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 June 30, 2026

☐ **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 such files). **Yes** ☒ **No** ☐

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

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

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

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

As of August 3, 2026 there were 22,163,931 shares of the registrant's common stock issued and outstanding.

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CARTER BANKSHARES, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands Except per Share Data)	June 30, 2026 (unaudited)	December 31, 2025 (audited)
ASSETS		
Cash and Due From Banks	$ 41,101	$ 36,935
Interest-Bearing Deposits in Other Financial Institutions	167,427	12,134
Federal Reserve Bank Excess Reserves	68,007	56,094
Total Cash and Cash Equivalents	**276,535**	**105,163**
Securities Available-for-Sale, at Fair Value (amortized cost of $682,318 and $745,366, respectively)	640,302	691,612
Equity Securities	12,676	10,291
Loans Held-for-Sale	467	339
Portfolio Loans	3,734,594	3,879,560
Allowance for Credit Losses	(55,170)	(71,491)
Portfolio Loans, net	**3,679,424**	**3,808,069**
Bank Premises and Equipment, net	69,820	72,497
Goodwill	1,193	1,193
Core Deposit Intangible	812	940
Other Real Estate Owned, net	3,356	142
Other Restricted Stock, at Cost	8,476	16,830
Bank Owned Life Insurance	45,704	44,811
Other Assets	63,118	100,035
Total Assets	**$ 4,801,883**	**$ 4,851,922**
LIABILITIES		
Deposits:		
Noninterest-Bearing Demand	$ 655,482	$ 620,473
Interest-Bearing Demand	866,759	808,171
Money Market	510,125	553,964
Savings	318,774	326,182
Certificates of Deposit	1,846,416	1,902,099
Total Deposits	**4,197,556**	**4,210,889**
Federal Home Loan Bank Borrowings	—	178,500
Reserve for Unfunded Loan Commitments	2,220	2,992
Other Liabilities	62,961	39,844
Total Liabilities	**4,262,737**	**4,432,225**
Commitments and Contingencies - see NOTE 10.		
SHAREHOLDERS' EQUITY		
Common Stock, Par Value $1.00 Per Share, Authorized 100,000,000 Shares;		
Outstanding - 22,162,213 shares at June 30, 2026, and 22,083,007 shares at December 31, 2025	22,162	22,083
Additional Paid-in Capital	72,505	74,806
Retained Earnings	477,417	364,968
Accumulated Other Comprehensive Loss	(32,938)	(42,160)
Total Shareholders' Equity	**539,146**	**419,697**
Total Liabilities and Shareholders' Equity	**$ 4,801,883**	**$ 4,851,922**

See accompanying notes to unaudited Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(Dollars in Thousands Except per Share Data)	Three Months Ended June 30, 2026	Three Months Ended June 30, 2025	Six Months Ended June 30, 2026	Six Months Ended June 30, 2025
INTEREST INCOME				
Loans, including fees				
Taxable	$ 52,440	$ 49,522	$ 104,523	$ 97,347
Non-Taxable	503	579	1,019	1,180
Investment Securities				
Taxable	5,323	6,796	10,905	13,451
Non-Taxable	385	67	451	133
Federal Reserve Bank Excess Reserves	1,519	578	2,102	1,280
Interest on Bank Deposits	1,193	65	1,303	111
Dividend Income	128	140	373	252
Total Interest Income	**61,491**	**57,747**	**120,676**	**113,754**
Interest Expense				
Interest Expense on Deposits	21,402	24,059	42,957	49,082
Interest on Other Borrowings	139	1,329	1,835	2,175
Total Interest Expense	**21,541**	**25,388**	**44,792**	**51,257**
NET INTEREST INCOME	**39,950**	**32,359**	**75,884**	**62,497**
Provision (Recovery) for Credit Losses	2,010	(2,330)	(31,907)	(4,355)
Recovery for Unfunded Loan Commitments	(554)	(335)	(772)	(449)
Net Interest Income After Provision (Recovery) for Credit Losses	**38,494**	**35,024**	**108,563**	**67,301**
NONINTEREST INCOME				
Gain on the Insurance Transaction	35,949	—	35,949	—
Gain on the Loan Sale Transaction	—	—	65,000	—
Losses on Sales of Securities, net	(12,531)	—	(12,451)	—
Service Charges, Commissions and Fees	2,491	1,765	4,619	3,639
Debit Card Interchange Fees	2,063	1,942	4,211	4,046
Insurance Commissions	164	714	1,118	1,058
Bank Owned Life Insurance Income	457	357	893	698
Other	137	130	365	2,368
Total Noninterest Income	**28,730**	**4,908**	**99,704**	**11,809**
NONINTEREST EXPENSE				
Salaries and Employee Benefits	14,051	14,082	28,966	27,739
Occupancy Expense, net	4,584	4,230	9,445	8,702
FDIC Insurance Expense	(241)	1,436	1,269	2,866
Other Taxes	776	922	1,701	1,869
Advertising Expense	820	708	1,746	1,619
Telephone Expense	278	307	570	611
Professional and Legal Fees	2,053	1,921	3,599	3,151
Data Processing	2,177	1,395	4,030	2,839
Debit Card Expense	1,072	991	2,073	1,983
Other	4,416	3,312	7,599	5,967
Total Noninterest Expense	**29,986**	**29,304**	**60,998**	**57,346**
Income Before Income Taxes	**37,238**	**10,628**	**147,269**	**21,764**
Income Tax Provision	8,327	2,118	32,601	4,301
Net Income	**$ 28,911**	**$ 8,510**	**$ 114,668**	**$ 17,463**
Earnings per Common Share:				
Basic Earnings per Common Share	$ 1.31	$ 0.37	$ 5.18	$ 0.76
Diluted Earnings per Common Share	$ 1.31	$ 0.37	$ 5.18	$ 0.76
Average Shares Outstanding-Basic & Diluted	21,838,645	22,805,881	21,842,497	22,839,412

See accompanying notes to unaudited Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	**2026**	**2025**	**2026**	**2025**
Net Income	$ 28,911	$ 8,510	$ 114,668	$ 17,463
Other Comprehensive Income				
Net Unrealized Gains on Securities Available-for-Sale				
Net Unrealized Gains (Losses) Arising during the Period	188	5,264	(713)	15,647
Reclassification Adjustment for Losses included in Net Income	12,531	—	12,451	—
Tax Effect	(2,687)	(1,141)	(2,516)	(3,376)
Net Unrealized Gains Recognized in Other Comprehensive Income	10,032	4,123	9,222	12,271
Other Comprehensive Income	10,032	4,123	9,222	12,271
Comprehensive Income	**$ 38,943**	**$ 12,633**	**$ 123,890**	**$ 29,734**

See accompanying notes to unaudited Consolidated Financial Statements.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1. FINANCIAL STATEMENTS - (continued)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

	Three Months Ended June 30, 2026				
(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at March 31, 2026	**$ 22,160**	**$ 74,987**	**$ 450,725**	**$ (42,970)**	**$ 504,902**
Net Income	—	—	28,911	—	28,911
Other Comprehensive Income, Net of Tax	—	—	—	10,032	10,032
Cash Dividends Declared ($0.10 per share)	—	—	(2,219)	—	(2,219)
1% Excise Tax on Stock Buybacks	—	—	—	—	—
Repurchase of Common Stock (108,601 shares)	(109)	(2,769)	—	—	(2,878)
Forfeiture of Restricted Stock (11,670 shares)	(12)	(206)	—	—	(218)
Issuance of Restricted Stock (122,504 shares)	123	(123)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	616	—	—	616
Balance at June 30, 2026	**$ 22,162**	**$ 72,505**	**$ 477,417**	**$ (32,938)**	**$ 539,146**

	Three Months Ended June 30, 2025				
(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at March 31, 2025	**$ 23,162**	**$ 92,418**	**$ 342,559**	**$ (56,373)**	**$ 401,766**
Net Income	—	—	8,510	—	8,510
Other Comprehensive Income, Net of Tax	—	—	—	4,123	4,123
1% Excise Tax on Stock Buybacks	—	(75)	—	—	(75)
Repurchase of Common Stock (547,332 shares)	(547)	(8,591)	—	—	(9,138)
Forfeitures of Restricted Stock (6,432 shares)	(6)	(74)	—	—	(80)
Issuance of Restricted Stock (61,015 shares)	61	(61)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	529	—	—	529
Balance at June 30, 2025	**$ 22,670**	**$ 84,146**	**$ 351,069**	**$ (52,250)**	**$ 405,635**

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

	Six Months Ended June 30, 2026				
(Dollars in Thousands)	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Total Shareholders' Equity**
Balance at December 31, 2025	**$ 22,083**	**$ 74,806**	**$ 364,968**	**$ (42,160)**	**$ 419,697**
Net Income	—	—	114,668	—	114,668
Other Comprehensive Income, Net of Tax	—	—	—	9,222	9,222
Cash Dividends Declared ($0.10 per share)	—	—	(2,219)	—	(2,219)
1% Excise Tax on Stock Buybacks	—	—	—	—	—
Repurchase of Common Stock (108,601 shares)	(109)	(2,769)	—	—	(2,878)
Forfeiture of Restricted Stock (26,747 shares)	(27)	(452)	—	—	(479)
Issuance of Restricted Stock (214,554 shares)	215	(215)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	1,135	—	—	1,135
Balance at June 30, 2026	**$ 22,162**	**$ 72,505**	**$ 477,417**	**$ (32,938)**	**$ 539,146**

	Six Months Ended June 30, 2025				
(Dollars in Thousands)	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Total Shareholders' Equity**
Balance at December 31, 2024	**$ 23,069**	**$ 92,159**	**$ 333,606**	**$ (64,521)**	**$ 384,313**
Net Income	—	—	17,463	—	17,463
Other Comprehensive Income, Net of Tax	—	—	—	12,271	12,271
1% Excise Tax on Stock Buybacks	—	(75)	—	—	(75)
Repurchase of Common Stock (547,332 shares)	(547)	(8,591)	—	—	(9,138)
Forfeitures of Restricted Stock (14,201 shares)	(14)	(195)	—	—	(209)
Issuance of Restricted Stock (162,192 shares)	162	(162)	—	—	—
Recognition of Restricted Stock Compensation Expense	—	1,010	—	—	1,010
Balance at June 30, 2025	**$ 22,670**	**$ 84,146**	**$ 351,069**	**$ (52,250)**	**$ 405,635**

See accompanying notes to unaudited Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Six Months Ended June 30,	
(Dollars in Thousands)	**2026**	**2025**
OPERATING ACTIVITIES		
Net Income	$ 114,668	$ 17,463
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Recovery for Credit Losses, including Recovery for Unfunded Loan Commitments	(32,679)	(4,804)
Origination of Loans Held-for-Sale	(9,748)	(7,877)
Proceeds From Loans Held-for-Sale	9,692	7,711
Depreciation/Amortization of Bank Premises and Equipment	4,284	3,850
Provision for Deferred Taxes	5,275	1,628
Net Amortization of Securities	13,592	1,707
Tax Credit Amortization	86	325
Gains on Sales of Loans Held-for-Sale	(72)	(80)
Gain on the Loan Sale Transaction	(65,000)	—
Gain on the Insurance Transaction	(35,949)	—
Losses on Sales of Securities, net	12,451	—
Unrealized Loss (Gain) on Equity Securities	116	(159)
Commercial Loan Swap Derivative Loss	8	96
Increase in the Value of Life Insurance Contracts	(893)	(698)
Gain on Bank Owned Life Insurance Death Benefit	—	(1,882)
1035 Exchange Fee on Bank Owned Life Insurance	—	527
Balance Sheet Hedge Fair Value Adjustment	—	140
Recognition of Restricted Stock Compensation Expense	1,135	1,010
Decrease in Other Assets	5,169	734
Increase (Decrease) in Other Liabilities	21,234	(3,716)
Net Cash Provided By Operating Activities	**43,369**	**15,975**
INVESTING ACTIVITIES		
Securities Available-for-Sale:		
Proceeds from Sales	142,283	—
Proceeds from Maturities, Redemptions, and Paydowns	20,419	30,445
Purchases	(125,177)	(53,317)
Purchase of Equity Securities	(2,500)	—
Purchase of Bank Premises and Equipment, Net	(3,885)	(3,440)
Proceeds from Sales of Bank Premises and Equipment, net	—	—
Net Cash Acquired from Branch Purchase	—	53,573
Proceeds from Sale of Portfolio Loans From the Loan Sale Transaction	289,484	—
Proceeds From the Insurance Transaction	55,663	—
Redemption (Purchase) of Other Restricted Stock, at Cost, net	8,354	(2,166)
Loan Originations, net	(66,869)	(123,139)
Proceeds from Death Benefit on Bank Owned Life Insurance	—	3,077
Proceeds from Surrender of BOLI Policies	7,161	—
Proceeds from Sales and Payments of Other Real Estate Owned	—	473
Net Cash Used In Investing Activities	**324,933**	**(94,494)**
FINANCING ACTIVITIES		
Net Change in Demand, Money Markets and Savings Accounts	42,350	49,649
Decrease in Certificates of Deposits	(55,683)	(36,758)
Proceeds from Federal Home Loan Bank Borrowings	299,000	245,000
Repayments on Federal Home Loan Bank Borrowings	(477,500)	(201,500)
Repurchase of Common Stock	(2,878)	(9,138)
Cash Dividends Paid to Common Shareholders	(2,219)	—
Net Cash (Used In) Provided By Financing Activities	**(196,930)**	**47,253**
Net Increase (Decrease) in Cash and Cash Equivalents	171,372	(31,266)
Cash and Cash Equivalents at Beginning of Period	105,163	131,171
Cash and Cash Equivalents at End of Period	**$ 276,535**	**$ 99,905**

