixed rate to a synthetic floating Secured Overnight Financing Rate ("SOFR"). The first Pay-Fixed Swap Agreement with a notional value of \$125.0 million matures on July 11, 2027 and the Company will pay a fixed coupon rate of 4.188% while receiving the overnight SOFR. The second Pay-Fixed Swap Agreement with a notional value of \$175.0 million matures on July 11, 2029 (but includes partial amortization beginning July 11, 2027) and the Company will pay a fixed coupon rate of 4.004% while receiving the overnight SOFR.

As long as a hedging instrument is designated and the results of the effectiveness testing support that the instrument qualifies for hedge accounting treatment, 100% of the periodic changes in fair value of the hedging instrument are accounted for in net interest income. The fair value of these hedges is recorded in either other assets or in other liabilities depending on the position of the hedge, and the offset is recorded in loans. This is the case whether or not economic mismatches exist in the hedging relationship. As a result, there is no periodic measurement or recognition of ineffectiveness. Rather, the full impact of hedge gains and losses is recognized in the period in which the hedged transactions impact earnings. The hedges were determined to be effective during all periods presented and the Company expects them to remain effective during the remaining terms.

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

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

CARTER BANKSHARES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – (continued)**

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

(Dollars in Thousands)	Fair Value of Derivative Assets (Included in Other Assets)					
	September 30, 2024			December 31, 2023		
	Number of Transactions	Notional Amount	Fair Value	Number of Transactions	Notional Amount	Fair Value
Derivatives Designated as Hedging Instruments						
Interest Rate Swaps - Balance Sheet Hedge	—	\$ —	\$ —	—	\$ —	\$ —
Total Derivatives Designated as Hedging Instruments	—	\$ —	\$ —	—	\$ —	\$ —
Derivatives not Designated as Hedging Instruments						
Interest Rate Lock Commitments – Mortgage Loans	5	\$ 1,266	\$ 2	3	\$ 620	\$ 3
Interest Rate Swap Contracts – Commercial Loans	56	372,232	13,754	58	387,144	17,437
Total Derivatives not Designated as Hedging Instruments	61	\$ 373,498	\$ 13,756	61	\$ 387,764	\$ 17,440
Total Derivatives	61	\$ 373,498	\$ 13,756	61	\$ 387,764	\$ 17,440

(Dollars in Thousands)	Fair Value of Derivative Liabilities (Included in Other Liabilities)					
	September 30, 2024			December 31, 2023		
	Number of Transactions	Notional Amount	Fair Value	Number of Transactions	Notional Amount	Fair Value
Derivatives Designated as Hedging Instruments						
Interest Rate Swaps - Balance Sheet Hedge	2	\$ 300,000	\$ 8,109	—	\$ —	\$ —
Total Derivatives Designated as Hedging Instruments	2	\$ 300,000	\$ 8,109	—	\$ —	\$ —
Derivatives not Designated as Hedging Instruments						
Forward Sale Contracts – Mortgage Loans	5	\$ 1,266	\$ 2	3	\$ 620	\$ 3
Interest Rate Swap Contracts – Commercial Loans	56	372,232	13,654	58	387,144	17,225
Total Derivatives not Designated as Hedging Instruments	61	\$ 373,498	\$ 13,656	61	\$ 387,764	\$ 17,228
Total Derivatives	63	\$ 673,498	\$ 21,765	61	\$ 387,764	\$ 17,228

CARTER BANKSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 7 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – (continued)

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

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Derivatives Designated as Hedging Instruments				
Interest Rate Swaps - Balance Sheet Hedge	\$ 103	\$ —	\$ 103	\$ —
Total Derivative Income Designated as Hedging Instruments	\$ 103	\$ —	\$ 103	\$ —
Derivatives not Designated as Hedging Instruments				
Interest Rate Lock Commitments – Mortgage Loans	\$ (3)	\$ (1)	\$ (1)	\$ 4
Forward Sale Contracts – Mortgage Loans	3	1	1	(4)
Interest Rate Swap Contracts – Commercial Loans	(128)	234	(112)	90
Total Derivative (Loss) Income not Designated as Hedging Instruments	\$ (128)	\$ 234	\$ (112)	\$ 90
Total Derivative (Loss) Income	\$ (25)	\$ 234	\$ (9)	\$ 90

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 derivative assets and derivative liabilities designated as hedging instruments and not designated as hedging instruments, the amounts offset and the carrying values in the Consolidated Balance Sheets at the dates presented:

(Dollars in Thousands)	Derivative Assets (Included in Other Assets)		Derivative Liabilities (Included in Other Liabilities)	
	September 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Derivatives Designated as Hedging Instruments				
Gross Amounts Recognized	\$ —	\$ —	\$ 8,381	\$ —
Gross Amounts Offset	—	—	272	—
Net Amounts Presented in the Consolidated Balance Sheets	—	—	8,109	—
Derivatives not Designated as Hedging Instruments				
Gross Amounts Recognized	\$ 13,756	\$ 17,440	\$ 13,656	\$ 17,228
Gross Amounts Offset	—	—	—	—
Net Amounts Presented in the Consolidated Balance Sheets	13,756	17,440	13,656	17,228
Net Amount	\$ 13,756	\$ 17,440	\$ 21,765	\$ 17,228

NOTE 8 – DEPOSITS

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023
Noninterest-Bearing Demand	\$ 628,901	\$ 685,218
Interest-Bearing Demand	649,005	481,506
Money Market	504,206	513,664
Savings	372,881	454,876
Certificates of Deposits	1,930,075	1,586,651
Total	\$ 4,085,068	\$ 3,721,915

All deposit accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to the maximum amount allowed by law. The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, makes permanent the \$250,000 limit for federal deposit insurance and the coverage limit applies per depositor, per insured depository institution for each account ownership. Certificates of deposits that exceed the FDIC Insurance limit of \$250,000 at September 30, 2024 and December 31, 2023 were \$288.0 million and \$235.0 million, respectively.

At September 30, 2024 and December 31, 2023, total brokered deposits were \$216.1 million and \$70.0 million, respectively.

Certificates of Deposit maturing as of the date presented:

(Dollars in Thousands)	September 30, 2024
3 Months or Less	\$ 588,873
Over 3 Months through 12 Months	1,001,349
Over 1 Year Through 3 Years	197,467
Over 3 Years	142,386
Total	\$ 1,930,075

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

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

Borrowings serve as an additional source of liquidity for the Company. The Company had \$90.0 million Federal Home Loan Bank (“FHLB”) borrowings at September 30, 2024 and \$393.4 million at December 31, 2023. 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. Variable rate FHLB borrowings were 0.0% and 5.6% of total borrowings at September 30, 2024 and December 31, 2023, respectively. Total loans pledged as collateral were \$1.6 billion at September 30, 2024 and \$1.5 billion at December 31, 2023. There were no securities available-for-sale pledged as collateral at both September 30, 2024 and December 31, 2023.

At September 30, 2024, funding sources accessible to the Company include borrowing availability at the FHLB, equal to 25.0% of the Company’s assets or approximately \$1.2 billion, subject to the amount of eligible collateral pledged, of which the Company is eligible to borrow up to an additional \$791.4 million. The Company has unsecured facilities with three other correspondent financial institutions totaling \$30.0 million at September 30, 2024 and \$50.0 million at December 31, 2023, respectively, a fully secured facility with one other correspondent financial institution totaling \$45.0 million, and access to the institutional certificate of deposit (“CD”) and brokered deposit markets. The Company did not have outstanding borrowings on these fed funds lines as of September 30, 2024 or December 31, 2023. The Company had the capacity to borrow up to an additional \$480.3 million from the FHLB at December 31, 2023.

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023
FHLB Borrowings	\$ 90,000	\$ 393,400
Weighted Average Interest Rate	4.30 %	5.20 %
FHLB Availability	\$ 791,403	\$ 480,266

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023
Federal Fund Purchased	\$ —	\$ —
Weighted Average Interest Rate	— %	— %
Federal Funds Purchased Availability	\$ 75,000	\$ 50,000

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

(Dollars in Thousands)	Balance	Weighted Average Rate
1 year	\$ 45,000	4.64 %
2 years	45,000	3.96 %
3 years	—	— %
4 years	—	— %
5 years	—	— %
Thereafter	—	— %
Total FHLB Borrowings	\$ 90,000	4.30 %

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Commitments to extend credit, which amounted to \$799.8 million at September 30, 2024 and \$702.3 million at December 31, 2023, represent agreements to lend to customers with fixed expiration dates or other termination clauses. The Company provides lines of credit to our clients to finance the completion of construction projects and revolving lines of credit to operating companies to finance their working capital needs. Lines of credit for construction projects represented \$435.3 million, or 54.4% and \$452.2 million, or 64.4%, of the commitments to extend credit at September 30, 2024 and December 31, 2023, respectively. Standby letters of credit are conditional commitments issued by the Company guaranteeing the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements. The Company had outstanding letters of credit totaling \$18.2 million at September 30, 2024 and \$19.6 million at December 31, 2023.

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023
Commitments to Extend Credit	\$ 799,808	\$ 702,301
Standby and Performance Letters of Credit	18,244	19,643
Total	\$ 818,052	\$ 721,944

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

CARTER BANKSHARES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 10 – COMMITMENTS AND CONTINGENCIES – (continued)**

the ACL for loans, modified to take into account the probability of a draw-down on the commitment. The life-of-loan reserve for unfunded commitments is included on our Consolidated Balance Sheets.

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

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Life-of-Loss Reserve on Unfunded Loan Commitments				
Balance at Beginning of Period	\$ 2,914	\$ 2,736	\$ 3,193	\$ 2,292
Provision (Recovery) for Unfunded Commitments	191	(130)	(88)	314
Balance at End of Period	\$ 3,105	\$ 2,606	\$ 3,105	\$ 2,606

Amounts are added or subtracted to the reserve for unfunded commitments through a charge or credit to current earnings in the provision (recovery) for unfunded commitments. A provision of \$0.2 million was recorded for the three months ended September 30, 2024, which resulted in an increase of \$0.3 million compared to a recovery of \$(0.1) million for the three months ended September 30, 2023. The increase in the provision (recovery) for unfunded commitments was primarily due to an increase in construction commitments.

Legal Proceedings

In the normal course of business, the Company is subject to various legal and administrative proceedings and claims. Legal and administrative proceedings are subject to inherent uncertainties and unfavorable rulings could occur, and the timing and outcome of any legal or administrative proceeding cannot be predicted with certainty. Further, estimating an amount or range of possible losses that may result from legal or administrative proceedings and claims is inherently difficult and requires an extensive degree of judgment, particularly where the matters involve indeterminate claims for monetary damages, may involve awards that are discretionary in amount, present novel legal theories or policies, are in the early stages of the proceedings, or are subject to appeal. In addition, because legal proceedings may be resolved over an extended period of time, potential losses are subject to change due to the outcome of intermediate procedural and substantive rulings, actions by other parties which may be influenced by their settlement posture or their evaluation of the strength or weakness of their case, and other factors.

As of September 30, 2024, the Company is not involved in any other material pending legal proceedings other than proceedings occurring in the ordinary course of business.

GLAS Federal Court Litigation

On February 12, 2024, the Bank was named as a defendant in a lawsuit (the “GLAS Federal Court Litigation”) filed in the United States District Court for the Western District of Virginia by GLAS Trust Company LLC (“GLAS”). The allegations contained in the GLAS Federal Court Litigation relate to a series of financing transactions that occurred in 2018 between Bluestone Resources, Inc. (“Bluestone Resources”), its subsidiary Bluestone Coal Sales Corporation (“Bluestone Sales”, and together with Bluestone Resources and their respective affiliates, the “Bluestone Entities”), and Greensill (UK) Limited, Ltd. (“Greensill”). The Bluestone Entities are owned and controlled by James C. Justice, II and James C. Justice, III. In the GLAS Federal Court Litigation, GLAS alleged that it serves as trustee for investors that acquired notes via a series of securities transactions that repackaged the Bluestone Entities’ obligations to repay Greensill and sold them to those investors. In the GLAS Federal Court Litigation, GLAS alleged that certain transfers to the Bank executed during 2018 by the Bluestone Entities or Greensill, which in the aggregate totaled approximately \$226 million, each constitute either a fraudulent conveyance, or a voluntary conveyance, under Virginia law. In the GLAS Federal Court Litigation, GLAS sought an award equal to the full amount of such fraudulent conveyances and/or voluntary conveyances plus interest and payment of attorneys’ fees and costs.

On August 28, 2024, the Bank announced that it had agreed to a settlement with GLAS (the “GLAS Settlement”). In connection with the GLAS Settlement, the GLAS Federal Court Litigation was dismissed with prejudice, certain entities that are owned or controlled by James C. Justice, II, Cathy L. Justice and James C. Justice, III (each, a “Justice Entity” and collectively, the “Justice Entities”) executed documents reaffirming the legality, validity and binding nature of all loan documents they have executed and judgments granted in favor of the Bank, and GLAS and certain affiliates and parties on whose behalf GLAS was acting have executed a release that waives any and all causes of action of any kind that they might claim to have against the Bank.

CARTER BANKSHARES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 10 – COMMITMENTS AND CONTINGENCIES – (continued)**

Also in connection with the GLAS Settlement, the Company tendered a payment (the “Settlement Payment”) in consideration of the voluntary dismissal of the GLAS Federal Court Litigation. Because certain of the Justice Entities had previously agreed to indemnify the Bank against the claims asserted in the GLAS Federal Court Litigation, certain of the Justice Entities executed a promissory note in favor of the Bank further evidencing this indemnification obligation as related to the Settlement Payment. This promissory note was recognized as a principal charge-off during the three months ended September 30, 2024 due to the nonperforming status of the Bank’s loans with the Justice Entities, and because the settled claims asserted in the GLAS Federal Court Litigation related to allegedly preferential payments made on those nonperforming loans. For more information about the Company’s principal charge-offs, see Note 5 – Allowance for Credit Losses in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q.

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

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

(Dollars in Thousands)	Three Months Ended September 30, 2024			Three Months Ended September 30, 2023		
	Pre-Tax Amount	Tax (Expense)	Net of Tax Amount	Pre-Tax Amount	Tax Benefit	Net of Tax Amount
Net Unrealized Gains (Losses) Arising during the period	\$ 20,910	\$ (4,582)	\$ 16,328	\$ (14,773)	\$ 3,197	\$ (11,576)
Reclassification Adjustment for Losses included in Net Income	—	—	—	1	—	1
Other Comprehensive Income (Loss)	\$ 20,910	\$ (4,582)	\$ 16,328	\$ (14,772)	\$ 3,197	\$ (11,575)

(Dollars in Thousands)	Nine Months Ended September 30, 2024			Nine Months Ended September 30, 2023		
	Pre-Tax Amount	Tax (Expense)	Net of Tax Amount	Pre-Tax Amount	Tax Benefit	Net of Tax Amount
Net Unrealized Gains (Losses) Arising during the period	\$ 23,279	\$ (5,117)	\$ 18,162	\$ (10,176)	\$ 2,224	\$ (7,952)
Reclassification Adjustment for (Gains) Losses included in Net Income	(36)	8	(28)	10	(2)	8
Other Comprehensive Income (Loss)	\$ 23,243	\$ (5,109)	\$ 18,134	\$ (10,166)	\$ 2,222	\$ (7,944)

NOTE 12 – STOCK REPURCHASE PLAN

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

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help readers understand Carter Bankshares, Inc., our operations, our present business environment, and our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations as of and for the three and nine month periods ended September 30, 2024 and September 30, 2023. The MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes thereto contained in Item 1 of this Quarterly Report on Form 10-Q. Certain reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods. The MD&A includes the following sections:

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

Important Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements that relate to our financial condition, market conditions, results of operations, plans, objectives, outlook for earnings, strategic initiatives and related earn-back periods, revenues, expenses, capital and liquidity levels and ratios, asset levels and asset quality, including but not limited to statements regarding the interest rate environment, the impact of future changes in interest rates, and the impacts of the Company placing its largest lending relationship on nonaccrual status. Forward looking statements are typically identified by words or phrases such as “will likely result,” “expect,” “anticipate,” “estimate,” “forecast,” “project,” “intend,” “believe,” “assume,” “strategy,” “trend,” “plan,” “outlook,” “outcome,” “continue,” “remain,” “potential,” “opportunity,” “comfortable,” “current,” “position,” “maintain,” “sustain,” “seek,” “achieve” and variations of such words and similar expressions, or future or conditional verbs such as will, would, should, could or may.

These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Company’s control. Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The matters discussed in these forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results and trends to differ materially from those made, projected, or implied in or by the forward-looking statements including, but not limited to the effects of:

- market interest rates and the impacts of market interest rates on economic conditions, customer behavior, and the Company’s loan and securities portfolios;
- inflation, market and monetary fluctuations;

- changes in trade, monetary and fiscal policies and laws of the U.S. government, including policies of the Federal Reserve, Federal Deposit Insurance Corporation, (“FDIC”) and Treasury Department;
- changes in accounting policies, practices, or guidance, for example, our adoption of Current Expected Credit Losses (“CECL”) methodology, including potential volatility in the Company’s operating results due to application of the CECL methodology;
- cyber-security threats, attacks or events;
- rapid technological developments and changes;
- our ability to resolve our nonperforming assets and our ability to secure collateral on loans that have entered nonaccrual status due to loan maturities and failure to pay in full;
- changes in the Company’s liquidity and capital positions;
- concentrations of loans secured by real estate, particularly commercial real estate, and the potential impacts of changes in market conditions on the value of real estate collateral;
- increased delinquency and foreclosure rates on commercial real estate loans;
- an insufficient allowance for credit losses;
- the potential adverse effects of unusual and infrequently occurring events, such as weather-related disasters, terrorist acts, war and other military conflicts (such as the war between Israel and Hamas and the ongoing war between Russia and Ukraine) or public health events (such as the COVID-19 pandemic), and of any governmental and societal responses thereto; these potential adverse effects may include, without limitation, adverse effects on the ability of the Company's borrowers to satisfy their obligations to the Company, on the value of collateral securing loans, on the demand for the Company's loans or its other products and services, on incidents of cyberattack and fraud, on the Company’s liquidity or capital positions, on risks posed by reliance on third-party service providers, on other aspects of the Company's business operations and on financial markets and economic growth;
- a change in spreads on interest-earning assets and interest-bearing liabilities;
- regulatory supervision and oversight, including our relationship with regulators and any actions that may be initiated by our regulators;
- legislation affecting the financial services industry as a whole, and the Company and the Bank, in particular;
- the outcome of pending and future litigation and/or 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;
- 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 acquired operations will be more difficult, disruptive or more costly than anticipated;
- the soundness of other financial institutions and any indirect exposure related to large bank failures and their impact on the broader market through other customers, suppliers and partners or that the conditions which resulted in the liquidity concerns with those failed banks may also adversely impact, directly or indirectly, other financial institutions and market participants with which the Company has commercial or deposit relationships with;
- material increases in costs and expenses;

- reliance on significant customer relationships;
- general economic or business conditions, including unemployment levels, supply chain disruptions and slowdowns in economic growth;
- significant weakening of the local economies in which we operate;
- changes in customer behaviors, including consumer spending, borrowing and saving habits;
- changes in deposit flows and loan demand;
- our failure to attract or retain key associates;
- expansions or consolidations in the Company's branch network, including that the anticipated benefits of the Company's branch network optimization project are not fully realized in a timely manner or at all;
- deterioration of the housing market and reduced demand for mortgages; and
- turbulence in significant portions of the global financial and real estate markets that could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities, and indirectly, by affecting the economy generally and access to capital in the amounts, at the times and on the terms required to support our future businesses.

Please also refer to such other factors as discussed throughout Part I, Item 1A, "Risk Factors" in the Company's [Annual Report on Form 10-K for the year ended December 31, 2023](#), and any of our subsequent filings with the Securities and Exchange Commission ("SEC"). Forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. We caution you not to unduly rely on forward-looking statements because the assumptions, beliefs, expectations and projections about future events are expressed in or implied by a forward-looking statement may, and often do, differ materially from actual results. Any forward-looking statement speaks only as to the date on which it is made, and we undertake no obligation to update, revise or clarify any forward-looking statement to reflect developments occurring after the statement is made.

Explanation of Use of Non-GAAP Financial Measures

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

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

Critical Accounting Estimates

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

Overview and Strategy

Carter Bankshares, Inc. (the "Company") is a bank holding company headquartered in Martinsville, Virginia with assets of \$4.6 billion at September 30, 2024. The Company is the parent company of its wholly owned subsidiary, Carter Bank & Trust (the "Bank"). The Bank is a FDIC insured, Virginia state-chartered bank, which operates 65 branches in Virginia and North Carolina. The Company provides a full range of financial services with retail, and commercial banking products and insurance. Our common stock trades on the Nasdaq Global Select Market under the ticker symbol "CARE".

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

Part of the Company's current three-year strategic plan is to focus on refining and enhancing its brand image and position in the markets it serves. With this new brand strategy, the Company has embarked on a multi-year implementation plan to create a brand tailored to the needs of our critical growth audiences, with a focus on innovating brand experiences to exceed expectations and to build a brand that stands apart. This means a commitment to aligning processes, operations and systems around the Company's brand while introducing new products and services, so that in time the Company can increase its brand awareness in the communities it serves. To strengthen and further shape the brand and culture of the Company, a new set of guiding principles were introduced to associates in June 2023. The guiding principles include a new purpose statement: To create opportunities for more people and businesses to prosper; supported by our new set of core values: Build Relationships, Earn Trust and Take Ownership. We believe these new guiding principles will help create alignment to support future growth by empowering our associates and igniting a passion for the Company.

The Company's goal is to shift from restructuring the balance sheet to pursuing a prudent growth strategy when appropriate. We believe this strategy will be primarily targeted at organic growth, but will also consider opportunistic acquisitions that fit this strategic vision. We believe that the Bank's strong capital and liquidity positions support this strategy. In addition to loan and deposit growth, the Company will seek to increase fee income while closely monitoring operating expenses.

The Company is focused on executing this strategy to successfully support the new brand and grow our business in our current markets as well as any new markets we may enter. As part of executing this strategy, the Company continues to dedicate significant resources to the ultimate resolution of the Company's nonaccrual loans, the significant majority of which are related to a single large lending relationship that the Company placed on nonaccrual status in the second quarter of 2023, in a manner that best protects the Company, the Bank and shareholders. The Company is closely monitoring all developments that may impact collateral values or potential recoveries on its nonperforming loans, including claims that may be asserted by other purported creditors.

During the third quarter of 2024, the Company obtained a voluntary stipulation of dismissal of the lawsuit filed against the Bank in the United States District Court for the Western District of Virginia (Danville Division) on February 10, 2024 (the "GLAS Trust Lawsuit") by GLAS Trust Company, LLC, in its capacity as Note Trustee ("GLAS Trust") "with prejudice." Accordingly, GLAS Trust may not bring any future legal action in any court based on the facts alleged in the GLAS Trust Lawsuit. Moreover, in connection with the dismissal of the GLAS Trust Lawsuit, GLAS Trust and certain affiliates and parties on whose behalf it is acting have executed a release that waives any and all causes of action of any kind that they might claim to have against the Bank.

The dismissal of the GLAS Trust Lawsuit ended all pending litigation brought against the Bank by GLAS Trust in connection with the Bank's lending relationship with James C. Justice, II and the entities in which he has an interest. Also in connection with the dismissal of the GLAS Trust Lawsuit, certain Justice Entities executed documents reaffirming the legality, validity and binding nature of all loan documents they have executed in favor of the Bank.

The Company tendered a payment (the "Settlement Payment") in consideration of the voluntary dismissal of the GLAS Trust Lawsuit. Because certain of the Justice Entities had previously agreed to indemnify the Bank against the claims asserted in the GLAS Federal Court Litigation, certain of the Justice Entities executed a promissory note in favor of the Bank further evidencing this indemnification obligation as related to the Settlement Payment. This promissory note was recognized as a principal charge-off during the three months ended September 30, 2024 due to the nonperforming status of the Bank's loans with the Justice Entities, and because the settled claims related to allegedly preferential payments made on those nonperforming loans.

During the second quarter of 2024 the federal court lawsuit filed against the Company and the Bank by West Virginia Governor James C. Justice II, his wife Cathy L. Justice, his son James C. Justice, III, and related entities that he and/or they own was dismissed with prejudice. In connection with the dismissal of this litigation, the Justice Entities agreed upon a pathway of curtailment and payoff of the outstanding loans with the Bank. The Justice Entities have reduced the aggregate nonperforming loan balance associated with the Justice Entities has been reduced from \$301.9 million as of March 31, 2024 to \$280.9 million as of September 30, 2024.