See accompanying notes to unaudited Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) - (continued)

	Six Months Ended June 30,	
(Dollars in Thousands)	**2026**	**2025**
SUPPLEMENTARY DATA		
Cash Interest Paid	$ 45,872	$ 52,800
Cash Paid for Income Taxes	2,800	1,480
Transfer from Portfolio Loans to Other Real Estate Owned, net	2,937	—
Transfer from Bank Premises and Equipment, net to Other Real Estate Owned, net	2,172	1,814
Right-of-use Asset Recorded in Exchange for Lease Liabilities	107	958
Stock Repurchase Excise Tax Settled in Subsequent Period	(181)	(75)
Stock Repurchases Settled in Subsequent Period	—	(181)
Portfolio Loans Transferred to Held-for-Sale	209,484	—

See accompanying notes to unaudited Consolidated Financial Statements.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
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, 2025, filed with the Securities and Exchange Commission ("SEC"), on March 5, 2026. In management's opinion, the accompanying interim financial information reflects all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company's financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

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

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

Accounting Standard Adopted in 2026

ASU 2024-04 – Debt — Debt with Conversion and Other Options (Subtopic 470-20) Induced Conversions of Convertible Debt Instruments

Accounting Standards Update 2024-04 "Debt - Debt with Conversion and Other Options (Subtopic 470-20)" ("ASU 2024-04") clarifies whether the settlement of convertible debt, including debt containing cash conversion features at terms that are different from the terms included in the existing debt instrument, should be accounted for as an induced conversion or a debt extinguishment. Updates permitted an entity to apply the new guidance on either a prospective or a retrospective basis. ASU 2024-04 was effective for public business entities beginning on January 1, 2026 and did not have a significant impact on the Company's financial statements.

Accounting Standards Issued but Not Yet Adopted

ASU 2025-01 & 2024-03 – Income Statement — Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40)

In November 2024, the FASB issued ASU 2024-03, "Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures" ("ASU 2024-03"). The amendments in ASU 2024-03 improve financial reporting by requiring that public business entities disclose additional information about specific expense categories in the notes to the financial statements at interim and annual reporting periods. This information is generally not presented in the financial statements today. In January 2025, the FASB issued ASU 2025-01, "Income Statement — Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40)." ASU 2025-01 amends the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted. The adoption of this pronouncement is not expected to have a material impact on the Consolidated Financial Statements, but is expected to result in additional disclosures and potential changes to the line items on the Consolidated Statement of Income.

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

ASU 2025-08 – Financial Instruments — Credit Losses (Topic 326): Purchased Loans

In December 2025, the FASB issued ASU 2025-08, “Financial Instruments—Credit Losses (Topic 326),” Purchased Loans which expands the population of acquired financial assets subject to the gross-up approach for accounting for credit losses. The amendments are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods. Early adoption is permitted in both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance. The Company does not expect these amendments to have a material effect on its financial statements. The accounting for future business combinations, if any, would be impacted.

Acquisitions

On May 23, 2025, the Company completed the acquisition of two leased branch facilities and the related deposits . See Note 2 – Business Combinations, in the Company’s 2025 Form 10-K for additional information. The measurement period has concluded and purchase accounting has been finalized with no material changes to preliminary reported amounts.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands, except share and per share data)	**2026**	**2025**	**2026**	**2025**
Numerator for Earnings per Common Share – Basic and Diluted				
Net Income	$ 28,911	$ 8,510	$ 114,668	$ 17,463
Less: Income allocated to Participating Shares	402	97	1,514	190
Net Income Allocated to Common Shareholders - Basic & Diluted	**$ 28,509**	**$ 8,413**	**$ 113,154**	**$ 17,273**
Distributed Earnings allocated to Common Stock	$ 2,188	$ —	$ 2,189	$ —
Undistributed Earnings allocated to Common Stock	26,321	8,413	110,965	17,273
Net income allocated to Common Shareholders - Basic & Diluted	**$ 28,509**	**$ 8,413**	**$ 113,154**	**$ 17,273**
Denominator:				
Weighted Average Shares Outstanding, including Shares Considered Participating Shares	22,146,599	23,067,260	22,134,757	23,090,907
Less: Average Participating Shares	307,954	261,379	292,260	251,495
Weighted Average Common Shares Outstanding - Basic & Diluted	**21,838,645**	**22,805,881**	**21,842,497**	**22,839,412**
Earnings per Common Share – Basic	$ 1.31	$ 0.37	$ 5.18	$ 0.76
Earnings per Common Share – Diluted	$ 1.31	$ 0.37	$ 5.18	$ 0.76

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

NOTE 3 - INVESTMENT SECURITIES

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

	June 30, 2026			
(Dollars in Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government Agency Securities	$ 16,611	$ 5	$ (463)	$ 16,153
Residential Mortgage-Backed Securities	68,943	6	(7,499)	61,450
Commercial Mortgage-Backed Securities	21,144	69	(303)	20,910
Other Commercial Mortgage-Backed Securities	22,419	17	(1,175)	21,261
Asset Backed Securities	111,816	3	(6,225)	105,594
Collateralized Mortgage Obligations	199,406	124	(6,991)	192,539
States and Political Subdivisions	182,729	1,357	(17,773)	166,313
Corporate Notes	59,250	—	(3,168)	56,082
Total	**$ 682,318**	**$ 1,581**	**$ (43,597)**	**$ 640,302**

	December 31, 2025			
(Dollars in Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government Agency Securities	$ 19,796	$ 17	$ (438)	$ 19,375
Residential Mortgage-Backed Securities	83,918	49	(7,194)	76,773
Commercial Mortgage-Backed Securities	25,438	105	(421)	25,122
Other Commercial Mortgage-Backed Securities	25,297	88	(1,131)	24,254
Asset Backed Securities	100,643	10	(5,856)	94,797
Collateralized Mortgage Obligations	168,749	176	(7,105)	161,820
States and Political Subdivisions	262,275	—	(28,051)	234,224
Corporate Notes	59,250	—	(4,003)	55,247
Total	**$ 745,366**	**$ 445**	**$ (54,199)**	**$ 691,612**

The Company did not have securities classified as held-to-maturity at June 30, 2026 or December 31, 2025.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	**2026**	**2025**	**2026**	**2025**
Proceeds from Sales of Securities Available-for-Sale	**$ 126,859**	**$ —**	**$ 142,283**	**$ —**
Gross Realized Gains	$ —	$ —	$ 85	$ —
Gross Realized Losses	(12,531)	—	(12,536)	—
Net Realized Losses	**$ (12,531)**	**$ —**	**$ (12,451)**	**$ —**
Tax Impact	**$ (2,632)**	**$ —**	**$ (2,615)**	**$ —**

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

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

The amortized cost and fair value of available-for-sale debt securities are shown below by contractual maturity at 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.

	June 30, 2026	
(Dollars in Thousands)	**Amortized Cost**	**Fair Value**
Due in One Year or Less	$ —	$ —
Due after One Year through Five Years	28,384	27,580
Due after Five Years through Ten Years	164,148	144,959
Due after Ten Years	66,058	66,009
Residential Mortgage-Backed Securities	68,943	61,450
Commercial Mortgage-Backed Securities	21,144	20,910
Other Commercial Mortgage-Backed Securities	22,419	21,261
Collateralized Mortgage Obligations	199,406	192,539
Asset Backed Securities	111,816	105,594
Total	**$ 682,318**	**$ 640,302**

At June 30, 2026 and December 31, 2025, the Company held no securities of any single issuer, other than securities issued by or collateralized by the U.S. Government and its Agencies, in amounts exceeding 10% of shareholders' equity. The carrying value of securities pledged to meet various regulatory and legal requirements was $139.7 million at June 30, 2026 and $289.4 million at December 31, 2025.

Available-for-sale securities with unrealized losses at June 30, 2026 and December 31, 2025, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, were as follows:

	June 30, 2026								
	Less Than 12 Months			12 Months or More			Total		
(Dollars in Thousands)	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**
U.S. Government Agency Securities	3	$ 1,017	$ (8)	30	$ 13,838	$ (455)	33	$ 14,855	$ (463)
Residential Mortgage-Backed Securities	3	4,796	(20)	26	56,005	(7,479)	29	60,801	(7,499)
Commercial Mortgage-Backed Securities	7	5,839	(67)	34	7,837	(236)	41	13,676	(303)
Other Commercial Mortgage-Backed Securities	—	—	—	6	15,323	(1,175)	6	15,323	(1,175)
Asset Backed Securities	4	16,884	(76)	27	75,293	(6,149)	31	92,177	(6,225)
Collateralized Mortgage Obligations	19	54,020	(250)	60	100,119	(6,741)	79	154,139	(6,991)
States and Political Subdivisions	5	7,021	(777)	71	101,897	(16,996)	76	108,918	(17,773)
Corporate Notes	2	6,328	(172)	15	49,754	(2,996)	17	56,082	(3,168)
Total Debt Securities	**43**	**$ 95,905**	**$ (1,370)**	**269**	**$ 420,066**	**$ (42,227)**	**312**	**$ 515,971**	**$ (43,597)**

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

	December 31, 2025								
	Less Than 12 Months			12 Months or More			Total		
(Dollars in Thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Government Agency Securities	4	$ 2,593	$ (4)	27	$ 14,222	$ (434)	31	$ 16,815	$ (438)
Residential Mortgage-Backed Securities	1	2,866	(1)	28	61,655	(7,193)	29	64,521	(7,194)
Commercial Mortgage-Backed Securities	9	5,101	(22)	36	10,410	(399)	45	15,511	(421)
Other Commercial Mortgage-Backed Securities	—	—	—	7	17,363	(1,131)	7	17,363	(1,131)
Asset Backed Securities	1	1,048	(8)	27	77,739	(5,848)	28	78,787	(5,856)
Collateralized Mortgage Obligations	11	13,021	(24)	65	119,595	(7,081)	76	132,616	(7,105)
States and Political Subdivisions	6	6,643	(672)	150	227,581	(27,379)	156	234,224	(28,051)
Corporate Notes	—	—	—	17	55,247	(4,003)	17	55,247	(4,003)
Total Debt Securities	**32**	**$ 31,272**	**$ (731)**	**357**	**$ 583,812**	**$ (53,468)**	**389**	**$ 615,084**	**$ (54,199)**

The Company did not record an allowance for credit losses ("ACL"), on its investment securities as of June 30, 2026 or December 31, 2025 as no credit related impairment was identified. The Company regularly evaluates debt securities for expected credit losses using qualitative and quantitative factors, as appropriate, based on the composition of the portfolio at each reporting date.

As of June 30, 2026, management does not intend to sell any security in an unrealized loss position and it is not more than likely that the Company will be required to sell such securities before recovery of the amortized cost basis. Unrealized losses on debt securities were primarily attributable to changes in interest rates, credit spread fluctuations, general financial market uncertainty, and market volatility, rather than deterioration in credit quality. These conditions are not expected to affect the Company's ability to collect contractual principal and interest, and the fair value of the securities is expected to recover as the securities approach maturity or repricing dates.

While the Company may periodically sell securities to take advantage of market opportunities or as part of strategic initiatives, management concluded that the unrealized losses presented in the table above were not credit related and, accordingly, no ACL was recorded on investment securities. If any impairment were to become credit related, the Company would recognize an ACL through a recovery for credit losses in the period identified, with any non-credit related impairment recognized in accumulated other comprehensive loss, net of applicable taxes. During the three and six months ended June 30, 2026 and June 30, 2025, the Company had no credit related net investment impairment losses.

Equity Securities

During the second quarter of 2026, the Company purchased an additional $2.5 million of equity securities. These securities are reported separately as "equity securities" on the Consolidated Balance Sheets and consist of an investment in a market-rate NASDAQ-listed mutual fund that invests primarily in high-quality fixed-income securities, principally government agency obligations. The mutual fund's underlying investments are intended to support community development initiatives throughout the United States.