The Company's financial results continue to be significantly impacted by the Bank's largest nonperforming lending relationship that was placed on nonaccrual status during the second quarter of 2023, which has an aggregate principal balance of \$280.9 million as of September 30, 2024. As a result, interest income was negatively impacted by \$8.8 million and \$9.3 million during the third quarter of 2024 and 2023, respectively, and \$27.2 million and \$20.7 million during the nine months ended September 30, 2024 and the same period in 2023, respectively. Interest income has been negatively impacted by \$57.2 million in the aggregate since placement of these loans on nonaccrual status during the second quarter of 2023.

Results of Operations and Financial Condition

Earnings Summary

Highlights for the Three Months Ended September 30, 2024

- Net interest income increased \$1.4 million, or 5.1% compared to the three months ended September 30, 2023, primarily due to a 57 basis point increase in the yield on earning assets, offset by a 61 basis point increase in funding costs;
- The (recovery) provision for credit losses decreased \$1.5 million for the three months ended September 30, 2024, compared to the same period in 2023;
- Total noninterest income increased \$0.2 million to \$5.4 million for the three months ended September 30, 2024, compared to the same period in 2023;
- Total noninterest expense increased \$0.2 million to \$27.4 million for the three months ended September 30, 2024 compared to the same period in 2023; and
- Provision for income taxes increased \$0.6 million for the three months ended September 30, 2024 compared to the same period in 2023.

Highlights for the Nine Months Ended September 30, 2024

- Net interest income decreased \$9.6 million, or 10.1%, to \$85.3 million for the nine months ended September 30, 2024 compared to the same period in 2023, reflecting the impact of rising rates on funding costs, which more than offset loan growth and higher loan and securities yields;
- The (recovery) provision for credit losses decreased \$2.5 million to \$0.1 million for the nine months ended September 30, 2024 compared to the same period in 2023;
- Total noninterest income increased \$1.0 million to \$16.0 million for the nine months ended September 30, 2024 compared to the same period in 2023;
- Total noninterest expense increased \$4.7 million to \$81.1 million for the nine months ended September 30, 2024 compared to the same period in 2023; and
- Provision for income taxes decreased \$1.4 million to \$3.9 million for the nine months ended September 30, 2024 compared to the same period in 2023.

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

- The securities portfolio decreased \$36.4 million and is currently 16.1% of total assets compared to 17.3% of total assets;
- Total portfolio loans increased \$90.0 million, or 3.4%, on an annualized basis, primarily due to loan growth in the commercial real estate ("CRE") segment during the nine months ended September 30, 2024 and was muted by \$80.0 million in loan payoffs of two large commercial real estate loans;
- The portfolio loans to deposit ratio was 88.0%, compared to 94.2%;
- At September 30, 2024, nonperforming loans declined by \$21.8 million to \$287.7 million since December 31, 2023. Nonperforming loans as a percentage of total portfolio loans were 8.00% compared to 8.83%. The decline is due to \$21.0 million of curtailment payments made by the Bank's largest nonperforming lending relationship that was placed on nonaccrual status during the second quarter of 2023. These loans are contained in the Other segment with an aggregate principal balance of \$280.9 million as of September 30, 2024 and comprise 97.6% of nonperforming loans at September 30, 2024;
- The Allowance for Credit Losses, ("ACL") to total portfolio loans ratio was 2.25% compared to 2.77%. The ACL on portfolio loans totaled \$80.9 million at September 30, 2024, compared to \$97.1 million at December 31, 2023.
- Total deposits increased \$363.2 million, or 13.0% on an annualized basis, compared to December 31, 2023; and
- Federal Home Loan Bank ("FHLB") borrowings decreased \$303.4 million to \$90.0 million at September 30, 2024 compared to \$393.4 million at December 31, 2023 primarily due to scheduled maturities, repayment of overnight funds and liquidity provided by deposit growth.

The Company reported net income of \$5.6 million or \$0.24 diluted earnings per common share ("EPS") for the three months ended September 30, 2024 compared to net income of \$3.6 million, or \$0.16 diluted EPS for the same period in 2023.

PERFORMANCE RATIOS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Return on Average Assets	0.49 %	0.33 %	0.48 %	0.78 %
Return on Average Shareholders' Equity	5.99 %	4.19 %	5.99 %	9.71 %
Portfolio Loans to Deposit Ratio	88.02 %	95.82 %	88.02 %	95.82 %
Allowance for Credit Losses to Total Portfolio Loans	2.25 %	2.77 %	2.25 %	2.77 %
Nonperforming Loans to Portfolio Loans	8.00 %	9.04 %	8.00 %	9.04 %

Net Interest Income

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

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

The following table reconciles interest and dividend income (GAAP), yield on interest-earning assets (GAAP), net interest margin (GAAP) and net interest income per the Consolidated Statements of Income to interest and dividend income on an FTE basis (non-GAAP), yield on interest-earning assets on an FTE basis (non-GAAP), net interest margin on an FTE basis (non-GAAP) and net interest income on an FTE basis (non-GAAP), respectively, for the periods presented:

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest Income (FTE)(Non-GAAP)				
Interest and Dividend Income (GAAP)	\$ 56,595	\$ 48,886	\$ 165,227	\$ 144,557
Tax Equivalent Adjustment	190	247	593	768
Interest and Dividend Income (FTE) (Non-GAAP)	56,785	49,133	165,820	145,325
Average Earning Assets	\$ 4,447,455	\$ 4,320,390	\$ 4,437,886	\$ 4,256,560
Yield on Interest-earning Assets (GAAP)	5.06 %	4.49 %	4.97 %	4.54 %
Yield on Interest-earning Assets (FTE) (Non-GAAP)	5.08 %	4.51 %	4.99 %	4.56 %
Net Interest Income (GAAP)	\$ 28,798	\$ 27,394	\$ 85,309	\$ 94,890
Tax Equivalent Adjustment	190	247	593	768
Net Interest Income (FTE) (Non-GAAP)	28,988	27,641	85,902	95,658
Average Earning Assets	\$ 4,447,455	\$ 4,320,390	\$ 4,437,886	\$ 4,256,560
Net Interest Margin (GAAP)	2.58 %	2.52 %	2.57 %	2.98 %
Net Interest Margin (FTE) (Non-GAAP)	2.59 %	2.54 %	2.59 %	3.00 %

Average Balance Sheet and Net Interest Income Analysis (FTE)

The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the periods presented:

(Dollars in Thousands)	Three Months Ended September 30, 2024			Three Months Ended September 30, 2023		
	Average Balance	Income/ Expense	Yield/Rate	Average Balance	Income/ Expense	Yield/Rate
ASSETS						
Interest-Bearing Deposits with Banks	\$ 43,817	\$ 597	5.42 %	\$ 12,652	\$ 172	5.39 %
Tax-Free Investment Securities ⁽²⁾	11,740	84	2.85 %	27,594	203	2.92 %
Taxable Investment Securities	815,885	7,266	3.54 %	893,386	7,793	3.46 %
Total Securities	827,625	7,350	3.53 %	920,980	7,996	3.44 %
Tax-Free Loans ⁽¹⁾⁽²⁾	99,810	815	3.25 %	120,670	972	3.20 %
Taxable Loans ⁽¹⁾⁽³⁾	3,464,899	47,813	5.49 %	3,243,663	39,578	4.84 %
Total Loans	3,564,709	48,628	5.43 %	3,364,333	40,550	4.78 %
Federal Home Loan Bank Stock	11,304	210	7.39 %	22,425	415	7.34 %
Total Interest-Earning Assets	4,447,455	\$ 56,785	5.08 %	4,320,390	\$ 49,133	4.51 %
Noninterest Earning Assets	108,760			88,805		
Total Assets	\$ 4,556,215			\$ 4,409,195		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-Bearing Demand	\$ 604,630	\$ 2,838	1.87 %	\$ 475,939	\$ 720	0.60 %
Money Market	502,008	4,012	3.18 %	430,954	2,495	2.30 %
Savings	386,698	153	0.16 %	504,697	140	0.11 %
Certificates of Deposit	1,835,329	18,515	4.01 %	1,486,165	11,973	3.20 %
Total Interest-Bearing Deposits	3,328,665	25,518	3.05 %	2,897,755	15,328	2.10 %
Federal Home Loan Bank Borrowings	171,424	2,143	4.97 %	447,287	5,986	5.31 %
Federal Funds Purchased	—	—	— %	7,550	107	5.62 %
Other Borrowings	10,070	136	5.37 %	6,131	71	4.59 %
Total Borrowings	181,494	2,279	5.00 %	460,968	6,164	5.31 %
Total Interest-Bearing Liabilities	3,510,159	27,797	3.15 %	3,358,723	21,492	2.54 %
Noninterest-Bearing Liabilities	672,208			707,445		
Shareholders' Equity	373,848			343,027		
Total Liabilities and Shareholders' Equity	\$ 4,556,215			\$ 4,409,195		
Net Interest Income⁽²⁾		\$ 28,988			\$ 27,641	
Net Interest Margin⁽²⁾			2.59 %			2.54 %

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

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

⁽³⁾ Average loan balances include loans held-for-sale.

(Dollars in Thousands)	Nine Months Ended September 30, 2024			Nine Months Ended September 30, 2023		
	Average Balance	Income/Expense	Rate	Average Balance	Income/Expense	Rate
ASSETS						
Interest-Bearing Deposits with Banks	\$ 33,049	\$ 1,352	5.46 %	\$ 15,550	\$ 587	5.05 %
Tax-Free Investment Securities ⁽²⁾	11,779	255	2.89 %	28,189	618	2.93 %
Taxable Investment Securities	836,993	22,730	3.63 %	908,670	22,874	3.37 %
Total Securities	848,772	22,985	3.62 %	936,859	23,492	3.35 %
Tax-Free Loans ⁽¹⁾⁽²⁾	105,569	2,566	3.25 %	126,578	3,041	3.21 %
Taxable Loans ⁽¹⁾⁽³⁾	3,434,407	138,025	5.37 %	3,158,888	117,235	4.96 %
Total Loans	3,539,976	140,591	5.31 %	3,285,466	120,276	4.89 %
Federal Home Loan Bank Stock	16,089	892	7.41 %	18,685	970	6.94 %
Total Interest-Earning Assets	4,437,886	\$ 165,820	4.99 %	4,256,560	\$ 145,325	4.56 %
Noninterest Earning Assets	97,235			92,613		
Total Assets	\$ 4,535,121			\$ 4,349,173		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-Bearing Demand	\$ 544,680	\$ 5,639	1.38 %	\$ 485,605	\$ 1,876	0.52 %
Money Market	512,539	11,934	3.11 %	440,700	5,607	1.70 %
Savings	412,549	435	0.14 %	570,538	456	0.11 %
Certificates of Deposit	1,734,538	50,950	3.92 %	1,388,773	26,690	2.57 %
Total Interest-Bearing Deposits	3,204,306	68,958	2.87 %	2,885,616	34,629	1.60 %
Federal Home Loan Bank Borrowings	273,413	10,637	5.20 %	380,023	14,461	5.09 %
Federal Funds Purchased	—	—	— %	9,062	354	5.22 %
Other Borrowings	8,749	323	4.93 %	6,247	223	4.77 %
Total Borrowings	282,162	10,960	5.19 %	395,332	15,038	5.09 %
Total Interest-Bearing Liabilities	3,486,468	79,918	3.06 %	3,280,948	49,667	2.02 %
Noninterest-Bearing Liabilities	686,560			720,181		
Shareholders' Equity	362,093			348,044		
Total Liabilities and Shareholders' Equity	\$ 4,535,121			\$ 4,349,173		
Net Interest Income⁽²⁾		\$ 85,902			\$ 95,658	
Net Interest Margin⁽²⁾			2.59 %			3.00 %

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

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

⁽³⁾ Average loan balances include loans held-for-sale.

Net interest income increased to \$28.8 million for the three months ended September 30, 2024 from \$27.4 million for the same period in 2023. Net interest income, on an FTE basis (non-GAAP), increased \$1.3 million, or 4.9%, to \$29.0 million for the three months ended September 30, 2024 compared to the same period in 2023. The net interest margin increased 6 basis points to 2.58% for the three months ended September 30, 2024 compared to 2.52% for the same period in 2023. Net interest margin, on an FTE basis, increased 5 basis points to 2.59% for the three months ended September 30, 2024 compared to 2.54% for the same period in 2023. The increase was primarily a result of higher average interest-earning assets of \$127.1 million with the yield on average interest-earning assets increasing 57 basis points. The most significant increase in interest-earning assets was a 65 basis point increase in the yield on average loans from 4.78% in the third quarter of 2023 to 5.43% in the third quarter of 2024, as well as a higher average loan balance.

Net interest income decreased to \$85.3 million for the nine months ended September 30, 2024 from \$94.9 million for the same period in 2023. Net interest income, on an FTE basis (non-GAAP), decreased \$9.8 million, or 10.2%, to \$85.9 million for the nine months ended September 30, 2024 compared to \$95.7 million for the same period in 2023. The net interest margin decreased 41 basis points to 2.57% for the nine months ended September 30, 2024 compared to 2.98% for the same period in 2023. Net interest margin, on an FTE basis, decreased 41 basis points to 2.59% for the nine months ended September 30, 2024 compared to 3.00% for the same period in 2023. The decline in net interest income and net interest margin were significantly driven by the Bank's largest nonperforming lending relationship that was placed on nonaccrual status during the second quarter of 2023, which negatively impacted interest income by \$27.2 million for the nine months ended September 30, 2024 and by \$20.7 million for the same period in 2023. Funding costs increased 104 basis points, offset by an increase of 43 basis points on the yield on earning assets for the nine months ended September 30, 2024 compared to the same period in 2023. During the

nine months ended September 30, 2024, \$1.2 billion of CDs matured and repriced from an average rate of 4.33% to an average rate of 4.40%.

Interest income increased to \$56.6 million for the three months ended September 30, 2024 from \$48.9 million compared to the same period in 2023. Interest income, on an FTE basis (non-GAAP), increased \$7.7 million, or 15.6%, to \$56.8 million for the three months ended September 30, 2024 compared to \$49.1 million for the same period in 2023, primarily from growth in earning assets and higher earning asset yields. Average interest-earning assets increased primarily due to average loan growth of \$200.4 million in loans and an increase of \$31.2 million in interest-bearing deposits with banks during the third quarter of 2024, and was partially offset by a decrease of \$93.4 million in average investment securities and a decrease of \$11.1 million in FHLB stock. The Bank's largest nonperforming lending relationship negatively impacted interest income by \$8.8 million in the third quarter of 2024 and was negatively impacted by \$9.3 million in the third quarter of 2023. Interest income increased to \$165.2 million for the nine months ended September 30, 2024 from \$144.6 million compared to the same period in 2023. Interest income, on an FTE basis (non-GAAP), increased \$20.5 million, or 14.1%, to \$165.8 million for the nine months ended September 30, 2024 compared to \$145.3 million for the same period in 2023, resulting from average loan growth of \$275.5 million in taxable loans.

The change in average investment securities is the result of active balance sheet management to deploy the proceeds from securities maturities and principal curtailments into higher yielding loans, rather than reinvesting those proceeds back into the securities portfolio. The portfolio has been diversified as to bond types, maturities, and interest rate structures. As of September 30, 2024, the securities portfolio was comprised of 43.7% variable rate securities with approximately 96.9% that will reprice at least once over the next 12 months. We believe having a significant percentage of variable rate securities is an important strategy during times of rising interest rates because fixed-rate bond prices generally fall when interest rates increase, which can result in unrealized losses. However, variable rate securities do not carry as much interest rate risk so there is much less price volatility. This variable rate strategy has limited the impact of rising rates on the Company's unrealized losses on debt securities. With the Federal Reserve on a likely path of reducing short-term interest rates, the Bank may alter this interest rate mix strategy going forward.

Interest expense of \$27.8 million for the three months ended September 30, 2024 increased \$6.3 million, or 29.3% compared to the same period in 2023, primarily due to an increase in average interest-bearing deposits of \$430.9 million. The increase in average-bearing deposits reflected solid growth in average CDs of \$349.2 million, an increase of \$128.7 million in interest-bearing demand accounts and an increase of \$71.0 million in average money market accounts, offset by a decrease of \$118.0 million in savings accounts as customer preferences shifted from lower cost non-maturing deposits to higher-yielding interest-bearing demand, money market and CD products. Interest expense of \$79.9 million for the nine months ended September 30, 2024 increased \$30.3 million, or 60.9% compared to the same period in 2023, primarily due to an average increase in CDs of \$345.8 million.

Our balance sheet is currently exhibiting characteristics of a slightly liability sensitive position due to the short-term nature of our deposit portfolio and FHLB borrowings. Specifically, 93.0% of our CD portfolio and 50.0% of our outstanding FHLB borrowings will mature and reprice over the next twelve months. This strategy gives us flexibility to manage the structure and pricing of our deposit and borrowing portfolios to reduce future funding costs should the Federal Open Market Committee ("FOMC") continue cutting short-term rates in the future.

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:

(Dollars in Thousands)	Three Months Ended September 30, 2024 Compared to September 30, 2023			Nine Months Ended September 30, 2024 Compared to September 30, 2023		
	Volume ⁽³⁾	Rate ⁽³⁾	Increase/ (Decrease)	Volume ⁽³⁾	Rate ⁽³⁾	Increase/ (Decrease)
Interest Earned on:						
Interest-Bearing Deposits with Banks	\$ 425	\$ —	\$ 425	\$ 712	\$ 53	\$ 765
Tax-free Investment Securities ⁽²⁾	(114)	(5)	(119)	(356)	(7)	(363)
Taxable Investment Securities	(687)	160	(527)	(1,875)	1,731	(144)
Total Securities	(801)	155	(646)	(2,231)	1,724	(507)
Tax-free Loans ⁽¹⁾⁽²⁾	(170)	13	(157)	(511)	36	(475)
Taxable Loans ⁽¹⁾	2,820	5,415	8,235	10,660	10,130	20,790
Total Loans	2,650	5,428	8,078	10,149	10,166	20,315
Federal Home Loan Bank Stock	(207)	2	(205)	(141)	63	(78)
Total Interest-Earning Assets	\$ 2,067	\$ 5,585	\$ 7,652	\$ 8,489	\$ 12,006	\$ 20,495
Interest Paid on:						
Interest-Bearing Demand	\$ 242	\$ 1,876	\$ 2,118	\$ 254	\$ 3,509	\$ 3,763
Money Market	458	1,059	1,517	1,039	5,288	6,327
Savings	(38)	51	13	(145)	124	(21)
Certificates of Deposit	3,155	3,387	6,542	7,770	16,490	24,260
Total Interest-Bearing Deposits	3,817	6,373	10,190	8,918	25,411	34,329
Federal Home Loan Bank Borrowings	(3,472)	(371)	(3,843)	(4,141)	317	(3,824)
Federal Funds Purchased	(54)	(53)	(107)	(177)	(177)	(354)
Other Borrowings	52	13	65	92	8	100
Total Borrowings	(3,474)	(411)	(3,885)	(4,226)	148	(4,078)
Total Interest-Bearing Liabilities	343	5,962	6,305	4,692	25,559	30,251
Change in Net Interest Margin⁽²⁾	\$ 1,724	\$ (377)	\$ 1,347	\$ 3,797	\$ (13,553)	\$ (9,756)

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

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

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

(Recovery) Provision for Credit Losses

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

(Dollars in Thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024	2023	\$ Change	2024	2023	\$ Change
(Recovery) Provision for Credit Losses	\$ (432)	\$ 1,105	\$ (1,537)	\$ 75	\$ 2,605	\$ (2,530)
Provision (Recovery) for Unfunded Commitments	191	(130)	321	(88)	314	(402)
Total (Recovery) Provision for Credit Losses on Loans	(241)	975	(1,216)	(13)	2,919	(2,932)
Provision for Securities	—	—	—	—	—	—
Total (Recovery) Provision for Credit Losses	\$ (241)	\$ 975	\$ (1,216)	\$ (13)	\$ 2,919	\$ (2,932)
Net Loan Charge-offs	\$ 15,345	\$ 775	\$ 14,570	\$ 16,218	\$ 1,983	\$ 14,235
Net Loan Charge-offs (annualized) / Average Portfolio Loans	1.71 %	0.09 %		0.61 %	0.08 %	

The (recovery) provision for credit losses decreased \$1.5 million and \$2.5 million for the three and nine months ended September 30, 2024, respectively, compared to the same periods in 2023. The decrease for the three and nine months ended September 30, 2024 in the (recovery) provision for credit losses as compared to the same periods in 2023 was primarily driven by updated analysis of the individually evaluated loans within the Other loan segment and \$1.7 million of other segment

reserves released during the third quarter of 2024 related to \$13.2 million of curtailment payments made during the third quarter by the Bank’s largest nonperforming lending relationship, offset by loan growth in the third quarter of 2024.

The provision (recovery) for unfunded commitments for the three and nine months ended September 30, 2024 was a provision of \$0.2 million and a recovery \$(0.1) million, respectively, compared to a recovery of \$(0.1) million and a provision of \$0.3 million in the same periods in 2023, respectively. The decrease and the increase in the three and nine months ended September 30, 2024, respectively were due to changes in commitments in construction loans during the periods.

Net charge-offs were \$15.3 million and \$16.2 million for the three and nine months ended September 30, 2024 compared to \$0.8 million and \$2.0 million for the same periods in 2023. During the three and nine months ended September 30, 2024 and September 30, 2023, net charge-offs were significantly impacted by a \$15.0 million principal charge-off related to the Other segment of the loan portfolio. As a percentage of average portfolio loans, on an annualized basis, net charge-offs were 1.71% and 0.61% for the three and nine months ended 2024 and 0.09% and 0.08% for the three and nine months ended September 30, 2023, respectively.

The \$15.0 million principal charge-off related to the Other segment of the loan portfolio. Certain Justice Entities executed a promissory note related to the Settlement Payment (as defined in Note 10). This promissory note was recognized as a principal charge-off due to the nonperforming status of the Bank’s loans with the Justice Entities and because the settled claims related to allegedly preferential payments made on those nonperforming loans. See the “Allowance for Credit Losses” section of this MD&A for additional details regarding our charge-offs and for additional information related to our ACL.

Noninterest Income

(Dollars in Thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2024	2023	\$ Change	% Change	2024	2023	\$ Change	% Change
Gains (Losses) on Sales of Securities, net	\$ —	\$ (1)	\$ 1	N/M	\$ 36	\$ (10)	\$ 46	N/M
Service Charges, Commissions and Fees	1,820	1,783	37	2.1 %	5,547	5,380	167	3.1 %
Debit Card Interchange Fees	1,907	1,902	5	0.3 %	5,926	5,941	(15)	(0.3) %
Insurance Commissions	1,063	868	195	22.5 %	2,611	1,550	1,061	68.5 %
Bank Owned Life Insurance Income	375	348	27	7.8 %	1,088	1,028	60	5.8 %
Commercial Loan Swap Fee Income	—	—	—	— %	—	114	(114)	(100.0) %
Other	257	370	(113)	(30.5) %	792	1,030	(238)	(23.1) %
Total Noninterest Income	\$ 5,422	\$ 5,270	\$ 152	2.9 %	\$ 16,000	\$ 15,033	\$ 967	6.4 %

N/M Not Meaningful

Total noninterest income increased \$0.2 million, or 2.9%, to \$5.4 million for the three months ended September 30, 2024 and increased \$1.0 million, or 6.4%, to \$16.0 million for the nine months ended September 30, 2024 when compared to the same periods in 2023. The increase for the three months ended September 30, 2024 was primarily due to higher insurance commissions of \$0.2 million, offset by a decrease of \$0.1 million in other noninterest income related to lower fair value adjustment of our interest rate swap contracts with commercial customers.

The most significant increase during the nine months ended September 30, 2024 was higher insurance commissions of \$1.1 million. Also impacting the increase for the nine months ended September 30, 2024 was a \$0.2 million increase in service charges, commissions and fees, offset by a decrease of \$0.2 million in other noninterest income similar to the decrease mentioned above and a decline of \$0.1 million in commercial loan swap fee income as activity has declined due to the interest rate environment.