The fund is designed to support community development initiatives throughout the United States, with a primary focus on expanding access to affordable housing for low and moderate income borrowers and renters, including those located in majority-minority census tracts. Although the fund invests on a national basis, individual bond investments are designated to the Company and aligned with its geographic footprint. The Company's investment in this mutual fund qualifies for consideration under the Community Reinvestment Act ("CRA") and supports the Company's ongoing commitment to community development activities.

During the three and six months ended June 30, 2026, the Company recognized an unrealized fair value loss of $70 thousand and $116 thousand on these equity securities. During the three and six months ended June 30, 2025 the Company recognized an unrealized fair value gain of $23 thousand and $159 thousand on these equity securities. Unrealized (losses) gains on equity securities are recorded in Other Noninterest Income in the Consolidated Statements of Income.

NOTE 4 – LOANS AND LOANS HELD-FOR-SALE

During the three months ended March 31, 2026, the Company completed the sale (the "Loan Sale Transaction") of all loans, subsequently reduced to judgments, related to various entities in which James C. Justice II has an interest (such loans, subsequently reduced to judgments, the "Judgments"). The Loan Sale Transaction was completed as an absolute, "as-is, where-is" sale to an unaffiliated third party. The Loan Sale Transaction resulted in changes to total portfolio loans and the allowance for credit losses, due to a release of specific reserves of $18.0 million related to the Judgments, as well as a $15.0 million net recovery associated with the Judgments, in each case related to the Loan Sale Transaction.

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

(Dollars in Thousands)	June 30, 2026	December 31, 2025
Commercial		
Commercial Real Estate	$ 2,143,362	$ 2,114,314
Commercial and Industrial	262,432	231,921
Total Commercial Loans	**2,405,794**	**2,346,235**
Consumer		
Residential Mortgages	814,383	822,141
Other Consumer	25,154	28,416
Total Consumer Loans	**839,537**	**850,557**
Construction	489,263	465,613
Other	—	217,155
Total Portfolio Loans	**3,734,594**	**3,879,560**
Loans Held-for-Sale	467	339
Total Loans	**$ 3,735,061**	**$ 3,879,899**

The Company attempts to limit exposure to credit risk by diversifying the loan portfolio by segment, geography, collateral and industry, while actively monitoring and managing concentrations. When concentrations exist in certain loan segments, management seeks to mitigate this risk through ongoing review of relevant economic indicators, portfolio performance metrics, and internal risk rating trends specific to those segments.

The Company's loan policy establishes targets for key underwriting criteria, including debt service coverage ratios, loan-to-value ratios, loan terms, amortization periods, and loan-to-cost limits for construction projects. While leverage is an important consideration, management places significant emphasis on cash flow generation and uses borrower stress testing to determine supportable loan amounts.

Unsecured loans present a higher level of risk due to the absence of a defined secondary source of repayment. Accordingly, commercial unsecured lending is generally limited to high quality borrowers with well-established businesses, strong cash flow, and low financial and operating leverage. Repayment capacity for unsecured borrowers is expected to exceed policy guidelines applicable to secured loans. In addition, the Company strengthened underwriting standards for consumer unsecured lending by increasing minimum qualifying Fair Isaac Corporation ("FICO") score requirements and reducing approved loan amounts for borrowers with lower credit scores, which contributed to a significant reduction in loss rate.

Deferred loan costs, net of fees, included in loan portfolio balances totaled $18.1 million at June 30, 2026 and $14.5 million at December 31, 2025. Discounts on purchased 1-4 family loans included in portfolio balances totaled $62.9 thousand and $73.2 thousand at June 30, 2026 and December 31, 2025, respectively.

As of June 30, 2026, the Company had $467 thousand in loans held-for-sale and $339 thousand as of December 31, 2025.

Loan Restructurings

A loan that is considered a restructured loan may be subject to the individually evaluated loan ("IEL") 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 IELs refer to the "Nonrecurring Basis" section in Note 6 - Fair Value Measurements, in the Notes to Consolidated Financial Statements in Item 1. of this Quarterly Report on Form 10-Q.

The following table shows the amortized cost basis as of June 30, 2026 and June 30, 2025 for the loans restructured during the three and six months ended June 30, 2026 and June 30, 2025 to borrowers experiencing financial difficulty, disaggregated by portfolio segment:

	Restructured Loans					
	Three Months Ended June 30, 2026			Six Months Ended June 30, 2026		
(Dollars in Thousands)	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	1	253	0.10 %	3	1,202	0.46 %
Residential Mortgages	—	—	— %	—	—	— %
Other Consumer	—	—	— %	—	—	— %
Construction	1	17,240	3.52 %	1	17,240	3.52 %
Other	—	—	— %	—	—	— %
Total Accruing Restructured Loans	**2**	**$ 17,493**	**0.47 %**	**4**	**$ 18,442**	**0.49 %**
Nonaccrual Restructured Loans						
Commercial Real Estate	—	$ —	— %	—	$ —	— %
Commercial and Industrial	—	—	— %	—	—	— %
Residential Mortgages	—	—	— %	—	—	— %
Other Consumer	—	—	— %	—	—	— %
Construction	—	—	— %	—	—	— %
Other	—	—	— %	—	—	— %
Total Nonaccrual Restructured Loans	**—**	**$ —**	**— %**	**—**	**$ —**	**— %**
Total Restructured Loans	**2**	**$ 17,493**	**0.47 %**	**4**	**$ 18,442**	**0.49 %**

	Restructured Loans					
	Three Months Ended June 30, 2025			Six Months Ended June 30, 2025		
(Dollars in Thousands)	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	—	—	— %	—	—	— %
Residential Mortgages	—	—	— %	—	—	— %
Other Consumer	—	—	— %	—	—	— %
Construction	—	—	— %	1	4,516	1.02 %
Other	—	—	— %	—	—	— %
Total Accruing Restructured Loans	**—**	**$ —**	**— %**	**1**	**$ 4,516**	**0.12 %**
Nonaccrual Restructured Loans						
Commercial Real Estate	—	$ —	— %	—	$ —	— %
Commercial and Industrial	2	1,004	0.45 %	2	1,004	0.45 %
Residential Mortgages	—	—	— %	—	—	— %
Other Consumer	—	—	— %	—	—	— %
Construction	—	—	— %	—	—	— %
Other	4	76,509	32.05 %	9	235,542	98.67 %
Total Nonaccrual Restructured Loans	**6**	**$ 77,513**	**2.07 %**	**11**	**$ 236,546**	**6.31 %**
Total Restructured Loans	**6**	**$ 77,513**	**2.07 %**	**12**	**$ 241,062**	**6.43 %**

The Bank closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table shows the performance of loans that were modified during the three and six months ended June 30, 2026 and June 30, 2025:

	As of June 30, 2026				As of June 30, 2025			
	Payment Status (Amortized Cost Basis)							
(Dollars in Thousands)	Current	30-89 Days Past Due	90+ Days Past Due	Total	Current	30-89 Days Past Due	90+ Days Past Due	Total
Accruing Restructured Loans								
Commercial Real Estate	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and Industrial	1,202	—	—	1,202	—	—	—	—
Residential Mortgages	—	—	—	—	—	—	—	—
Other Consumer	—	—	—	—	—	—	—	—
Construction	17,240	—	—	17,240	—	4,516	—	4,516
Other	—	—	—	—	—	—	—	—
Total Accruing Restructured Loans	**$ 18,442**	**$ —**	**$ —**	**$ 18,442**	**$ —**	**$ 4,516**	**$ —**	**$ 4,516**
				—				—
Nonaccrual Restructured Loans				—				—
Commercial Real Estate	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and Industrial	—	—	—	—	1,004	—	—	1,004
Residential Mortgages	—	—	—	—	—	—	—	—
Other Consumer	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Other	—	—	—	—	235,542	—	—	235,542
Total Nonaccrual Restructured Loans	**$ —**	**$ —**	**$ —**	**$ —**	**$ 236,546**	**$ —**	**$ —**	**$ 236,546**
Total Restructured Loans	**$ 18,442**	**$ —**	**$ —**	**$ 18,442**	**$ 236,546**	**$ 4,516**	**$ —**	**$ 241,062**

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

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

(Dollars in Thousands)	Three Months Ended June 30, 2026 Payment Delay/ Extended Fixed Rate	Short-term Extension	Total	% of Total Class of Financing Receivable
Commercial and Industrial	$ 253	$ —	$ 253	0.10 %
Construction	—	17,240	17,240	3.52 %
Total	**$ 253**	**$ 17,240**	**$ 17,493**	**0.47 %**

(Dollars in Thousands)	Six Months Ended June 30, 2026 Payment Delay/ Extended Fixed Rate	Short-term Extension	Total	% of Total Class of Financing Receivable
Commercial and Industrial	$ 254	$ 948	$ 1,202	0.46 %
Construction	—	17,240	17,240	3.52 %
Total	**$ 254**	**$ 18,188**	**$ 18,442**	**0.49 %**

(Dollars in Thousands)	Three Months Ended June 30, 2025 Payment Delay	Short-term Extension	Total	% of Total Class of Financing Receivable
Commercial and Industrial	$ —	$ 1,004	$ 1,004	0.45 %
Other	—	76,509	76,509	32.05 %
Total	**$ —**	**$ 77,513**	**$ 77,513**	**2.07 %**

(Dollars in Thousands)	Six Months Ended June 30, 2025 Payment Delay	Short-term Extension	Total	% of Total Class of Financing Receivable
Commercial and Industrial	$ —	$ 1,004	$ 1,004	0.45 %
Construction	4,516	—	4,516	1.02 %
Other	—	235,542	235,542	98.67 %
Total	**$ 4,516**	**$ 236,546**	**$ 241,062**	**6.43 %**

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

	Three Months Ended June 30, 2026 Weighted-Average Payment Delay	Weighted-Average Short-term Extension	Weighted-Average Interest Rate Reduction
Commercial and Industrial	0.59 years	—	0.50 %
Construction	—	0.08 years	— %

	Six Months Ended June 30, 2026 Weighted-Average Payment Delay	Weighted-Average Short-term Extension	Weighted-Average Interest Rate Reduction
Commercial and Industrial	0.83 years	0.41 years	0.50 %
Construction	—	0.41 years	— %

	Three Months Ended June 30, 2025 Weighted-Average Payment Delay	Weighted-Average Term Extension/Payment Delay
Commercial and Industrial	$ —	0.07 years
Other	—	0.24 years

	Six Months Ended June 30, 2025 Weighted-Average Payment Delay	Weighted-Average Term Extension/Payment Delay
Commercial and Industrial	—	0.07 years
Construction	0.32 years	—
Other	—	0.86 years

During the second quarter of 2026, one commercial and industrial loan relationship and one construction loan relationship that had previously been modified during the first quarter of 2026 were subsequently modified again. As a result, these relationships are included as current-period loan modifications in the tables above.

As of June 30, 2026 and December 31, 2025, the Bank had approximately $2.1 million and $4.5 million of commitments to lend additional funds on accruing loans that had been restructured. As of June 30, 2026 and December 31, 2025, the Bank had no commitments to lend additional funds on nonperforming loans that had been restructured. In addition, as of June 30, 2026 and December 31, 2025, the Bank had no loan commitments that defaulted during the period and had been modified prior to payment default while the borrower was experiencing financial difficulty at the time of modification.

For purposes of this disclosure, a default is defined as the occurrence, within 12 months of the original loan modification, of either a full or partial charge-off or the loan becoming 90 days or more past due.

As of June 30, 2026 and December 31, 2025, the Company had $0.5 million and $2.0 million, respectively, of residential real estate loans in process of foreclosure. Residential real estate included in OREO totaled $2.1 million at June 30, 2026 and $0.0 at December 31, 2025.

NOTE 5 - ALLOWANCE FOR CREDIT LOSSES

The Company maintains an ACL at a level management believes is adequate to absorb expected credit losses associated with the Company’s financial instruments over their contractual lives as of the balance sheet date. The ACL is estimated using a systematic methodology that incorporates historical loss experience, current conditions, and reasonable and supportable forecasts.

The Company’s loan portfolio is segmented by homogeneous loan types that are expected to respond similarly to changes in economic conditions. The portfolio segments used in developing the ACL are as follows: 1) CRE, 2) Commercial and Industrial (“C&I”), 3) Residential Mortgages, 4) Other Consumer, 5) Construction and 6) Other. Management evaluates credit risk and estimates expected credit losses for each portfolio segment based on the specific risk characteristics described below.

CRE loans are secured by income producing or owner-occupied commercial properties, including hotels, retail centers, office buildings, and multifamily properties. The primary sources of repayment are cash flows generated by the underlying properties and, where applicable, global cash flows of the borrower. Credit risk in this segment is influenced by property specific factors, borrower financial strength, tenant concentration, and local and regional economic conditions affecting property values and demand.