Noninterest Expense

(Dollars in Thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2024	2023	\$ Change	% Change	2024	2023	\$ Change	% Change
Salaries and Employee Benefits	\$ 14,603	\$ 13,956	\$ 647	4.6 %	\$ 43,019	\$ 41,257	\$ 1,762	4.3 %
Occupancy Expense, net	3,944	3,547	397	11.2 %	11,485	10,548	937	8.9 %
FDIC Insurance Expense	1,529	1,368	161	11.8 %	4,782	2,711	2,071	76.4 %
Other Taxes	878	856	22	2.6 %	2,680	2,446	234	9.6 %
Advertising Expense	585	363	222	61.2 %	1,470	1,133	337	29.7 %
Telephone Expense	324	500	(176)	(35.2) %	1,083	1,339	(256)	(19.1) %
Professional and Legal Fees	1,193	1,512	(319)	(21.1) %	4,248	4,005	243	6.1 %
Data Processing	1,337	1,076	261	24.3 %	3,462	2,854	608	21.3 %
Debit Card Expense	889	816	73	8.9 %	2,453	2,066	387	18.7 %
Other	2,151	3,288	(1,137)	(34.6) %	6,454	8,035	(1,581)	(19.7) %
Total Noninterest Expense	\$ 27,433	\$ 27,282	\$ 151	0.6 %	\$ 81,136	\$ 76,394	\$ 4,742	6.2 %

Total noninterest expense increased \$0.2 million to \$27.4 million for the three months ended September 30, 2024 compared to the same period in 2023. The most significant variance for the comparable period related to a \$0.6 million increase in salaries and employee benefits, an increase of \$0.4 million in occupancy expenses, an increase of \$0.3 million in data processing expenses and a \$0.2 million increase in FDIC insurance expense, offset by a decrease of \$1.1 million in other noninterest expense and a decrease of \$0.3 million in professional and legal fees.

The increases in salaries and employee benefits resulted from higher salary expenses due to fewer open positions in retail, job grade assessment increases and normal merit increases. The increase in occupancy expenses, net of \$0.4 million was due to new software license and depreciation expense in the third quarter of 2024 and the increase in data processing expenses of \$0.3 million relates primarily to general inflationary cost increases for existing and new service agreements. The increase in advertising expenses relates to costs incurred for the Company’s new brand roll-out. The higher FDIC insurance expense was due to the deterioration in asset quality as a direct result of the large nonperforming lending relationship that was placed into nonaccrual status in the second quarter of 2023, which is a component used to determine the assessment. The decrease in other noninterest expense related to a gain of \$0.5 million on a closed office that was sold in the third quarter of 2024, write-downs of \$0.6 million on three legacy other real estate owned (“OREO”) properties and write-downs of \$0.3 million on two additional closed offices in the third quarter of 2023.

Total noninterest expense increased \$4.7 million or 6.2% to \$81.1 million for the nine months ended September 30, 2024 compared to the same period in 2023. The most significant variances were similar to those mentioned for the three months ended September 30, 2024 compared to the same period in 2023. However, the year-to-date variance was also impacted by an increase of \$0.4 million in debit card expense related to discounts received in March of 2023, as well as, a decrease of \$0.3 million in telephone expenses due to the lower ongoing cost of a new phone system that was replaced in 2023.

Provision for Income Taxes

The provision for income taxes increased \$0.6 million and decreased \$1.4 million to \$1.4 million and \$3.9 million for the three and nine months ended September 30, 2024, respectively when compared to the same periods in 2023. Pre-tax income increased \$2.6 million and decreased \$10.4 million for the three and nine months ended September 30, 2024, respectively when compared to the same periods in 2023. The effective tax rate was 19.9% and 19.5% for the three and nine months ended September 30, 2024, respectively, compared to 17.7% and 17.4% for the same periods in 2023. The increase in the effective tax rate for the three and nine months ended September 30, 2024 compared to the same periods in 2023 was primarily related to changes in pre-tax income, partially offset by higher levels of tax credits in 2023. The Company ordinarily generates an annual effective tax rate that is less than the statutory rate of 21% due to benefits resulting from tax-exempt interest income, tax credit projects and bank owned life insurance (“BOLI”).

**Financial Condition
September 30, 2024**

Total assets increased \$100.9 million, to \$4.6 billion at September 30, 2024 compared to December 31, 2023. Cash and due from banks increased \$50.5 million to \$105.0 million at September 30, 2024 compared to \$54.5 million at December 31, 2023 primarily due to higher excess cash on hand in the third quarter of 2024. Total portfolio loans increased \$90.0 million, or 3.4% on an annualized basis, to \$3.6 billion at September 30, 2024 compared to December 31, 2023 primarily due to loan growth in the CRE loan segment during the nine months ended September 30, 2024. Loan growth was muted by \$80.0 million in loan payoffs of two large commercial real estate loans in the first quarter of 2024. The variances in loan segments for portfolio loans related to increases of \$187.4 million in CRE loans, offset by decreases in all the other loan segments, such as a \$36.8 million decrease in construction loans, a \$30.0 million decrease in C&I loans, a \$21.1 million decrease in the other loan segment due to curtailment payments made by the Bank's largest nonperforming lending relationship, a \$5.0 million decrease in residential mortgages and a \$4.5 million decrease in other consumer loans.

The securities portfolio decreased \$36.4 million and is currently 16.1% of total assets at September 30, 2024 compared to 17.3% of total assets at December 31, 2023. The decrease is due to ongoing maturities, principal curtailments, purchases and sales of available for sale securities and changes in market values driven by fluctuations in intermediate treasury yields. During the nine months ended September 30, 2024 there was one new security purchase of \$8.6 million and one sale of two bonds with a book value of \$10.6 million. As of September 30, 2024, the securities portfolio was comprised of 43.7% variable rate securities with approximately 96.9% that will reprice at least once over the next 12 months. At September 30, 2024, total gross unrealized gains in the available-for-sale portfolio were \$0.1 million, offset by \$68.4 million of gross unrealized losses. Refer to the "Securities" section below for further discussion of unrealized losses in the available-for-sale securities portfolio.

During the second quarter of 2024, the Company purchased \$5.0 million of equity securities with carrying value totaling \$5.2 million at September 30, 2024. The equity securities consist of our investment in a market-rate bond mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing to low- and moderate-income borrowers and renters, including those in Majority Minority Census Tracts. The Company's investment in the mutual fund is eligible for investment credit under the Community Reinvestment Act.

FHLB stock, at cost decreased \$14.2 million to \$7.4 million at September 30, 2024 compared to December 31, 2023. The decrease is due to a lower level of FHLB borrowings due to deposit growth that funded paydowns of FHLB borrowings. Closed retail bank offices had a book value of \$0.5 million at September 30, 2024 and \$2.3 million at December 31, 2023 included in OREO on the Consolidated Balance Sheets.

The ACL was 2.25% of total portfolio loans at September 30, 2024 compared to 2.77% as of December 31, 2023. The decrease is primarily related to an updated analysis of the individually evaluated loans, a \$15.0 million charge-off related to the Other segment of the loan portfolio and \$3.1 million of Other segment specific reserves released in connection with \$21.0 million of curtailment payments made by the Bank's largest nonperforming lending relationship. General reserves as a percentage of total portfolio loans were 1.21% at September 30, 2024 and 1.22% at December 31, 2023. Management believes the ACL is adequate to absorb expected losses inherent in the loan portfolio. See the sections of this MD&A titled "Provision for Credit Losses," "Credit Quality" and "Allowance for Credit Losses" for information about the factors that impacted the ACL and the provision for credit losses.

Total deposits increased \$363.2 million, or 13.0% on an annualized basis, to \$4.1 billion at September 30, 2024 compared to December 31, 2023. The increase in deposits was primarily due to a \$343.4 million increase in CDs and an increase of \$167.5 million in interest-bearing demand accounts, offset by a decrease of \$82.0 million in savings accounts, a decrease of \$56.3 million in noninterest-bearing demand accounts and a decrease of \$9.4 million in money market accounts. The Company had \$216.1 million brokered CDs at September 30, 2024, compared to \$70.0 million at December 31, 2023.

At September 30, 2024, noninterest-bearing deposits comprised 15.4% of total deposits compared to 18.4% at December 31, 2023 and 18.7% at September 30, 2023. CDs comprised 47.2%, 42.6% and 42.5% of total deposits at September 30, 2024, December 31, 2023 and September 30, 2023, respectively. As of September 30, 2024, based on assumptions that the Bank uses to prepare its regulatory call report, approximately 82.7% of our total deposits of \$4.1 billion were insured under standard FDIC insurance coverage limits, and approximately 17.3% of our total deposits were uninsured deposits over the standard FDIC

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

insurance coverage limit. The Company's deposit base is diversified and granular and is comprised of approximately 78.5% of retail deposits.

FHLB borrowings decreased \$303.4 million to \$90.0 million at September 30, 2024 compared to \$393.4 million at December 31, 2023 primarily due to a decline in overnight borrowings, offset by \$146.1 million of new brokered CDs during the third quarter of 2024, as well as deposit growth. The Company had no outstanding federal funds purchased at September 30, 2024 and December 31, 2023.

Total capital of \$386.8 million at September 30, 2024, reflects an increase of \$35.6 million compared to December 31, 2023. The increase in total capital from December 31, 2023 is primarily due to net income of \$16.2 million, an increase of \$18.1 million in other comprehensive income (loss) due to changes in fair value of investment securities, as well as an increase of \$1.3 million related to restricted stock activity all during the nine months ended September 30, 2024.

The Company remains well capitalized. The Tier 1 capital ratio decreased to 10.83% at September 30, 2024 compared to 11.08% at December 31, 2023. The leverage ratio was 9.53% at September 30, 2024, compared to 9.48% at December 31, 2023 and the total risk-based capital ratio was 12.09% at September 30, 2024 compared to 12.34% at December 31, 2023.

The Bank also remained well capitalized as of September 30, 2024. The Bank's Tier 1 Capital ratio was 10.75% at September 30, 2024 compared to 10.99% at December 31, 2023. The Bank's leverage ratio was 9.45% at September 30, 2024 compared to 9.41% at December 31, 2023. The Bank's Total Risk-Based Capital ratio was 12.01% at September 30, 2024 compared to 12.25% at December 31, 2023.

Securities

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023	\$ Change
U.S. Government Agency Securities	27,475	43,827	(16,352)
Residential Mortgage-Backed Securities	98,809	99,150	(341)
Commercial Mortgage-Backed Securities	23,041	31,163	(8,122)
Other Commercial Mortgage-Backed Securities	22,267	21,856	411
Asset Backed Securities	121,146	140,006	(18,860)
Collateralized Mortgage Obligations	156,418	161,533	(5,115)
States and Political Subdivisions	231,172	222,108	9,064
Corporate Notes	62,307	59,360	2,947
Total Debt Securities	\$ 742,635	\$ 779,003	\$ (36,368)

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

The securities portfolio decreased \$36.4 million to \$742.6 million at September 30, 2024 compared to \$779.0 million at December 31, 2023. Securities comprise 16.1% of total assets at September 30, 2024 compared to 17.3% at December 31, 2023. The decrease is due to ongoing maturities, principal curtailments, purchases and sales of available for sale securities and changes in market values driven by fluctuations in intermediate treasury yields. During the nine months ended September 30, 2024, there was one new security purchase of \$8.6 million and one sale of two bonds with a book value of \$10.6 million as liquidity generated by the securities portfolio during the nine months ended September 30, 2024 was primarily deployed into higher yielding loans. As of September 30, 2024, the securities portfolio was comprised of 43.7% variable rate securities with approximately 96.9% that will reprice at least once over the next 12 months.

At September 30, 2024 total gross unrealized gains in the available-for-sale portfolio were \$0.1 million, offset by \$68.4 million of gross unrealized losses. At December 31, 2023, total gross unrealized gains in the available-for-sale portfolio were \$0.7 million offset by \$92.3 million of gross unrealized losses.

The unrealized losses on debt securities are believed to be temporary primarily because these unrealized losses are due to reductions in market value caused by upward movement in interest rates since the securities purchase (as applicable), and not related to the credit quality of these securities. Our portfolio consists of 46.9% of securities issued by United States government sponsored entities and carry an implicit government guarantee. States and political subdivisions comprise 31.1% of the portfolio and are largely general obligations or essential purpose revenue bonds, which have performed very well historically over all business cycles, and are rated AA and AAA. We have the ability to hold these securities to maturity and expect full recovery of the amortized cost. We may occasionally sell securities to take advantage of market opportunities or as part of a strategic initiative.

The Company’s investment securities with intermediate and long-term maturities were the largest driver of these gross unrealized losses, as the market values of these securities are significantly impacted by the Treasury yield curve for similar durations (i.e., 5- and 10-year Treasury securities). This portion of the Treasury yield curve has moved lower over the past three months, driving unrealized losses on outstanding securities lower. Changes in short-term interest rates can affect the yield on floating rate securities. Yields on floating rate securities will fall as the Federal Reserve Board (“FRB”) lower short-term rates. Changes in intermediate and long-term interest rates, which are market driven, affect the market value of fixed rate securities with similar maturities. The Company expects that market values on the Bank’s intermediate and long-term maturity holdings will continue to fluctuate in large part driven by treasury yield changes.

At September 30, 2024 the 5-year and 10-year U.S. Treasury yields were 3.58% and 3.81%, respectively. At December 31, 2023, those same bond yields were 3.84% and 3.88%, respectively. Therefore, this decrease of 26 bps and 7 bps, respectively in the intermediate part of the yield curve largely caused an increase in bond prices for fixed rate bonds in that maturity range. Note, the effects were generally greater for longer maturity bonds, such as municipal bonds. On the other hand, floating rate bonds largely held consistent values, as those interest rates generally adjust in line with FRB interest rate moves.

Should the impairment of any of these securities become credit related, the impairment will be recognized by establishing an ACL through provision for credit losses in the period the credit related impairment is identified, while any non-credit loss will be recognized in accumulated other comprehensive loss, net of applicable taxes. At September 30, 2024 and December 31, 2023, the Company had no credit related impairment.

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

During the second quarter of 2024, the Company purchased \$5.0 million of equity securities with carrying value totaling \$5.2 million at September 30, 2024. The equity securities consist of our investment in a market-rate bond mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing to low- and moderate-income borrowers and renters, including those in Majority Minority Census Tracts. The Company’s investment in the mutual fund is eligible for investment credit under the Community Reinvestment Act.

Loan Composition

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023
Commercial		
Commercial Real Estate	\$ 1,857,997	\$ 1,670,631
Commercial and Industrial	241,474	271,511
Total Commercial Loans	2,099,471	1,942,142
Consumer		
Residential Mortgages	782,930	787,929
Other Consumer	29,813	34,277
Total Consumer Loans	812,743	822,206
Construction	399,502	436,349
Other	284,145	305,213
Total Portfolio Loans	3,595,861	3,505,910
Loans Held-for-Sale	390	—
Total Loans	\$ 3,596,251	\$ 3,505,910

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

Total portfolio loans increased \$90.0 million, or 3.4%, on an annualized basis, and was \$3.6 billion at September 30, 2024 and \$3.5 billion at December 31, 2023 with production primarily in our CRE portfolio. The CRE portfolio is monitored for potential concentrations of credit risk by market, property type and tenant concentrations. Given the current interest rate environment, our mortgage portfolio paydowns outpaced growth in the nine months ended September 30, 2024. At September 30, 2024, the loan portfolio was comprised of 26.4% floating rates which reprice monthly, 39.1%, variable rates that reprice at least once during the life of the loan and the remaining 34.5% are fixed rate loans. The Company continues to carefully monitor the loan portfolio during 2024, including in light of market conditions that impact our borrowers and the interest rate environment.

Total CRE represented 51.7% of total portfolio loans at September 30, 2024 compared to 47.7% at December 31, 2023. The collateral for the Company's CRE loans is concentrated predominantly in North Carolina, Virginia, South Carolina, West Virginia and Georgia within the retail/restaurant, warehouse, hospitality, multifamily, and office metrics.

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

September 30, 2024									
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgage	Construction	Other	Total	CRE Collateral Type in Special Mention and Substandard Risk Rating	% of Each Segment to Total CRE Collateral Type	
Retail/Restaurant	\$ 418,549	\$ 123	\$ —	\$ 52,441	\$ —	\$ 471,113	\$ 346	18.7 %	
Warehouse	378,064	499	—	58,399	—	436,962	1,481	17.4 %	
Hospitality	291,878	—	—	11,253	51,552	354,683	51,552	14.1 %	
Multifamily	300,855	—	—	90,657	—	391,512	4,516	15.5 %	
Office	215,594	—	—	5,510	508	221,612	982	8.8 %	
Land	823	—	—	104,604	101,888	207,315	101,940	8.2 %	
Single Family	10,070	—	48,436	21,708	13,367	93,581	13,479	3.7 %	
Country Club	3,400	—	—	—	45,002	48,402	45,002	1.9 %	
Long-term Care	30,307	—	—	10,506	—	40,813	—	1.6 %	
Other	206,718	417	—	24,277	22,835	254,247	22,937	10.1 %	
Total	\$ 1,856,258	\$ 1,039	\$ 48,436	\$ 379,355	\$ 235,152	\$ 2,520,240	\$ 242,235	100.0 %	

December 31, 2023									
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgage	Construction	Other	Total	CRE Collateral Type in Special Mention and Substandard Risk Rating	% of Each Segment to Total CRE Collateral Type	
Retail/Restaurant	\$ 380,285	\$ 129	\$ —	\$ 46,241	\$ 3,300	\$ 429,955	\$ 62	18.2 %	
Warehouse	324,548	514	53	48,674	—	373,789	72	15.9 %	
Hospitality	288,323	—	—	1,229	51,552	341,104	51,552	14.5 %	
Multifamily	258,676	—	—	127,447	—	386,123	—	16.4 %	
Office	217,228	—	—	4,424	508	222,160	1,857	9.4 %	
Land	1,153	—	—	119,188	92,648	212,989	93,581	9.0 %	
Single Family	5,770	14	47,205	13,194	13,367	79,550	13,439	3.4 %	
Country Club	—	—	0	—	45,002	45,002	45,002	1.9 %	
Long-term Care	20,172	—	—	7,250	—	27,422	—	1.2 %	
Other	201,353	444	127	34,932	—	236,856	22,941	10.1 %	
Total	\$ 1,697,508	\$ 1,101	\$ 47,385	\$ 402,579	\$ 206,377	\$ 2,354,950	\$ 228,506	100.0 %	

CRE loans represent a portfolio concentration risk. The majority of our CRE loans are made in the above noted geographies and granted to experienced developers and sponsors with loan guaranty structures that provide recourse to individuals with access to financial resources. We believe our knowledge of CRE and our operating knowledge at the local and regional level of these markets allows us to effectively manage concentration risk. Our operating knowledge at the local and regional level is derived from our front-line connection to the customer and our understanding of their business model. We also have access to research tools that inform us about market statistics such as occupancy, lease growth rates and new construction starts. This data is reviewed frequently by our credit officers and disseminated to our lenders. The Bank's underwriting process includes multiple shock scenarios primarily focused on cash flow and leverage in order to determine a supportable loan amount.

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

management’s risk tolerance relative to capital. In addition, there are specific targets for various categories of real estate loans with respect to debt service coverage ratios, loan-to-value ratios, loan terms, and amortization periods. We also have policy limits on loan-to-cost for construction projects. Although leverage is important, the Company also focuses on cash flow generation and employs stress testing to calculate a supportable loan amount.

Aggregate commitments to our top 10 credit relationships was \$717.2 million at September 30, 2024. The Other segment represents 39.2% of the top 10 credit relationships including the Bank’s largest nonperforming lending relationship, the entire balance which was transferred to nonaccrual status during the second quarter of 2023, as described in more detail below under “Credit Quality” in this MD&A.

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

(Dollars in Thousands)	For the Periods Ending			September 30,	September 30,
	September 30, 2024	December 31, 2023	Change	2024	2024
				% of Gross Loans	% of RBC
1. Hospitality, Agriculture & Energy	\$ 280,905	\$ 301,913	\$ (21,008)	7.81 %	57.17 %
2. Multifamily	58,935	15,000	43,935	1.64 %	12.00 %
3. Health Care Facility / Long-Term Care	53,087	53,683	(596)	1.48 %	10.81 %
4. Retail & Office	52,666	53,576	(910)	1.46 %	10.72 %
5. Warehouse	50,069	51,185	(1,116)	1.39 %	10.19 %
6. Long-Term Care	46,199	21,803	24,396	1.29 %	9.40 %
7. Health Care Facility	44,779	—	44,779	1.25 %	9.11 %
8. Retail	44,683	45,187	(504)	1.24 %	9.09 %
9. Hospitality	43,268	44,297	(1,029)	1.20 %	8.81 %
10. Warehouse	42,582	20,082	22,500	1.18 %	8.67 %
Top Ten (10) Relationships	\$ 717,173	\$ 606,726	\$ 110,447	19.94 %	145.97 %
Total Gross Loans	\$ 3,596,251	\$ 3,505,910	\$ 90,341		
% of Total Gross Loans	19.94 %	17.31 %	2.63%		
Concentration (25% of RBC)	\$ 122,832	\$ 121,231			

Unfunded commitments on lines of credit were \$605.3 million at September 30, 2024 compared to \$568.7 million at December 31, 2023. The majority of unused commitments are for construction projects that will be drawn as the construction completes. Total utilization was 52.8% at September 30, 2024 and 53.8% at December 31, 2023. Unfunded commitments on commercial operating lines of credit was 52.6% at September 30, 2024 and 53.7% at December 31, 2023.

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

Deferred costs and fees included in the portfolio balances above were \$7.7 million and \$7.2 million at September 30, 2024 and December 31, 2023, respectively. Discounts on purchased 1-4 family loans included in the portfolio balances above were \$113.4 thousand and \$133.4 thousand at September 30, 2024 and December 31, 2023, respectively.

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

Credit Quality

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

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

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

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

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023	\$ Change
Nonaccrual Loans			
Commercial Real Estate	\$ 978	\$ 1,324	\$ (346)
Commercial and Industrial	1,094	52	1,042
Residential Mortgages	4,482	3,283	1,199
Other Consumer	20	59	(39)
Construction	231	2,904	(2,673)
Other	280,905	301,913	(21,008)
Total Nonperforming Loans	287,710	309,535	(21,825)
Other Real Estate Owned	1,512	2,463	(951)
Total Nonperforming Assets	\$ 289,222	\$ 311,998	\$ (22,776)

Nonperforming assets decreased \$22.8 million to \$289.2 million at September 30, 2024 compared to December 31, 2023. The decrease of \$21.8 million in nonperforming loans was primarily related to \$21.0 million of curtailment payments made by the Bank's largest nonperforming relationship.

During the second quarter of 2023, the Company placed \$301.9 million of commercial loans that reside in the Other segment of the Company's loan portfolio, relating to the Bank's largest lending relationship, on nonaccrual status due to loan maturities and failure to pay in full. These loans remained on nonaccrual status at both September 30, 2024 and December 31, 2023. These nonperforming loans are 97.6% of the Company's total nonperforming loans and 97.1% of the Company's total nonperforming assets at September 30, 2024.

During the second quarter of 2024, the federal court lawsuit filed against the Company and the Bank by West Virginia Governor James C. Justice II, his wife Cathy L. Justice, his son James C. Justice, III, and related entities that he and/or they own (collectively, the "Justice Entities") was dismissed and we have agreed upon a pathway of curtailment and payoff of the outstanding loans with the Bank. During the second and third quarters of 2024, \$21.0 million of curtailment payments made by the Bank's largest nonperforming lending relationship have decreased the aggregate nonperforming loan balance outstanding to

the Bank to \$280.9 million as of September 30, 2024. The Company believes it is well secured based on the net carrying value of the credit relationship and it has appropriately reserved for expected credit losses with respect to all such loans based on information currently available. However, the Company cannot give any assurance as to the timing or amount of future payments or collections on such loans or that the Company will ultimately collect all amounts contractually due. The Company is closely monitoring all developments that may impact collateral values or potential recoveries on its nonperforming loans, including claims that may be asserted by other purported creditors.

Based on analyses of the credit relationship and various discounted cash flow valuation techniques utilized in the alternative modeling, which resulted in a specific reserves with respect to these loans of \$36.9 million at September 30, 2024, representing 13.1%, of these loans aggregate principal amount as compared to \$54.3 million or 18.0% of these loans aggregate principal amount at December 31, 2023. This decline was driven by updated analysis of the credit relationship during the third quarter of 2024 using the discounted cash flow model with updated assumptions and inputs regarding the credit relationship, legal risk and related risks.

As the borrowers on these loans operate in the hospitality, agriculture, and energy sectors, this credit relationship is secured by, among other collateral, commercial real estate properties in these sectors including but not limited to top-tier hospitality properties. When evaluating the net carrying value of this credit relationship at September 30, 2024, the Company utilized discounted cash flow valuation techniques to estimate the timing and magnitude of potential recoveries resulting from various collection processes.