C&I loans are extended to operating companies for working capital, equipment financing, inventory, and accounts receivable financing. Repayment is primarily dependent on the cash flows generated from the borrower’s ongoing operations. Credit risk in this segment is influenced by borrower profitability, leverage, liquidity, and industry specific risks, as well as broader economic conditions. Collateral supporting these loans may have limited liquidation value in a stressed environment.

This segment also includes loans to local and state municipalities for purposes such as refinancing existing obligations, infrastructure improvements, and equipment purchases. These loans may be supported by general obligation pledges or specific revenue streams. Repayment is generally dependent on the taxing authority, or revenues of the municipal borrower, and credit risk is influenced by the financial condition and economic stability of the underlying jurisdiction. 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 secured by first and second liens on 1-4 family residential properties, including home equity loans, home equity lines of credit and purchased money mortgages. The primary source of repayment is the income and financial capacity of the borrower. Credit risk in this segment is influenced by borrower employment levels, income stability, and housing market conditions, including changes in property values that may affect a borrower’s ability to refinance or sell the underlying collateral.

Other Consumer loans consist of loans to individuals that may be secured by collateral other than residential real estate or unsecured. This segment includes automobile loans and unsecured consumer loans and lines of credit. Repayment is primarily dependent on the income and financial condition of the borrower. Credit risk is influenced by the condition of the local economy, including unemployment levels, borrower credit profiles, and where applicable, the value and liquidity of collateral. 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 residential construction lending. Commercial construction loans finance the development of income producing properties or the acquisition and development of land. These loans are subject to risks related to project completion, cost overruns, contractor performance, and market demand upon stabilization. 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. Repayment may depend on the successful completion and leasing or sale of the project.

Residential construction loans are generally extended to finance the construction of owner occupied or presold residential properties and typically provide for interest only payments during the construction period. Credit risk arises from construction delays, cost overruns, contractor performance, and economic conditions affecting housing demand.

The "**Other**" loan segment previously consisted primarily of the loans subsequently reduced to the Judgments, which were the Company's largest lending relationship and had unique risk characteristics that differed from the Company's current standard underwriting criteria. Expected credit losses for this segment were estimated using a discounted cash flows (or "DCF") methodology, and the related ACL was subject to fluctuation based on changes in expected future cash flows. These inconsistencies included, but were not limited to i) transaction and/or relationship sizes that exceeded 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. During the six months ended June 30, 2026, the Company completed the Loan Sale Transaction in which the Company sold the Judgments to an unaffiliated third party. However, the segment remains presented in prior periods for comparative purposes. Prior to the Loan Sale Transaction, the Company previously established specific reserves of $18.0 million related to the Judgments, which were established based on the Company's expected loss estimates and were subsequently released in connection with the Loan Sale Transaction.

Current Expected Credit Losses ("CECL") Model

The Company's CECL model is based on management's best estimates using information available as of the reporting date. Certain components of the CECL model are inherently subjective, including, but not limited to, assumptions related to prepayment speeds and timing, loss given default, discount rates, and the timing of future cash flows.

Management utilizes widely published economic forecasts as inputs to the regression analysis used to estimate probabilities of default in the baseline CECL model. The projected peaks and troughs within these forecasts serve as guardrails when evaluating potential qualitative management adjustments. While management considers outcomes across a range of scenarios, it also recognizes that published forecasts may not fully reflect the Company's specific market footprint, risk profile or unique portfolio characteristics.

Significant changes in economic forecasts may introduce volatility into modeled results. Accordingly, management evaluates not only the absolute level of the ACL, but also the reasonableness of the magnitude and pace of changes in the allowance. To address this, management has developed a framework to assess the tolerance and reasonableness of CECL outputs by challenging certain model assumptions when appropriate. These alternative outcomes, referred to as "challenger models," are designed to provide additional perspective, support management judgment, and reduce undue volatility in reserve levels through a countercyclical approach.

Credit Quality Indicators:

The Company's credit quality assessment is based on an internal loan grading system that evaluates the borrower's capacity to repay contractual obligations in accordance with loan terms. Risk ratings consider factors such as debt service coverage, collateral values, borrower financial condition, and other qualitative considerations. Residential mortgage and consumer loans are generally assigned a pass rating unless a loan migrates to a past due or otherwise criticized status.

The Company maintains a formal loan review policy and annual loan review scope report that defines the level and focus of independent loan review activities for the year. The annual loan review provides the Credit Risk Committee with an independent assessment of 1) overall credit quality of the loan portfolio, 2) compliance with lending policies, 3) adequacy of credit documentation, and 4) appropriateness of assigned risk ratings.

From 2020 through 2026, loan review activities followed a structured, multi-step approach that included:

- Individual reviews of the top 20 large loan relationships ("LLRs"), defined as any individual commercial loan or aggregate commercial relationship totaling $2.0 million or more;
- Sampling of other large loan relationships meeting the same exposure threshold but not in the top 20 LLRs;
- Sample review of Executive Loan Committee approved modifications, including both new and existing loans, to evaluate consistency with established policies and procedures;
- Sample review of non-organic commercial loans and loans approved outside of the Executive Loan Committee process; and
- Annual rotational focus reviews of specific portfolio segments to identify emerging risk rather than assess individual loan performance.

The Company assigns internal risk grades to all loans as follows:

Pass – The Company utilizes multiple pass grades, including a watch designation. Loans rated pass are generally performing in accordance with contractual terms and are considered to be of high credit quality.

Special Mention – Loans with potential weaknesses that warrant management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects or the Company's credit position.

Substandard – Loans that are inadequately protected by the borrower's paying capacity or by the collateral pledged, if any. These loans exhibit well-defined weaknesses that jeopardize repayment and present a distinct possibility of loss if deficiencies are not corrected.

Doubtful – Loans that possess all the weaknesses inherent in substandard loans, with the added characteristic that collection or liquidation in full is highly questionable and improbable based on currently known facts, conditions, and values.

Loss – Loans considered to be of such little value that continuation on the balance sheet is not warranted. While partial recovery may occur in the future, the asset is deemed uncollectible and is charged off.

The repayment of commercial loans is dependent on the success of the borrower's business and overall economic conditions. Given the higher inherent risk within the commercial portfolio, these loans are monitored through ongoing risk grading and periodic review in accordance with internal policies. Loans rated special mention or substandard require increased oversight and active management to mitigate potential credit losses.

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

The following table presents loan balances by year of origination and internally assigned risk rating for our portfolio segments as of June 30:

	Risk Rating							
(Dollars in Thousands)	**2026**	**2025**	**2024**	**2023**	**2022**	**2021 and Prior**	**Revolving**	**Total Portfolio Loans**
Commercial Real Estate								
Pass	$ 144,769	$ 319,675	$ 244,322	$ 301,101	$ 408,250	$ 674,954	$ 28,181	$ 2,121,252
Special Mention	—	—	—	—	—	548	—	548
Substandard	—	—	7,552	—	13,974	36	—	21,562
Total Commercial Real Estate	**$ 144,769**	**$ 319,675**	**$ 251,874**	**$ 301,101**	**$ 422,224**	**$ 675,538**	**$ 28,181**	**$ 2,143,362**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Commercial and Industrial								
Pass	$ 34,206	$ 21,193	$ 785	$ 14,993	$ 18,513	$ 104,510	$ 54,679	$ 248,879
Special Mention	—	7	—	—	—	—	—	7
Substandard	—	—	—	—	12	15	75	102
Doubtful	—	—	—	12,944	—	—	500	13,444
Total Commercial and Industrial	**$ 34,206**	**$ 21,200**	**$ 785**	**$ 27,937**	**$ 18,525**	**$ 104,525**	**$ 55,254**	**$ 262,432**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Residential Mortgages								
Pass	$ 53,029	$ 92,341	$ 21,596	$ 40,996	$ 246,166	$ 291,719	$ 65,506	$ 811,353
Special Mention	—	—	—	—	—	87	—	87
Substandard	—	—	—	—	998	1,239	706	2,943
Total Residential Mortgages	**$ 53,029**	**$ 92,341**	**$ 21,596**	**$ 40,996**	**$ 247,164**	**$ 293,045**	**$ 66,212**	**$ 814,383**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Other Consumer								
Pass	$ 7,838	$ 10,118	$ 4,122	$ 1,488	$ 743	$ 773	$ —	$ 25,082
Special Mention	—	—	—	—	—	—	—	—
Substandard	29	—	36	—	7	—	—	72
Total Other Consumer	**$ 7,867**	**$ 10,118**	**$ 4,158**	**$ 1,488**	**$ 750**	**$ 773**	**$ —**	**$ 25,154**
YTD Gross Charge-offs	64	67	53	12	77	26	—	299
Construction								
Pass	$ 37,753	$ 126,564	$ 187,533	$ 65,011	$ 31,554	$ 7,578	$ 14,898	$ 470,891
Special Mention	—	—	661	—	—	35	—	696
Substandard	—	—	—	17,642	—	34	—	17,676
Total Construction	**$ 37,753**	**$ 126,564**	**$ 188,194**	**$ 82,653**	**$ 31,554**	**$ 7,647**	**$ 14,898**	**$ 489,263**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Other								
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total Other Loans	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Total Portfolio Loans								
Pass	$ 277,595	$ 569,891	$ 458,358	$ 423,589	$ 705,226	$ 1,079,534	$ 163,264	$ 3,677,457
Special Mention	—	7	661	—	—	670	—	1,338
Substandard	29	—	7,588	17,642	14,991	1,324	781	42,355
Doubtful	—	—	—	12,944	—	—	500	13,444
Total Portfolio Loans	**$ 277,624**	**$ 569,898**	**$ 466,607**	**$ 454,175**	**$ 720,217**	**$ 1,081,528**	**$ 164,545**	**$ 3,734,594**
Current YTD Period:								
YTD Gross Charge-offs	**$ 64**	**$ 67**	**$ 53**	**$ 12**	**$ 77**	**$ 26**	**$ —**	**$ 299**

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

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

	Risk Rating							
(Dollars in Thousands)	**2025**	**2024**	**2023**	**2022**	**2021**	**2020 and Prior**	**Revolving**	**Total Portfolio Loans**
Commercial Real Estate								
Pass	$ 314,624	$ 189,311	$ 335,491	$ 424,445	$ 232,130	$ 536,023	$ 47,555	$ 2,079,579
Special Mention	10,829	—	—	—	—	45	—	10,874
Substandard	—	9,494	—	14,321	—	46	—	23,861
Total Commercial Real Estate	**$ 325,453**	**$ 198,805**	**$ 335,491**	**$ 438,766**	**$ 232,130**	**$ 536,114**	**$ 47,555**	**$ 2,114,314**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Commercial and Industrial								
Pass	$ 24,231	$ 786	$ 28,939	$ 19,406	$ 9,409	$ 106,348	$ 41,780	$ 230,899
Special Mention	9	—	—	—	—	—	—	9
Substandard	—	—	—	13	915	21	64	1,013
Total Commercial and Industrial	**$ 24,240**	**$ 786**	**$ 28,939**	**$ 19,419**	**$ 10,324**	**$ 106,369**	**$ 41,844**	**$ 231,921**
YTD Gross Charge-offs	—	—	—	7	—	—	—	7
Residential Mortgages								
Pass	$ 101,104	$ 20,369	$ 56,383	$ 262,355	$ 148,230	$ 163,744	$ 64,130	$ 816,315
Special Mention	—	—	—	—	—	89	—	89
Substandard	—	—	—	1,014	826	3,289	608	5,737
Total Residential Mortgages	**$ 101,104**	**$ 20,369**	**$ 56,383**	**$ 263,369**	**$ 149,056**	**$ 167,122**	**$ 64,738**	**$ 822,141**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Other Consumer								
Pass	$ 17,463	$ 6,096	$ 2,380	$ 1,142	$ 244	$ 1,066	$ —	$ 28,391
Special Mention	—	—	—	—	—	—	—	—
Substandard	2	18	—	1	4	—	—	25
Total Other Consumer	**$ 17,465**	**$ 6,114**	**$ 2,380**	**$ 1,143**	**$ 248**	**$ 1,066**	**$ —**	**$ 28,416**
YTD Gross Charge-offs	202	181	71	334	80	11	—	879
Construction								
Pass	$ 90,343	$ 192,733	$ 103,325	$ 47,124	$ 2,015	$ 7,768	$ 15,763	$ 459,071
Special Mention	—	660	—	—	—	40	—	700
Substandard	—	—	403	5,402	—	37	—	5,842
Total Construction	**$ 90,343**	**$ 193,393**	**$ 103,728**	**$ 52,526**	**$ 2,015**	**$ 7,845**	**$ 15,763**	**$ 465,613**
YTD Gross Charge-offs	—	—	—	1	—	—	—	1
Other								
Pass	$ —	$ —	$ —	$ —	$ —	$ 3,135	$ —	$ 3,135
Special Mention	—	—	—	—	—	—	—	—
Substandard	214,020	—	—	—	—	—	—	214,020
Total Other Loans	**$ 214,020**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 3,135**	**$ —**	**$ 217,155**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Total Portfolio Loans								
Pass	$ 547,765	$ 409,295	$ 526,518	$ 754,472	$ 392,028	$ 818,084	$ 169,228	$ 3,617,390
Special Mention	10,838	660	—	—	—	174	—	11,672
Substandard	214,022	9,512	403	20,751	1,745	3,393	672	250,498
Total Portfolio Loans	**$ 772,625**	**$ 419,467**	**$ 526,921**	**$ 775,223**	**$ 393,773**	**$ 821,651**	**$ 169,900**	**$ 3,879,560**
Current YTD Period:								
YTD Gross Charge-offs	**$ 202**	**$ 181**	**$ 71**	**$ 342**	**$ 80**	**$ 11**	**$ —**	**$ 887**