The following is an analysis of nonperforming loans by loan portfolio segment for the dates presented, and each segment's relative contribution to total nonperforming loans:

(Dollars in Thousands)	September 30, 2024		December 31, 2023	
	Amount	% of NPLs	Amount	% of NPLs
Commercial Real Estate	\$ 978	0.3 %	\$ 1,324	0.4 %
Commercial & Industrial	1,094	0.4 %	52	— %
Residential Mortgages	4,482	1.6 %	3,283	1.1 %
Other Consumer	20	— %	59	— %
Construction	231	0.1 %	2,904	1.0 %
Other	280,905	97.6 %	301,913	97.5 %
Balance End of Period	287,710	100.0 %	309,535	100.0 %

Closed retail bank offices had a book value of \$0.5 million at September 30, 2024 and \$2.3 million at December 31, 2023, and are recorded in OREO on the Company's balance sheet. During the nine months ended September 30, 2024, the Bank sold three retail banking offices and moved \$1.2 million of loans at fair value to OREO. These properties are currently being marketed for sale.

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

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

Allowance for Credit Losses

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

(Dollars in Thousands)	September 30, 2024		December 31, 2023	
	Amount	% of Loans in each Category to Total Portfolio Loans	Amount	% of Loans in each Category to Total Portfolio Loans
Commercial Real Estate	\$ 20,067	51.7 %	\$ 19,873	47.7 %
Commercial & Industrial	2,936	6.7 %	3,286	7.7 %
Residential Mortgages	10,520	21.8 %	10,879	22.5 %
Other Consumer	724	0.8 %	868	1.0 %
Construction	9,742	11.1 %	7,792	12.4 %
Other	36,920	7.9 %	54,354	8.7 %
Balance End of Period	\$ 80,909	100.0 %	\$ 97,052	100.0 %

The ACL was \$80.9 million, or 2.25%, of total portfolio loans at September 30, 2024 compared to \$97.1 million, or 2.77%, of total portfolio loans at December 31, 2023.

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023
Allowance for Credit Losses to Total Portfolio Loans		
Allowance for Credit Losses	\$ 80,909	\$ 97,052
Total Portfolio Loans	3,595,861	3,505,910
Allowance for Credit Losses to Total Portfolio Loans	2.25 %	2.77 %
Nonperforming Loans to Total Portfolio Loans		
Nonperforming Loans	\$ 287,710	\$ 309,535
Total Portfolio Loans	3,595,861	3,505,910
Nonperforming Loans to Total Portfolio Loans	8.00 %	8.83 %
Allowance for Credit Losses to Nonperforming Loans		
Allowance for Credit Losses	\$ 80,909	\$ 97,052
Nonperforming Loans	287,710	309,535
Allowance for Credit Losses to Nonperforming Loans	28.12 %	31.35 %
Net Charge-offs to Average Portfolio Loans		
Net Charge-offs (annualized)	\$ 21,663	\$ 2,300
Average Total Portfolio Loans	3,539,833	3,324,757
Net Charge-offs to Average Portfolio Loans	0.61 %	0.07 %

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

The (recovery) provision for credit losses, which includes a (recovery) provision for losses on loans and a provision (recovery) on unfunded commitments, is a charge to earnings to maintain the ACL at a level consistent with management's assessment of expected losses in the loan portfolio at the balance sheet date. The (recovery) provision for credit losses decreased \$1.5 million and \$2.5 million for the three and nine months ended September 30, 2024, respectively when compared to the same periods in 2023. The decrease in the (recovery) provision for credit losses for the quarterly comparison was primarily driven by the updated analysis of the individually evaluated loans, within the Other loan segment and \$1.7 million of other segment reserves released related to the aforementioned \$13.2 million of curtailment payments made by the Bank’s largest nonperforming relationship, offset by loan growth in the third quarter of 2024. The decrease for the nine months ended September 30, 2024 in the (recovery) provision for credit losses, compared to the same period in 2023, was primarily driven by the aforementioned \$3.1 million of other segment reserves released related to the aforementioned \$21.0 million of curtailment payments, offset by loan growth in 2024. For more information about the Company’s provision for credit losses, see the discussion above under “Provision for Credit Losses” in this MD&A.

The provision (recovery) for unfunded commitments increased \$0.3 million and decreased \$0.4 million for the three and nine months ended September 30, 2024, respectively, compared to the same periods in 2023. The increase was due to increased commitments in construction loans during the third quarter of 2024. The reserve for unfunded commitments is largely comprised of unfunded commitments related to real estate construction loans and pressure on the reserve rates. There are three basic factors that influence the reserve rates associated with unfunded commitments for real estate construction loans. First, the reserve rate is extrapolated from the reserve rates calculated for certain commercial real estate funded loans within the ACL model. These reserve rates are influenced by the same factors cited in the ACL model such as economic forecasts, average portfolio life, etc. Refer to Note 1, Basis of Presentation, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q for additional information related to the ACL Policy and the discussion of these factors. Second, since the category of construction is generic, management applies a weighting of the reserve rates associated with certain commercial real estate loans. The proportion of these segments affect the weighting. Third, volume changes impact the total reserve calculation.

Net charge-offs were \$15.3 million and \$16.2 million for the three and nine months ended September 30, 2024 compared to \$0.8 million and \$2.0 million for the same periods in 2023. During the three and nine months ended September 30, 2024, net charge-offs were significantly impacted by the \$15.0 million principal charge-off related to the Other segment of the loan portfolio. Certain Justice Entities executed a promissory note related to the Settlement Payment. This promissory note was

recognized as a principal charge-off due to the nonperforming status of the Bank’s loans with the Justice Entities and because the settled claims related to allegedly preferential payments made on those nonperforming loans. As a percentage of average portfolio loans, on an annualized basis, net charge-offs were 1.71% and 0.61% for the three and nine months ended September 30, 2024 and 0.09% and 0.08% for the three and nine months ended September 30, 2023.

Nonperforming loans remained significantly elevated at \$287.7 million as of September 30, 2024 and \$309.5 million as of December 31, 2023 due principally to the aggregate balance of the nonperforming loans associated with the Bank’s largest lending relationship that was placed on nonaccrual status during the second quarter of 2023. The balance of that relationship has declined from \$301.9 million December 31, 2023 and March 31, 2024 to \$280.9 million as of September 30, 2024. Nonperforming loans as a percentage of total portfolio loans were 8.00% and 8.83% as of September 30, 2024 and December 31, 2023, respectively. The decline in nonperforming loans is primarily due to \$21.0 million in total payments received during the second and third quarters of 2024 on the Bank’s largest nonperforming lending relationship, which payments reduced the Bank’s amortized cost associated with those nonperforming loans and were made pursuant to the pathway of curtailment and payoff of the outstanding nonperforming loan agreed between the relevant borrowers and the Bank. For more information about the Company’s nonperforming loans and about this lending relationship, see the discussion above under “Credit Quality” in this MD&A.

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

September 30, 2024							
(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Portfolio Loans
Pass	\$ 1,851,066	\$ 238,311	\$ 778,355	\$ 29,793	\$ 399,219	\$ 3,240	\$ 3,299,984
Special Mention	62	—	93	—	52	—	207
Substandard	6,869	3,163	4,482	20	231	280,905	295,670
Total Portfolio Loans	\$ 1,857,997	\$ 241,474	\$ 782,930	\$ 29,813	\$ 399,502	\$ 284,145	\$ 3,595,861
Performing	\$ 1,857,019	\$ 240,380	\$ 778,448	\$ 29,793	\$ 399,271	\$ 3,240	\$ 3,308,151
Nonperforming	978	1,094	4,482	20	231	280,905	287,710
Total Portfolio Loans	\$ 1,857,997	\$ 241,474	\$ 782,930	\$ 29,813	\$ 399,502	\$ 284,145	\$ 3,595,861

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

At September 30, 2024 and December 31, 2023, the Company had no loans that were risk rated as doubtful. Special mention and substandard loans at September 30, 2024 decreased \$17.5 million compared to December 31, 2023, with a decrease of \$14.0 million in substandard and a decrease of \$3.5 million in special mention. The decrease of \$14.0 million in substandard was primarily related to the aforementioned \$21.0 million of curtailment payments received in the second and third quarters of 2024 in the Other segment category. Partially offsetting the curtailment payments were loan downgrades to substandard consisting of two CRE loans and two C&I loan relationships totaling \$9.0 million, during the second and third quarters of 2024. The decrease in substandard loans for the nine months ended September 30, 2024 was driven by a \$1.1 million mortgage loan that was resolved during the first quarter of 2024, as well as two loans, one of which was a CRE loan and the other was a construction loan, totaling \$1.1 million that were moved to OREO during the first quarter of 2024. At September 30, 2024 and

December 31, 2023 substandard loans were impacted by the above mentioned large nonaccrual lending relationship in the Other loan category, which was placed on nonaccrual status during the second quarter of 2023.

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

Deposits

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023	\$ Change	% Change
Noninterest-Bearing Demand	\$ 628,901	\$ 685,218	\$ (56,317)	(8.2) %
Interest-Bearing Demand	649,005	481,506	167,499	34.8 %
Money Market	504,206	513,664	(9,458)	(1.8) %
Savings	372,881	454,876	(81,995)	(18.0) %
Certificates of Deposit	1,930,075	1,586,651	343,424	21.6 %
Total Deposits	\$ 4,085,068	\$ 3,721,915	\$ 363,153	9.8 %

Deposits are the Company's primary source of funds. The Company believes that the deposit base is stable and that the Company has the ability to attract new depositors while diversifying the deposit composition. Total deposits at September 30, 2024 increased \$363.2 million, or 13.0% on an annualized basis, from December 31, 2023. The variance related to an increase of \$343.4 million in CDs, which includes an increase of \$146.1 million in brokered CDs, and an increase of \$167.5 million in interest-bearing demand accounts, offset by a decrease of \$82.0 million in savings accounts, a decrease of \$56.3 million in noninterest-bearing demand accounts and a decrease of \$9.4 million in money market accounts. The Company had \$216.1 million brokered CDs at September 30, 2024, compared to \$70.0 million at December 31, 2023.

At September 30, 2024, noninterest-bearing deposits comprised 15.4% of total deposits compared to 18.4% at December 31, 2023 and 18.7% at September 30, 2023. CDs comprised 47.2%, 42.6% and 42.5% of total deposits at September 30, 2024, December 31, 2023 and September 30, 2023, respectively. As of September 30, 2024, based on assumptions that the Bank uses to prepare its regulatory call report, approximately 82.7% of our total deposits of \$4.1 billion were insured under standard FDIC insurance coverage limits, and approximately 17.3% of our total deposits were uninsured deposits over the standard FDIC insurance coverage limit. The Company's deposit base is diversified and granular and is comprised of approximately 78.5% of retail deposits.

The following table presents additional information in relation to deposits:

(Dollars in Thousands)	September 30, 2024	December 31, 2023
Deposits from the Certificate of Deposit Account Registry Services ("CDARS")	\$ —	\$ —
Brokered Deposits	216,062	70,000
Noninterest-Bearing Public Funds Deposits	26,322	51,506
Interest-Bearing Public Funds Deposits	125,453	127,100
Total Deposits not Covered by Deposit Insurance ⁽¹⁾	707,837	647,154
Certificates of Deposits not Covered by Deposit Insurance	288,012	234,968
Deposits for Certain Directors, Executive Officers and their Affiliates	2,652	1,799

⁽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 September 30, 2024 are summarized as follows:

(Dollars in Thousands)	Amount	Percent
Three Months or Less	\$ 106,408	36.9 %
Over Three Months Through Twelve Months	173,401	60.2 %
Over Twelve Months Through Three Years	7,633	2.7 %
Over Three Years	570	0.2 %
Total	\$ 288,012	100.0 %

Borrowings and Federal Funds Purchased

Borrowings are an additional source of liquidity for the Company. FHLB borrowings decreased \$303.4 million to \$90.0 million at September 30, 2024 and were \$393.4 million at December 31, 2023 primarily due to a decline in overnight borrowings, coupled with \$146.1 million of new brokered CDs during the nine months ended September 30, 2024. The Company used liquidity provided by deposit growth to reduce outstanding FHLB borrowings during the nine months ended September 30, 2024. The Company had no overnight federal funds purchased at September 30, 2024 or at December 31, 2023. The level and composition of borrowed funds fluctuates over time based on many factors including market conditions, loan growth, investment securities, deposits growth and capital considerations. We manage our borrowed funds to provide a reliable source of liquidity.

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

(Dollars in Thousands)	September 30, 2024		December 31, 2023	
Balance at Period End				
Federal Home Loan Bank Borrowings	\$	90,000	\$	393,400
Federal Funds Purchased	\$	—	\$	—
Average Balance during the Period				
Federal Home Loan Bank Borrowings	\$	273,413	\$	402,675
Federal Funds Purchased	\$	—	\$	7,023
Average Interest Rate during the Period				
Federal Home Loan Bank Borrowings		5.20 %		5.17 %
Federal Funds Purchased		— %		5.24 %
Maximum Month-end Balance during the Period				
Federal Home Loan Bank Borrowings	\$	403,000	\$	525,135
Federal Funds Purchased	\$	—	\$	46,965
Average Interest Rate at Period End				
Federal Home Loan Bank Borrowings		4.30 %		5.20 %
Federal Funds Purchased		— %		— %

The Company held FHLB of Atlanta stock of \$7.4 million and \$21.6 million at September 30, 2024 and December 31, 2023, respectively. The decrease in FHLB stock was due to a lower required level of stock holdings due to a lower level of FHLB borrowings. Dividends recorded on restricted stock were \$0.2 million and \$0.9 million for the three and nine months ended September 30, 2024 compared to \$0.4 million and \$1.0 million for the same periods in 2023. The investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We hold FHLB stock because we are a member of the FHLB of Atlanta. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon the members' asset values, level of borrowings and participation in other programs offered. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the products and services offered by the FHLB. Unlike equity securities of traditional for-profit enterprises, the stock of the FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value.

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

Liquidity and Capital Resources

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

are reviewed by the ALCO monthly. Our liquidity policy and contingency funding plan provide graduated risk tolerance levels for multiple liquidity measures and potential liquidity environments. If our liquidity position moves to a level that has been defined as high risk, specific actions are required, such as increased monitoring or the development of an action plan to reduce the risk position.

The Company's primary funding and liquidity source is a stable customer deposit base. Management believes that we have the ability to retain existing deposits and attract new deposits, mitigating any potential funding dependency on other more volatile sources. Although deposits are the primary source of funds, the Company has identified various other funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. Additional funding sources accessible to the Company include borrowing availability at the FHLB, equal to 25.0% of the Company's assets or approximating \$1.2 billion, subject to the amount of eligible collateral pledged, of which the Company is eligible to borrow up to an additional \$791.4 million. The Company has unsecured facilities with three other correspondent financial institutions totaling \$30.0 million, a fully secured facility with one other correspondent financial institution totaling \$45.0 million, and access to the institutional CD market, and the brokered deposit market. The Company did not have outstanding borrowings on these fed funds lines as of September 30, 2024. In addition to the above funding resources, the Company also has \$433.3 million of unpledged available-for-sale investment securities, at fair value, as an additional source of liquidity. Please refer to the Liquidity Sources table below for available funding with the FHLB and our secured and unsecured lines of credit with correspondent banks. As of September 30, 2024, approximately 82.7% of our total deposits of \$4.1 billion were insured under standard FDIC insurance coverage limits, and approximately 17.3% of our total deposits were uninsured deposits over the standard FDIC insurance coverage limit.

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

An important component of our ability to effectively respond to potential liquidity stress events is maintaining a cushion of highly liquid assets. Highly liquid assets are those that can be converted to cash quickly, with little or no loss in value, to meet financial obligations. ALCO policy guidelines define a ratio of highly liquid assets to total assets by graduated risk tolerance levels of minimal, moderate and high. At September 30, 2024, the Bank had \$495.3 million in highly liquid assets, which consisted of Federal Reserve Board Excess Reserves and interest-bearing deposits in other financial institutions of \$61.6 million, \$433.3 million in unpledged securities and \$0.4 million in loans held-for-sale. This resulted in highly liquid assets to total assets ratio of 10.7% at September 30, 2024. Total available liquidity to uninsured deposits was 207.8% at September 30, 2024.

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

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023
Cash and Due From Banks, including Interest-bearing Deposits	\$ 104,992	\$ 54,529
Unpledged Investment Securities	433,273	563,537
Excess Pledged Securities	65,931	61,774
FHLB Borrowing Availability	791,403	480,266
Collateralized Lines of Credit	45,000	—
Unsecured Lines of Credit	30,000	50,000
Total Liquidity Sources	\$ 1,470,599	\$ 1,210,106

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

(Dollars in Thousands)	September 30, 2024	December 31, 2023
Total Liquidity Sources	\$ 1,470,599	\$ 1,210,106
Highly Liquid Assets to Total Assets	10.7 %	12.8 %
Highly Liquid Assets to Uninsured Deposits	70.0 %	89.4 %
Total Available Liquidity to Uninsured Deposits	207.8 %	187.0 %

Regulatory Capital Requirements

Total capital of \$386.8 million at September 30, 2024, reflects an increase of \$35.6 million compared to December 31, 2023. The increase in total capital from December 31, 2023 is primarily due to net income of \$16.2 million, an increase of \$18.1 million in other comprehensive loss due to changes in fair value of investment securities, as well as an increase of \$1.3 million related to restricted stock activity all during the nine months ended September 30, 2024.

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

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At September 30, 2024 and December 31, 2023, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

At September 30, 2024, the Bank continues to maintain its capital position with a leverage ratio of 9.45% as compared to the regulatory guideline of 5.00% to be well-capitalized and a risk-based Common Equity Tier 1 ratio of 10.75% compared to the regulatory guideline of 6.50% to be well-capitalized. The Bank's risk-based Tier 1 and Total Capital ratios were 10.75% and 12.01%, respectively, which places the Bank above the federal bank regulatory agencies' well-capitalized guidelines of 8.00% and 10.00%, respectively. We believe that we have the ability to raise additional capital, if necessary.

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

The Basel III Capital Rules require the Company and the Bank to maintain minimum Common Equity Tier 1, Tier 1 and Total Capital ratios, along with a capital conservation buffer, effectively resulting in new minimum capital ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum, but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Company or the Bank.

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

(Dollars in Thousands)	Minimum Required Basel III	Well Capitalized ⁽¹⁾	September 30, 2024		December 31, 2023	
			Amount	Ratio	Amount	Ratio
Carter Bankshares, Inc.						
Leverage Ratio	4.00 %	NA	\$ 440,130	9.53 %	\$ 435,364	9.48 %
Common Equity Tier 1 (to Risk-weighted Assets)	7.00 %	NA	440,130	10.83 %	435,364	11.08 %
Tier 1 Capital (to Risk-weighted Assets)	8.50 %	NA	440,130	10.83 %	435,364	11.08 %
Total Capital (to Risk-weighted Assets)	10.50 %	NA	491,328	12.09 %	484,925	12.34 %
Carter Bank & Trust						
Leverage Ratio	4.00 %	5.00 %	\$ 436,297	9.45 %	\$ 431,550	9.41 %
Common Equity Tier 1 (to Risk-weighted Assets)	7.00 %	6.50 %	436,297	10.75 %	431,550	10.99 %
Tier 1 Capital (to Risk-weighted Assets)	8.50 %	8.00 %	436,297	10.75 %	431,550	10.99 %
Total Capital (to Risk-weighted Assets)	10.50 %	10.00 %	487,446	12.01 %	481,070	12.25 %

⁽¹⁾To be “well capitalized” under the prompt corrective action framework applies to the Bank only.

Contractual Obligations

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

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

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

Earnings Simulation Modeling

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

The ALCO also uses different interest rate scenarios and shifts in yield curve shapes to measure the sensitivity of earnings to various interest rate environments. Interest rates on unique asset and liability accounts move differently when the short-term market rate changes. These differences are reflected in the different rate scenarios utilized by the ALM. For earning simulations, our policy guidelines limit the change in net interest income over a 12-month and 24-month horizon using rate shocks of +/- 100, 200, 300, 400 basis points and for non-parallel yield curve shift scenarios. We have temporarily suspended the + 300 and + 400 basis point rate shock analyses. Due to the FOMC’s recent action to reduce the Fed Funds Target Rate range by 50 bps from 5.25% - 5.50% to 4.75% - 5.00% effective September 18, 2024 coupled with current rate forecasts that imply that the FOMC will continue reducing the Fed Funds Target Rate during the fourth quarter of 2024 and well into 2025, we believe the impact to net interest income when evaluating the + 300 and +400 basis point rate shock scenarios do not provide meaningful insight into our interest rate risk position nor does it project a probable interest rate environment for the foreseeable future.

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

Change in Interest Rate (basis points)	September 30, 2024	December 31, 2023
	% Change in Pretax Net Interest Income	% Change in Pretax Net Interest Income
200	3.9%	(1.1)%
100	2.1%	(0.3)%
-100	1.2 %	2.4 %
-200	2.5 %	4.4 %
-300	3.1 %	5.6 %
-400	2.6 %	6.7 %

The results from the earnings simulation imply that the Company’s assets and liabilities are relatively evenly matched to allow for net interest income margin expansion in rising and falling interest rate environments at September 30, 2024 versus being liability sensitive at December 31, 2023. The above table indicates that as of September 30, 2024 the Company’s balance sheet is positioned to produce a modest increase in pre-tax net interest income in both a rising and falling interest rate environment principally due to the current balance sheet composition, related maturity structures, interest rate hedges entered into during the third quarter and dynamic repricing correlations to market interest rates for both assets and liabilities.

Economic Value of Equity Modeling

Economic value of equity simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. The ALM calculates the economic value of equity based on discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. The change in net economic value of equity over different rate environments is an indication of the longer-term earnings capability of the balance sheet. The Company uses the same assumptions in the economic value of equity simulation model as in the earnings simulation model. The economic value of equity simulation model uses instantaneous rate shocks to the balance sheet. For economic value of equity simulation, our policy guidelines limit the change in economic value of equity given changes in rates of +/- 100, 200, 300, 400 basis points and for non-parallel yield curve shift scenarios. We have temporarily suspended the + 300 and + 400 basis

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

point rate shock analyses. Due to the FOMC's recent action to reduce the Fed Funds Target Rate range by 50 bps from 5.25% - 5.50% to 4.75% - 5.00% effective September 18, 2024 coupled with current rate forecasts that imply that the FOMC will continue reducing the Fed Funds Target Rate during the fourth quarter of 2024 and well into 2025, we believe the impact to net interest income when evaluating the + 300 and +400 basis point rate shock scenarios do not provide meaningful insight into our interest rate risk position nor does it project a probable interest rate environment for the foreseeable future.

Results for the economic value of equity modeling are driven primarily by the shape of the underlying yield curves and option-adjusted spreads used to discount the projected cash flows of assets and liabilities, and the assumed life span of the assets and liabilities being discounted.

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

Change in Interest Rate (basis points)	September 30, 2024	December 31, 2023
	% Change in Economic Value of Equity	% Change in Economic Value of Equity
200	(7.3)%	(4.7)%
100	(2.9)%	(1.8)%
-100	2.0 %	0.9 %
-200	2.0 %	0.5 %
-300	(0.9 %)	(2.7)%
-400	(12.8)%	(10.9)%

ITEM 4 - CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act of 1934, as amended) as of September 30, 2024. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

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

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.

Changes in Internal Control Over Financial Reporting

No changes were made to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2024 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION**ITEM 1- LEGAL PROCEEDINGS**

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

ITEM 1A – RISK FACTORS

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

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

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

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

None.

ITEM 5 - OTHER INFORMATION

During the three months ended September 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934, as amended) adopted, modified or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

ITEM 6 - EXHIBITS

Exhibits:

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)
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	Certification by principal executive officer and 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)

SIGNATURES

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

CARTER BANKSHARES, INC. (Registrant)

Date: November 7, 2024

/s/ Litz H. Van Dyke

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

Date: November 7, 2024

/s/ Wendy S Bell

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

CERTIFICATIONS

I, Litz H. Van Dyke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Carter Bankshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2024

/s/ Litz H. Van Dyke

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

I, Wendy Bell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Carter Bankshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2024

/s/ Wendy S. Bell

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

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

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

The undersigned, as the principal executive officer and principal financial officer of Carter Bankshares, Inc., respectively, certify that, to the best of their knowledge and belief, the Quarterly Report on Form 10-Q for the period ended September 30, 2024, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Carter Bankshares, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose. The undersigned expressly disclaim any obligation to update the foregoing certification except as required by law.

Dated: November 7, 2024

/s/ Litz H. Van Dyke

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

Dated: November 7, 2024

/s/ Wendy S. Bell

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