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

The following table presents loan balances by year of origination and performing and nonperforming status for our portfolio segments as of June 30:

(Dollars in Thousands)	2026	2025	2024	2023	2022	2021 and Prior	Revolving	Total Portfolio Loans
Commercial Real Estate								
Performing	$ 144,769	$ 319,675	$ 244,322	$ 301,101	$ 408,250	$ 675,502	$ 28,181	$ 2,121,800
Nonperforming	—	—	7,552	—	13,974	36	—	21,562
Total Commercial Real Estate	**$ 144,769**	**$ 319,675**	**$ 251,874**	**$ 301,101**	**$ 422,224**	**$ 675,538**	**$ 28,181**	**$ 2,143,362**
Commercial and Industrial								
Performing	$ 34,206	$ 21,200	$ 785	$ 14,993	$ 18,513	$ 104,510	$ 54,679	$ 248,886
Nonperforming	—	—	—	12,944	12	15	575	13,546
Total Commercial and Industrial	**$ 34,206**	**$ 21,200**	**$ 785**	**$ 27,937**	**$ 18,525**	**$ 104,525**	**$ 55,254**	**$ 262,432**
Residential Mortgages								
Performing	$ 53,029	$ 92,341	$ 21,596	$ 40,996	$ 247,164	$ 291,806	$ 65,506	$ 812,438
Nonperforming	—	—	—	—	—	1,239	706	1,945
Total Residential Mortgages	**$ 53,029**	**$ 92,341**	**$ 21,596**	**$ 40,996**	**$ 247,164**	**$ 293,045**	**$ 66,212**	**$ 814,383**
Other Consumer								
Performing	$ 7,838	$ 10,118	$ 4,122	$ 1,488	$ 743	$ 773	$ —	$ 25,082
Nonperforming	29	—	36	—	7	—	—	72
Total Other Consumer	**$ 7,867**	**$ 10,118**	**$ 4,158**	**$ 1,488**	**$ 750**	**$ 773**	**$ —**	**$ 25,154**
Construction								
Performing	$ 37,753	$ 126,564	$ 188,194	$ 82,251	$ 31,554	$ 7,613	$ 14,898	$ 488,827
Nonperforming	—	—	—	402	—	34	—	436
Total Construction	**$ 37,753**	**$ 126,564**	**$ 188,194**	**$ 82,653**	**$ 31,554**	**$ 7,647**	**$ 14,898**	**$ 489,263**
Other								
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nonperforming	—	—	—	—	—	—	—	—
Total Other Loans	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Total Portfolio Loans								
Performing	$ 277,595	$ 569,898	$ 459,019	$ 440,829	$ 706,224	$ 1,080,204	$ 163,264	$ 3,697,033
Nonperforming	29	—	7,588	13,346	13,993	1,324	1,281	37,561
Total Portfolio Loans	**$ 277,624**	**$ 569,898**	**$ 466,607**	**$ 454,175**	**$ 720,217**	**$ 1,081,528**	**$ 164,545**	**$ 3,734,594**

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

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

(Dollars in Thousands)	2025	2024	2023	2022	2021	2020 and Prior	Revolving	Total Portfolio Loans
Commercial Real Estate								
Performing	$ 325,453	$ 189,311	$ 335,491	$ 424,445	$ 232,130	$ 536,068	$ 47,555	$ 2,090,453
Nonperforming	—	9,494	—	14,321	—	46	—	23,861
Total Commercial Real Estate	**$ 325,453**	**$ 198,805**	**$ 335,491**	**$ 438,766**	**$ 232,130**	**$ 536,114**	**$ 47,555**	**$ 2,114,314**
Commercial and Industrial								
Performing	$ 24,240	$ 786	$ 28,939	$ 19,406	$ 9,409	$ 106,348	$ 41,780	$ 230,908
Nonperforming	—	—	—	13	915	21	64	1,013
Total Commercial and Industrial	**$ 24,240**	**$ 786**	**$ 28,939**	**$ 19,419**	**$ 10,324**	**$ 106,369**	**$ 41,844**	**$ 231,921**
Residential Mortgages								
Performing	$ 101,104	$ 20,369	$ 56,383	$ 263,369	$ 148,230	$ 163,833	$ 64,230	$ 817,518
Nonperforming	—	—	—	—	826	3,289	508	4,623
Total Residential Mortgages	**$ 101,104**	**$ 20,369**	**$ 56,383**	**$ 263,369**	**$ 149,056**	**$ 167,122**	**$ 64,738**	**$ 822,141**
Other Consumer								
Performing	$ 17,463	$ 6,096	$ 2,380	$ 1,142	$ 244	$ 1,066	$ —	$ 28,391
Nonperforming	2	18	—	1	4	—	—	25
Total Other Consumer	**$ 17,465**	**$ 6,114**	**$ 2,380**	**$ 1,143**	**$ 248**	**$ 1,066**	**$ —**	**$ 28,416**
Construction								
Performing	$ 90,343	$ 193,393	$ 103,325	$ 52,526	$ 2,015	$ 7,808	$ 15,763	$ 465,173
Nonperforming	—	—	403	—	—	37	—	440
Total Construction	**$ 90,343**	**$ 193,393**	**$ 103,728**	**$ 52,526**	**$ 2,015**	**$ 7,845**	**$ 15,763**	**$ 465,613**
Other								
Performing	$ —	$ —	$ —	$ —	$ —	$ 3,135	$ —	$ 3,135
Nonperforming	214,020	—	—	—	—	—	—	214,020
Total Other Loans	**$ 214,020**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 3,135**	**$ —**	**$ 217,155**
Total Portfolio Loans								
Performing	$ 558,603	$ 409,955	$ 526,518	$ 760,888	$ 392,028	$ 818,258	$ 169,328	$ 3,635,578
Nonperforming	214,022	9,512	403	14,335	1,745	3,393	572	243,982
Total Portfolio Loans	**$ 772,625**	**$ 419,467**	**$ 526,921**	**$ 775,223**	**$ 393,773**	**$ 821,651**	**$ 169,900**	**$ 3,879,560**

The sale of the Bank’s largest lending relationship, which was previously included in the “Other” segment, completed on March 26, 2026, resulted in a significant reduction in both substandard and nonperforming loans at June 30, 2026, compared to an aggregate principal balance of $214.0 million classified as substandard and nonperforming at December 31, 2025.

Age Analysis of Past-Due Loans by Class

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

	June 30, 2026					
(Dollars in Thousands)	Current Loans	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Total 30-89 Days Past Due	Nonaccrual Loans	Total Portfolio Loans
Commercial Real Estate	$ 2,121,800	$ —	$ —	$ —	$ 21,562	$ 2,143,362
Commercial & Industrial	248,796	90	—	90	13,546	262,432
Residential Mortgages	810,101	2,337	—	2,337	1,945	814,383
Other Consumer	24,934	86	62	148	72	25,154
Construction	488,791	36	—	36	436	489,263
Other	—	—	—	—	—	—
Total	**$ 3,694,422**	**$ 2,549**	**$ 62**	**$ 2,611**	**$ 37,561**	**$ 3,734,594**

	December 31, 2025					
(Dollars in Thousands)	Current Loans	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Total 30-89 Days Past Due	Nonaccrual Loans	Total Portfolio Loans
Commercial Real Estate	$ 2,090,450	$ 3	$ —	$ 3	$ 23,861	$ 2,114,314
Commercial & Industrial	230,749	159	—	159	1,013	231,921
Residential Mortgages	815,619	1,899	—	1,899	4,623	822,141
Other Consumer	28,124	159	108	267	25	28,416
Construction	464,265	40	868	908	440	465,613
Other	3,135	—	—	—	214,020	217,155
Total	**$ 3,632,342**	**$ 2,260**	**$ 976**	**$ 3,236**	**$ 243,982**	**$ 3,879,560**

Loans past due 90 days or more and still accruing were zero at June 30, 2026 and December 31, 2025.

There were no nonaccrual or past due loans related to loans held-for-sale as of June 30, 2026 and December 31, 2025, respectively.

The following table presents loans on nonaccrual status by portfolio segment of loan for the dates presented. There were no loans for the dates presented that were past due more than 90 days and still accruing.

	June 30, 2026			December 31, 2025		
(Dollars in Thousands)	Nonaccrual without an Allowance for Credit Losses	Nonaccrual with an Allowance for Credit Losses	Total Nonaccrual Loans	Nonaccrual without an Allowance for Credit Losses	Nonaccrual with an Allowance for Credit Losses	Total Nonaccrual Loans
Commercial Real Estate	$ —	$ 21,562	$ 21,562	$ —	$ 23,861	$ 23,861
Commercial and Industrial	—	13,546	13,546	—	1,013	1,013
Residential Mortgages	—	1,945	1,945	2,018	2,605	4,623
Other Consumer	—	72	72	—	25	25
Construction	—	436	436	—	440	440
Other	—	—	—	—	214,020	214,020
Total Portfolio Loans	**$ —**	**$ 37,561**	**$ 37,561**	**$ 2,018**	**$ 241,964**	**$ 243,982**

Nonaccrual loans in the "Other" segment decreased by $214.0 million, reflecting the Loan Sale Transaction completed during the first quarter of 2026. The Loan Sale Transaction also resulted in the reversal of $18.0 million of previously established specific reserves.

A loan is generally placed on nonaccrual status when management determines that the collection of principal and interest is unlikely. Upon placement on nonaccrual status, the Company discontinues the accrual of interest income and reverses any unpaid accrued interest.

Delinquency status is a key indicator used in evaluating collectability. Accordingly, loans are generally transferred to nonaccrual status when they become 90 days or more past due. Management, however, may exercise judgment at the individual loan level. A loan may be placed on nonaccrual status prior to becoming 90 days past due if collectability of principal and interest is doubtful. Conversely, a loan that is 90 days or more past due may remain on accrual status if management believes it is well secured and in the process of collection.

Nonaccrual loans, including loans that have been restructured, may be individually evaluated for expected credit losses when the outstanding loan balance is $1.0 million or greater or when management determines individual evaluation is appropriate. Loans not individually evaluated are included in the applicable pooled segment of the ACL.

During the three and six months ended June 30, 2026 and June 30, 2025, respectively, no material interest income was recognized on nonperforming loans ("NPLs") subsequent to their classification as nonaccrual.

The following tables present changes in the fair value of the types of collateral and DCF modeling for IELs in the (recovery) provision for credit losses on loans in the period of change.

	June 30, 2026					
Collateral Type	Blanket UCC Lien on Business Assets	Single Family	Warehouse	Office Building	Multifamily	Total
(Dollars in Thousands)	Fair Value - Collateral					
Commercial Real Estate	$ —	$ —	$ 7,552	$ 13,973	$ —	$ 21,525
Commercial and Industrial	13,445	—	—	—	—	13,445
Construction	—	661	—	—	17,239	17,900
Total	**$ 13,445**	**$ 661**	**$ 7,552**	**$ 13,973**	**$ 17,239**	**$ 52,870**

	December 31, 2025					
Collateral Type	Equipment	Single Family	Warehouse	Office Building	Discounted Cash Flow	Total
(Dollars in Thousands)	Fair Value - Collateral					
Commercial Real Estate	$ —	$ —	$ 9,494	$ 14,321	$ —	$ 23,815
Commercial and Industrial	915	—	—	—	—	915
Residential Mortgage	—	2,018	—	—	—	2,018
Construction	—	661	—	—	—	661
Other	—	—	—	—	214,020	214,020
Total	**$ 915**	**$ 2,679**	**$ 9,494**	**$ 14,321**	**$ 214,020**	**$ 241,429**

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

	Three Months Ended June 30, 2026						
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other	Total
Allowance for Credit Losses on Loans:							
Balance, Beginning of Period	$ 22,171	$ 2,538	$ 11,761	$ 588	$ 15,445	$ —	$ 52,503
(Recovery) Provision for Credit Losses on Loans	(286)	3,352	(44)	85	(1,097)	—	2,010
Charge-offs	—	—	—	(161)	—	—	(161)
Recoveries	248	—	2	57	511	—	818
Net Recoveries / (Charge-offs)	**248**	**—**	**2**	**(104)**	**511**	**—**	**657**
Balance, End of Period	**$ 22,133**	**$ 5,890**	**$ 11,719**	**$ 569**	**$ 14,859**	**$ —**	**$ 55,170**

	Six Months Ended June 30, 2026						
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other	Total
Allowance for Credit Losses on Loans:							
Balance, Beginning of Period	$ 22,526	$ 2,790	$ 12,449	$ 638	$ 15,020	$ 18,068	$ 71,491
(Recovery) Provision for Credit Losses on Loans	(641)	3,100	(734)	108	(672)	(33,068)	(31,907)
Charge-offs	—	—	—	(299)	—	—	(299)
Recoveries	248	—	4	122	511	15,000	15,885
Net Recoveries / (Charge-offs)	**248**	**—**	**4**	**(177)**	**511**	**15,000**	**15,586**
Balance, End of Period	**$ 22,133**	**$ 5,890**	**$ 11,719**	**$ 569**	**$ 14,859**	**$ —**	**$ 55,170**

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

	Three Months Ended June 30, 2025						
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other	Total
Allowance for Credit Losses on Loans:							
Balance, Beginning of Period	$ 20,144	$ 2,675	$ 10,843	$ 693	$ 12,049	$ 27,114	$ 73,518
Provision (Recovery) for Credit Losses on Loans	579	45	298	144	(285)	(3,111)	(2,330)
Charge-offs	—	—	—	(288)	—	—	(288)
Recoveries	—	2	2	119	—	—	123
Net Recoveries / (Charge-offs)	**—**	**2**	**2**	**(169)**	**—**	**—**	**(165)**
Balance, End of Period	**$ 20,723**	**$ 2,722**	**$ 11,143**	**$ 668**	**$ 11,764**	**$ 24,003**	**$ 71,023**

	Six Months Ended June 30, 2025						
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other	Total
Allowance for Credit Losses on Loans:							
Balance, Beginning of Period	$ 20,146	$ 2,791	$ 10,389	$ 682	$ 11,297	$ 30,295	$ 75,600
Provision (Recovery) for Credit Losses on Loans	577	(67)	744	216	467	(6,292)	(4,355)
Charge-offs	—	(7)	—	(459)	(1)	—	(467)
Recoveries	—	5	10	229	1	—	245
Net (Charge-offs) / Recoveries	**—**	**(2)**	**10**	**(230)**	**—**	**—**	**(222)**
Balance, End of Period	**$ 20,723**	**$ 2,722**	**$ 11,143**	**$ 668**	**$ 11,764**	**$ 24,003**	**$ 71,023**

NOTE 6 - FAIR VALUE MEASUREMENTS

The Company uses fair value measurements when recording and disclosing certain financial assets and liabilities. Securities available-for-sale, equity securities and derivative financial instruments are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record other assets at fair value on a nonrecurring basis, such as loans held-for-sale, IELs, 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, the Company uses 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 the Company has obtained from independent sources. Unobservable inputs reflect the Company's 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. The Company recognizes 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 DCF 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 June 30, 2026 and December 31, 2025, 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. The Company calculates the fair value for derivatives using accepted valuation techniques, including DCF 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: IELs 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 IELs 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 IELs are reevaluated quarterly for additional impairment and adjustments to fair value less costs to sell are made, where appropriate. For IELs, the first stage of our impairment analysis involves inspection of the property in question to affirm the condition has not deteriorated since the previous impairment analysis date. Management also engages in conversations with local real estate professionals and market participants to determine the likely marketing time and value range for the property. The second stage involves an assessment of current trends in the regional market. After thorough consideration of these factors, management will order a new appraisal.

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

OREO is evaluated at the time of acquisition and is recorded at fair value as determined by an appraisal or evaluation, less costs to sell. After acquisition, most OREO assets are revalued every twelve months, or more frequently when deemed necessary by management based upon changes in market or collateral conditions. For smaller OREO assets with existing carrying values less than $0.5 million, management may elect to re-value the assets, at minimum, once every twenty-four months based on the size of the exposure. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets marked to fair value are classified as Level 3. At June 30, 2026, OREO assets were in compliance with the OREO policy as described above, except for $0.2 million related to two residential mortgage loans that are not currently marketed for sale as the Company is still in the process of determining a market value for listing the properties.

The following tables present the Company’s financial assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at the dates presented:

	June 30, 2026			
(Dollars in Thousands)	**Carrying Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Securities Available-for-Sale:				
U.S. Government Agency Securities	$ 16,153	$ —	$ 16,153	$ —
Residential Mortgage-Backed Securities	61,450	—	61,450	—
Commercial Mortgage-Backed Securities	20,910	—	20,910	—
Other Commercial Mortgage-Backed Securities	21,261	—	21,261	—
Asset Backed Securities	105,594	—	105,594	—
Collateralized Mortgage Obligations	192,539	—	192,539	—
States and Political Subdivisions	166,313	—	166,313	—
Corporate Notes	56,082	—	49,797	6,285
Total Securities Available-for-Sale	640,302	—	634,017	6,285
Equity Securities	12,676	12,676	—	—
Derivatives	10,938	—	10,938	—
Total	**$ 663,916**	**$ 12,676**	**$ 644,955**	**$ 6,285**
Liabilities				
Derivatives	$ 11,392	$ —	$ 11,392	$ —
Total	**$ 11,392**	**$ —**	**$ 11,392**	**$ —**

	December 31, 2025			
(Dollars in Thousands)	**Carrying Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Securities Available-for-Sale:				
U.S. Government Agency Securities	$ 19,375	$ —	$ 19,375	$ —
Residential Mortgage-Backed Securities	76,773	—	76,773	—
Commercial Mortgage-Backed Securities	25,122	—	25,122	—
Other Commercial Mortgage-Backed Securities	24,254	—	24,254	—
Asset Backed Securities	94,797	—	94,797	—
Collateralized Mortgage Obligations	161,820	—	161,820	—
States and Political Subdivisions	234,224	—	234,224	—
Corporate Notes	55,247	—	51,967	3,280
Total Securities Available-for-Sale	691,612	—	688,332	3,280
Equity Securities	10,291	10,291	—	—
Derivatives	10,182	—	10,182	—
Total	**$ 712,085**	**$ 10,291**	**$ 698,514**	**$ 3,280**
Liabilities				
Derivatives	$ 10,089	$ —	$ 10,089	$ —
Total	**$ 10,089**	**$ —**	**$ 10,089**	**$ —**

The Company invests in subordinated debt securities issued by other financial institutions that are classified as Corporate Notes in the tables above. At June 30, 2026, the Company held two such securities with an aggregate fair value of $6.3 million, and at December 31, 2025, the Company held one such security with an aggregate fair value of $3.3 million all of which were classified within Level 3 of the fair value hierarchy due to the absence of observable market inputs and limited trading activity. These Level 3 assets increased compared to December 31, 2025, reflecting the addition of a $3.0 million corporate bond during the second quarter of 2026.

The fair value of these Level 3 securities is estimated by benchmarking to similar instruments with observable market data classified as Level 2. Valuation techniques incorporate comparable financial ratio analysis and qualitative assessments specific to the industry in which the underlying issuers operate. Key factors considered include capital adequacy, asset quality trends, management effectiveness, core earnings capacity, liquidity profile, and on and off-balance sheet interest rate exposures.

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

	June 30, 2026			
(Dollars in Thousands)	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
OREO	$ —	$ —	$ 3,356	$ 3,356
Individually Evaluated Loans	$ —	$ —	$ 30,779	$ 30,779

	December 31, 2025			
(Dollars in Thousands)	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
OREO	$ —	$ —	$ 142	$ 142
Individually Evaluated Loans	$ —	$ —	$ 22,809	$ 22,809

The Company had three IEL relationships consisting of seven loans totaling $30.8 million that were measured at fair value on a nonrecurring basis at June 30, 2026, compared to three IEL relationships consisting of eight loans totaling $22.8 million at December 31, 2025.

The Company’s largest credit relationship, previously classified as an IEL had a net carrying value of zero at June 30, 2026, compared to $196.0 million at December 31, 2025, as a result of the Loan Sale Transaction during the first quarter of 2026. Prior to the Loan Sale Transaction, in estimating fair value, management utilized DCF techniques incorporating various assumptions related to the timing and amount of expected recoveries under multiple collection scenarios. These valuation techniques resulted in a valuation allowance of zero at June 30, 2026, compared to $18.0 million at December 31, 2025, as the previously established specific reserves were released in connection with the Loan Sale Transaction during the first quarter of 2026.

OREO, which is measured at the lower of carrying amount or fair value less costs to sell, had a net carrying amount of $3.4 million as of June 30, 2026, compared to $0.1 million at December 31, 2025. The increase was primarily attributable to two nonperforming residential mortgage loans totaling $2.9 million that were transferred to OREO during the first quarter of 2026.

The following tables summarize the Company's assets that were measured at fair value on a nonrecurring basis at the dates presented:

	June 30, 2026				
(Dollars in Thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Weighted Range**	**Average**
Assets					
Individually Evaluated Loans	$ 30,779	Appraisals	Estimated Selling Costs	3.0% – 9.6%	6.5 %
Total Individually Evaluated Loans	**$ 30,779**				
OREO	$ 2,122	Appraisals	Estimated Selling Costs	0.0% – 6.0%	3.7 %
OREO	143	Internal Valuations	Estimated Selling Costs	5.0%	5.0 %
OREO	1,091	Discounted Internal Valuations	Management's Subject Discount	24.0%	24.0 %
Total OREO	**$ 3,356**				

	December 31, 2025				
(Dollars in Thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Weighted Range**	**Average**
Assets					
Individually Evaluated Loans	$ 22,809	Appraisals	Estimated Selling Costs	3.5% – 6.0%	5.9 %
Total Individually Evaluated Loans	**$ 22,809**				
OREO	142	Discounted Internal Valuations	Management's Subject Discount	5.0%	5.0 %
Total OREO	**$ 142**				

A baseline discount rate has been established for use in impairment and fair value measurements. This baseline rate was developed through back-testing against historical OREO sales and reflects an average recovery rate based on transaction size and asset type within the population analyzed. Management considers the specific facts and circumstances of each IEL and may apply judgment to adjust the baseline discount rate when appropriate.

The carrying values and estimated fair values of the Company's financial instruments at June 30, 2026 and December 31, 2025 are presented in the accompanying tables. Fair values are estimated in accordance with the exit price notion under ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. In accordance with U.S. GAAP, the Company is required to disclose the estimated fair value of financial instruments carried at amortized cost when quoted market prices are not readily available.

Estimated fair values are derived using present value techniques or other valuation methodologies and are significantly affected by the assumptions applied, including discount rates and expected future cash flows. Because these estimates are based on models and assumptions rather than observable market transactions, they may not be realized upon immediate settlement. Accordingly, the aggregate fair values presented do not necessarily represent the underlying value of the Company.

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

		Fair Value Measurements at June 30, 2026			
(Dollars in Thousands)	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:					
Cash and Cash Equivalents	$ 276,535	$ 41,101	$ 235,434	$ —	$ 276,535
Securities Available-for-Sale	640,302	—	634,017	6,285	640,302
Equity Securities	12,676	12,676	—	—	12,676
Loans Held-for-Sale	467	—	—	467	467
Portfolio Loans, net	3,679,424	—	—	3,586,854	3,586,854
Other Restricted Stock, at Cost	8,476	—	—	NA	NA
Other Assets- Interest Rate Derivatives	10,938	—	10,938	—	10,938
Accrued Interest Receivable	16,890	36	3,165	13,689	16,890
Financial Liabilities:					
Deposits	$ 4,197,556	$ 655,482	$ 1,695,658	$ 1,861,684	$ 4,212,824
Other Liabilities- Interest Rate Derivatives	11,392	—	11,392	—	11,392
Accrued Interest Payable	5,891	—	—	5,891	5,891

		Fair Value Measurements at December 31, 2025			
(Dollars in Thousands)	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:					
Cash and Cash Equivalents	$ 105,163	$ 36,935	$ 68,228	$ —	$ 105,163
Securities Available-for-Sale	691,612	—	688,332	3,280	691,612
Equity Securities	10,291	10,291	—	—	10,291
Loans Held-for-Sale	339	—	—	339	339
Portfolio Loans, net	3,808,069	—	—	3,711,795	3,711,795
Other Restricted Stock, at Cost	16,830	—	—	NA	NA
Other Assets- Interest Rate Derivatives	10,182	—	10,182	—	10,182
Accrued Interest Receivable	17,797	—	3,683	14,114	17,797
Financial Liabilities:					
Deposits	$ 4,210,889	$ 620,473	$ 1,688,317	$ 1,917,786	$ 4,226,576
Other Liabilities- Interest Rate Derivatives	10,089	—	10,089	—	10,089
FHLB Borrowings	178,500	—	—	178,552	178,552
Accrued Interest Payable	6,971	—	—	6,971	6,971

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 in the Consolidated Balance Sheets and are measured at fair value.

Interest Rate Swap Arrangements with Customers

Interest rate swaps are contracts under which a series of fixed and variable interest rate payments are exchanged over a specified period. The notional amounts on which the interest payments are based are not exchanged. The Company enters into interest rate swap transactions with commercial customers to facilitate customer risk management objectives. In these transactions, the Company originates a floating rate loan to the customer at a notional amount and simultaneously enters into a corresponding offsetting interest rate swap with a third-party financial institution or counterparty.

Under this structure, the customer enters into an interest rate swap with the Company to exchange the variable rate cash flows associated with the loan for fixed rate cash flows based on the same notional amount as the Company’s loan. These transactions allow customers to effectively convert variable rate loans to fixed rate loans, while the Company receives variable rate payments. Certain agreements may include contractual interest rate floors or caps.

Customer related interest rate swaps are considered derivatives, but are not designated as hedging instruments for accounting purposes. Accordingly, changes in the estimated fair value of these derivatives are recognized in current earnings in the Consolidated Statements of Income.

Balance Sheet Hedging Activities

The Company uses interest rate swaps as part of its interest rate risk management strategy to reduce its exposure to changes in the fair value of certain fixed-rate available-for-sale debt securities resulting from fluctuations in benchmark interest rates. During the six months ended June 30, 2026, the Company designated interest rate swaps with an aggregate notional amount of $29.9 million as fair value hedges of certain available-for-sale securities. The hedging relationships qualify for the shortcut method under ASC 815, Derivatives and Hedging, as management determined that the critical terms of the interest rate swaps and the hedged securities matched. Accordingly, changes in the fair value of the interest rate swaps are recognized in earnings and are expected to offset changes in the fair value of the hedged securities attributable to changes in the designated benchmark interest rate. Changes in the fair value of the available-for-sale securities that are not attributable to the hedged risk continue to be recognized in other comprehensive income. The Company assesses the qualifying criteria for application of the shortcut method on an ongoing basis.

The Company also utilizes derivatives to hedge interest rate risk associated with on balance sheet assets. On July 11, 2024, the Company entered into two related pay-fixed/receive floating interest rate swaps (the “Pay-Fixed/Receive Floating Interest Rate Swap Agreements”) with a combined notional amount of $300.0 million. These swaps were designated as fair value hedges to mitigate changes in the fair value of the fixed rate loans, including amortizing single-family residential mortgage loans and CRE loans. The hedges were intended to synthetically convert the hedged fixed rate loans to floating rate loans indexed to the Secured Overnight Financing Rate (“ SOFR”).

On December 19, 2024, the Company terminated the first Pay-Fixed/Receive Floating Swap Agreement with an original notional amount of $175.0 million, which was scheduled to mature on July 11, 2029. The termination resulted in a negative interest income adjustment of $154 thousand. On January 13, 2025, the Company terminated the remaining Pay-Fixed/Receive Floating Swap Agreement with an original notional amount of $125.0 million, which was scheduled to mature on July 11, 2027, resulting in a negative interest income adjustment of $110 thousand. While these Pay-Fixed/Receive Floating Swap Agreements were outstanding, the Company recognized $1.2 million of interest income related to these hedging instruments.

Hedge Accounting Treatment

As long as a hedging instrument is properly designated and effectiveness testing supports qualification for hedge accounting treatment, changes in fair value of the hedging instrument attributable to the hedged risk are recognized in net interest income. The fair value of the derivative is recorded in other assets or other liabilities, as applicable, with a corresponding adjustment recorded to the carrying amount of the hedged loans. Under this accounting treatment, there is no separate measurement or recognition of hedge ineffectiveness, and the full impact of hedge gains and losses is recognized in earnings in the period in which the hedged item affects earnings.

Collateral and Credit Risk

Pursuant to agreements with various financial institutions, the Company may be required to post collateral or may receive collateral based on the mark-to-market position of its derivative contracts. Beyond unsecured threshold levels, collateral may be provided in the form of cash or securities. Based on current derivative positions and related collateral requirements, management believes any impact on the Company’s liquidity or cash flows is immaterial.

Derivative instruments expose the Company to credit risk, representing the risk that a counterparty may fail to perform under the terms of a contract. All derivative transactions with financial institutions are executed only with counterparties approved by the Asset and Liability Committee (“ALCO”). Derivative transactions with customers are subject to approval by members of senior management with appropriate training and experience in interest rate risk management.

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

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

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

(Dollars in Thousands)	June 30, 2026 Number of Transactions	June 30, 2026 Notional Amount	June 30, 2026 Fair Value	December 31, 2025 Number of Transactions	December 31, 2025 Notional Amount	December 31, 2025 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	11	$ 3,788	$ 6	3	$ 1,328	$ —
Interest Rate Swap Contracts – Commercial Loans	54	345,176	10,932	54	352,184	10,182
Total Derivatives not Designated as Hedging Instruments	**65**	**$ 348,964**	**$ 10,938**	**57**	**$ 353,512**	**$ 10,182**
Total Derivatives	**65**	**$ 348,964**	**$ 10,938**	**57**	**$ 353,512**	**$ 10,182**

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

(Dollars in Thousands)	June 30, 2026 Number of Transactions	June 30, 2026 Notional Amount	June 30, 2026 Fair Value	December 31, 2025 Number of Transactions	December 31, 2025 Notional Amount	December 31, 2025 Fair Value
Derivatives Designated as Hedging Instruments						
Interest Rate Swaps - Balance Sheet Hedge	5	$ 29,852	$ 539	—	$ —	$ —
Total Derivatives Designated as Hedging Instruments	**5**	**$ 29,852**	**$ 539**	**—**	**$ —**	**$ —**
Derivatives not Designated as Hedging Instruments						
Forward Sale Contracts – Mortgage Loans	11	$ 3,788	$ 6	3	$ 1,328	$ —
Interest Rate Swap Contracts – Commercial Loans	54	345,176	10,847	54	352,184	10,089
Total Derivatives not Designated as Hedging Instruments	**65**	**$ 348,964**	**$ 10,853**	**57**	**$ 353,512**	**$ 10,089**
Total Derivatives	**70**	**$ 378,816**	**$ 11,392**	**57**	**$ 353,512**	**$ 10,089**

The following table indicates the net loss recognized within "other noninterest income or expense" for derivatives not designated as hedging instruments and the loss recognized within "interest income on taxable loans" for derivatives designated as hedging instruments in the Consolidated Statements of Income for the periods presented:

(Dollars in Thousands)	Three Months Ended June 30, 2026	Three Months Ended June 30, 2025	Six Months Ended June 30, 2026	Six Months Ended June 30, 2025
Derivatives Designated as Hedging Instruments				
Interest Rate Swaps - Balance Sheet Hedge	$ —	$ —	$ —	$ (140)
Total Derivative Loss Designated as Hedging Instruments	**$ —**	**$ —**	**—**	**(140)**
Derivatives not Designated as Hedging Instruments				
Interest Rate Lock Commitments – Mortgage Loans	$ (6)	$ (7)	6	(1)
Forward Sale Contracts – Mortgage Loans	6	7	(6)	1
Interest Rate Swap Contracts – Commercial Loans	(8)	(52)	(8)	(96)
Total Derivative Loss not Designated as Hedging Instruments	**$ (8)**	**$ (52)**	**(8)**	**(96)**
Net Derivative Loss	**$ (8)**	**$ (52)**	**$ (8)**	**$ (236)**

The Company is permitted to offset derivatives assets and derivative liabilities that are subject to legally enforceable master netting arrangements with the same counterparty. Accordingly, derivative positions with the same counterparty may be presented on a net basis in the Consolidated Balance Sheets when the Company has both a derivative asset and a derivative liability related to swap transactions with that counterparty.

The following table indicates the gross amounts of derivative assets and derivative liabilities not designated as hedging instruments, the amounts offset and the carrying values included in the Consolidated Balance Sheets at the dates presented:

	Asset Derivatives (Included in Other Assets)		Liability Derivatives (Included in Other Liabilities)	
(Dollars in Thousands)	**June 30, 2026**	**December 31, 2025**	**June 30, 2026**	**December 31, 2025**
Derivatives Designated as Hedging Instruments				
Gross Amounts Recognized	$ —	$ —	$ 539	$ —
Gross Amounts Offset	—	—	—	—
Net Amounts Presented in the Consolidated Balance Sheets	**$ —**	**$ —**	**$ 539**	**$ —**
Derivatives not Designated as Hedging Instruments				
Gross Amounts Recognized	$ 10,938	$ 10,182	$ 10,853	$ 10,089
Gross Amounts Offset	—	—	—	—
Net Amounts Presented in the Consolidated Balance Sheets	**$ 10,938**	**$ 10,182**	**$ 10,853**	**$ 10,089**
Net Amount	**$ 10,938**	**$ 10,182**	**$ 11,392**	**$ 10,089**

NOTE 8 – DEPOSITS

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

(Dollars in Thousands)	**June 30, 2026**	**December 31, 2025**
Noninterest-Bearing Demand	$ 655,482	$ 620,473
Interest-Bearing Demand	866,759	808,171
Money Market	510,125	553,964
Savings	318,774	326,182
Certificates of Deposit	1,846,416	1,902,099
Total	**$ 4,197,556**	**$ 4,210,889**

All deposit accounts are insured by the FDIC up to the maximum amount allowed by law. The Dodd-Frank Act made permanent the $250,000 limit for federal deposit insurance and the coverage limit applies per depositor, per insured depository institution for each account ownership. Certificates of deposit that exceed the FDIC Insurance limit of $250,000 at June 30, 2026 and December 31, 2025 were $300.1 million and $310.7 million, respectively.

At June 30, 2026, total brokered deposits (excluding the ICS two-way) were $181.2 million, compared to $191.2 million at December 31, 2025, which are included within the “certificates of deposit” line item in the Consolidated Balance Sheets.

Certificates of Deposit maturing as of the date presented:

(Dollars in Thousands)	**June 30, 2026**
2027	$ 1,461,236
2028	284,725
2029	56,708
2030	34,543
2031	8,820
Thereafter	384
Total	**$ 1,846,416**

Overdrafts reclassified to loans were $0.3 million at both June 30, 2026 and December 31, 2025.

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

Borrowings serve as an additional source of liquidity for the Company. At June 30, 2026, the Company had no outstanding Federal Home Loan Bank ("FHLB") borrowings, compared to $178.5 million at December 31, 2025. The $178.5 million decrease from December 31, 2025, reflects the repayment of borrowings utilizing proceeds from the Loan Sale Transaction.

FHLB borrowings consist of fixed and variable rate advances with contractual maturities and are secured by a blanket lien on select residential mortgage loans, select multifamily loans, and select commercial real estate loans. At June 30, 2026, the Company had no variable rate FHLB borrowings compared to 52.0% of total borrowings at December 31, 2025.

The FHLB assesses prepayment fees on fixed rate advances that are repaid prior to maturity. These fees are generally calculated as the net present value of the difference between current market rates and the contractual fixed rate on the applicable borrowing. During the six months ended June 30, 2026, FHLB early prepayment credits totaled $0.1 million.

Loans pledged as collateral to the FHLB totaled $1.4 billion at both June 30, 2026 and December 31, 2025. No available-for-sale securities were pledged as collateral at June 30, 2026 or December 31, 2025.

At June 30, 2026, funding sources accessible to the Company included borrowing availability at the FHLB equal to 30.0% of total assets, or $1.4 billion, subject to eligible collateral pledged. Based on eligible collateral at June 30, 2026, the Company had the capacity to borrow an additional $879.5 million from the FHLB, compared to additional borrowing capacity of $609.4 million at December 31, 2025.

During the six months ended June 30, 2026, the Company decreased its $45.0 million secured line of credit with a correspondent financial institution to $25.0 million, and during the second quarter of 2026, this line of credit was converted to an unsecured facility. In addition, a $50.0 million unsecured line of credit with an unrelated correspondent financial institution was fully reinstated. Reflecting the Company's improved earnings performance and enhanced credit risk profile following the Loan Sale Transaction during the first quarter of 2026, the Company now maintains unsecured borrowing lines of credit totaling $105.0 million with four correspondent financial institutions, inclusive of the converted unsecured facility noted previously. The Company also continues to have access to the institutional CD market. At December 31, 2025, the Company maintained unsecured borrowing facilities with three correspondent financial institutions totaling $30.0 million, as well as a fully secured borrowing facility with one correspondent financial institution totaling $45.0 million. No amounts were outstanding under these facilities as of June 30, 2026 or December 31, 2025.

The following table represents the balance of FHLB borrowings, the weighted average interest rate and the borrowing availability at the dates presented:

(Dollars in Thousands)	June 30, 2026	December 31, 2025
FHLB Borrowings	$ —	$ 178,500
Weighted Average Interest Rate	— %	3.89 %
FHLB Availability	$ 879,466	$ 609,392

The following table represents the balance of federal funds purchased, the weighted average interest rate and the borrowing availability at the dates presented:

(Dollars in Thousands)	June 30, 2026	December 31, 2025
Federal Funds Purchased	$ —	$ —
Weighted Average Interest Rate	— %	— %
Federal Funds Purchased Availability	$ 105,000	$ 75,000

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Commitments to extend credit represent agreements to lend to customers that generally have fixed expiration dates or other termination clauses. At June 30, 2026 and December 31, 2025, commitments to extend credit totaled $645.6 million and $771.7 million, respectively. These commitments primarily consist of lines of credit provided to customers to finance the completion of construction projects, as well as revolving lines of credit to operating companies to support working capital needs. Construction related lines of credit represented $344.1 million, or 53.3%, of total commitments to extend credit at June 30, 2026, compared to $452.8 million, or 58.7%, at December 31, 2025.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements. Outstanding standby letters of credit totaled $15.7 million at June 30, 2026 and $16.5 million at December 31, 2025.

(Dollars in Thousands)	June 30, 2026	December 31, 2025
Commitments to Extend Credit	$ 645,609	$ 771,677
Standby and Performance Letter of Credit	15,709	16,507
Total	**$ 661,318**	**$ 788,184**

The Company's exposure to credit loss for commitments to extend credit and standby letters of credit in the event of nonperformance by the counterparty is represented by the contractual amounts of these instruments. The Company applies the same credit policies and underwriting standards to these commitments as it does to on-balance sheet credit exposures. Unless noted otherwise, commitments that expose the Company to credit risk are supported by collateral or other security.

Life-of-Loss Reserve on Unfunded Loan Commitments

The Company maintains a life-of-loss reserve on unfunded commercial lending commitments and standby letters of credit to provide for the risk of loss inherent in these arrangements. The reserve is calculated using a methodology similar to that used to determine the ACL on loans, adjusted to reflect the probability of drawdown on the unfunded commitment. The reserve for unfunded loan commitments is included on the Consolidated Balance Sheets, with changes recognized through earnings in the recovery for unfunded loan commitments.

The reserve for unfunded loan commitments fluctuates primarily based on changes in construction related commitments between reporting periods. Recoveries of $0.6 million and $0.8 million were recorded for the three and six months ended June 30, 2026, respectively, reflecting decreases of $0.2 million and $0.3 million compared to the same periods in 2025.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	2026	2025	2026	2025
Life-of-Loss Reserve on Unfunded Loan Commitments				
Balance at beginning of period	$ 2,774	$ 3,072	$ 2,992	$ 3,186
Recovery for Unfunded Loan Commitments	(554)	(335)	(772)	(449)
Balance at end of period	**$ 2,220**	**$ 2,737**	**$ 2,220**	**$ 2,737**

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. Other than as set forth below, as of June 30, 2026, the Company is not involved in any material pending legal proceedings other than proceedings occurring in the ordinary course of business.

The Company and the Bank, along with certain unaffiliated third parties, have been named as defendants in a lawsuit filed on April 12, 2026, and subsequently amended on April 29, 2026, in the Circuit Court of Greenbrier County, West Virginia by James C. Justice, II, Cathy L. Justice, James C. Justice, III and various related entities that he and/or they own and control (such entities, the "Justice Entities" and collectively, the "Plaintiffs"). The allegations contained in the lawsuit relate to a series of loans, which were later reduced to judgments (such loans subsequently reduced to judgments, the "Judgments") made by the Bank to certain Justice Entities that are secured by collateral pledged by certain Justice Entities and are backed by personal guarantees from James C. Justice, II and Cathy L. Justice and, in certain cases, by personal guarantees from James C. Justice,

III. The allegations contained in the lawsuit also relate to the Loan Sale Transaction in which the Bank sold its interest in the Judgments and related collateral to one of the unaffiliated third-party defendants.

In the lawsuit the Plaintiffs allege that the Bank (i) breached an implied covenant of good faith and fair dealing, (ii) tortiously interfered with Plaintiffs' business interests, (iii) harmed Plaintiffs through a series of allegedly misleading promises, representations and/or omissions on which Plaintiffs allegedly relied, (iv) tortiously interfered with the Plaintiffs' business interests under agreements between Plaintiffs and the unaffiliated third-party defendants, and (v) together with the unaffiliated third-party defendants, participated in a scheme to restrain trade and competition in an alleged market in which certain collateral securing the Judgments operates. With respect to the Bank, the Plaintiffs have requested the court to rescind the Bank's sale of the Judgments to the unaffiliated third-party purchaser and seek declaratory relief that the Plaintiffs are entitled to pay-off the Judgments at no more than the sale price. The Plaintiffs further seek injunctions against the unaffiliated third-party defendants, direct damages of at least $500 million and additional consequential and punitive damages, and payment of costs, expenses and attorneys' fees.

The Company and the Bank deny the allegations contained in the lawsuit and intend to vigorously defend the matter, the validity of the Bank's sale of the Judgments to the unaffiliated third-party purchaser and the Bank's conduct prior to selling the Judgments. Based on information presently available to the Company and the Bank and based on consultation with legal counsel, the Company believes that the Company and the Bank have meritorious defenses to all allegations contained in the lawsuit.

At this early stage of the lawsuit, the Company is not yet able to make a determination as to the likelihood of an unfavorable outcome in this matter or to estimate the range of any possible loss.

NOTE 11 – TAX EFFECTS ON OTHER COMPREHENSIVE INCOME

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

	Three Months Ended June 30, 2026			Six Months Ended June 30, 2026		
(Dollars in Thousands)	**Pre-Tax Amount**	**Tax Expense**	**Net of Tax Amount**	**Pre-Tax Amount**	**Tax Benefit (Expense)**	**Net of Tax Amount**
Net Unrealized Gains (Losses) Arising during the Period	$ 188	$ (55)	$ 133	$ (713)	$ 99	$ (614)
Reclassification Adjustment for Losses included in Net Income	12,531	(2,632)	9,899	12,451	(2,615)	9,836
Other Comprehensive Income	**$ 12,719**	**$ (2,687)**	**$ 10,032**	**$ 11,738**	**$ (2,516)**	**$ 9,222**

	Three Months Ended June 30, 2025			Six Months Ended June 30, 2025		
(Dollars in Thousands)	**Pre-Tax Amount**	**Tax Expense**	**Net of Tax Amount**	**Pre-Tax Amount**	**Tax Expense**	**Net of Tax Amount**
Net Unrealized Gains Arising during the Period	$ 5,264	$ (1,141)	$ 4,123	$ 15,647	$ (3,376)	$ 12,271
Other Comprehensive Income	**$ 5,264**	**$ (1,141)**	**$ 4,123**	**$ 15,647**	**$ (3,376)**	**$ 12,271**

NOTE 12 - PROVISION FOR INCOME TAXES

The income tax provision differs from the amount computed by applying the statutory federal income tax rate to income before taxes. The Company ordinarily generates an annual effective tax rate that differs from the statutory rate of 21% due to benefits resulting from tax-exempt interest, tax-exempt income from bank-owned life insurance ("BOLI"), and tax benefits resulting from certain partnership investments.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2026		2025		2026		2025	
(Dollars in Thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
U. S. Federal Statutory Rate	$ 7,821	21.0	$ 2,232	21.0	$ 30,927	21.0	$ 4,571	21.0
State and Local Income Taxes, Net of Federal Income Tax Effect[1]	2,025	5.4	130	1.2	3,511	2.4	391	1.8
Tax Credits								
Rehabilitation Tax Credits, Net of Basis Reduction	2	—	(157)	(1.5)	2	—	(309)	(1.4)
Tax Credit Investment Amortization, Net of Federal Benefits	23	0.1	128	1.2	68	—	256	1.2
Change in Valuation Allowance	(869)	(2.3)	(8)	(0.1)	(824)	(0.6)	23	0.1
Nontaxable or Nondeductible Items								
Tax-Exempt Interest, Net of Disallowance	(168)	(0.5)	(114)	(1.1)	(271)	(0.2)	(231)	(1.1)
Income From Bank Owned Life Insurance	(90)	(0.2)	(71)	(0.7)	(175)	(0.1)	(538)	(2.4)
Other Adjustments								
Interim Period Effective Rate Adjustment	(304)	(0.8)	(27)	(0.3)	(558)	(0.4)	154	0.7
Other	(113)	(0.3)	5	0.2	(79)	—	(16)	(0.1)
Income Tax Provision and Effective Income Tax Rate	**$ 8,327**	**22.4**	**$ 2,118**	**19.9**	**$ 32,601**	**22.1**	**$ 4,301**	**19.8**

[1]For the three and six months ended June 30, 2026 and 2025, North Carolina comprised the majority (greater than 50%) of the tax effect in this category.

For the three and six months ended June 30, 2026, the Company recorded income tax provision of $8.3 million and $32.6 million, respectively, reflecting effective tax rates of 22.4% and 22.1%, compared to income tax provisions of $2.1 million and $4.3 million and effective tax rates of 19.9% and 19.8%, respectively, for the same periods in 2025. The effective tax rates for the 2026 periods exceeded the federal statutory rate of 21%, primarily due to state income taxes and the expiration of certain tax credits associated with historic tax credit investments. These items were partially offset by the tax benefits associated with tax-exempt interest income, BOLI income and rehabilitation tax credits. The lower effective tax rates for the comparable 2025 periods were primarily attributable to the recognition of a $1.9 million tax-free BOLI death benefit, which favorably impacted the Company's annual effective tax rate.

The Company elected to adopt the proportional amortization method of accounting for all qualifying equity investments within the historic tax credit ("HTC") program. The Company makes equity investments as a limited partner in various partnerships that sponsor HTC as a strategic tax initiative designed to receive income tax credits and other income tax benefits, such as deductible flow-through losses. As of June 30, 2026 and December 31, 2025, the Company recognized $0.3 million and $0.5 million, respectively, in HTC equity investments recorded as a component of other assets on the Consolidated Balance Sheets.

The Company records income tax credits and other income tax benefits received from its HTC investments as a component of the income tax provision on the Consolidated Statements of Income and as a component of operating activities on the Consolidated Statements of Cash Flows.

Investments accounted for using the proportional amortization method are amortized and recorded as a component of the income tax provision on the Consolidated Statements of Income.

The Company records non-income-tax-related activity and other returns received from its HTC investments as a component of other noninterest income on the Consolidated Statements of Income and as a component of operating activities on the Consolidated Statements of Cash Flows. As of June 30, 2026 and June 30, 2025, the Company had not recognized any non-income-tax-related activity from its HTC investments.

NOTE 13 – STOCK REPURCHASE PLAN

On February 2, 2026, the Company announced that its Board authorized a repurchase program to purchase up to $10.0 million of the Company's common stock in the aggregate over a period of twelve months beginning February 11, 2026, the date of receipt of non-objection from the Federal Reserve Bank of Richmond. The program authorizes the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. The authorization permits management to repurchase shares of the Company's common stock from time to time at management's discretion. The actual means and timing of any shares purchased under the program, and the number of shares actually purchased under the program, will depend on a variety of factors, including the market price of the Company's common stock, general market and economic conditions, management's evaluation of the Company's financial condition and liquidity position and applicable legal and regulatory requirements. The repurchase program may be modified or terminated by the Board at any time. The repurchase program does not obligate the Company to purchase any particular number of shares.

During both the three and six months ended June 30, 2026, the Company repurchased 108,601 shares of its common stock at a total cost of $2.9 million and a weighted average cost per share of $26.50.

NOTE 14 - SEGMENT REPORTING

The Company is a financial holding company and the parent company to the Bank and conducts its business solely through the Bank. As a state-chartered commercial bank, and state member of the FRB, the Bank earns revenue primarily from interest on loans and securities and fees charged for financial services provided to customers. The Company operates through a single operating and reporting segment, Community Banking, that offers services which include accepting a full range of deposit products and originating commercial and consumer loans. All financial information is reported on a consolidated basis and is evaluated regularly by the Chief Executive Officer, the Company's Chief Operating Decision Maker ("CODM") in allocating resources and assessing performance. The CODM uses the consolidated net income to benchmark the Company against its competitors. The benchmarking analysis in conjunction with monitoring of actual to budget results are used in assessment of performance and in establishing compensation. Loans, investments and deposits provide the revenues, net in the community bank's operation. Interest expense, recovery for credit losses and salaries and employee benefits provide the significant expenses in the community bank's operation. The results of operations for the Company's single reporting segment are shown within the Consolidated Statements of Income and Consolidated Balance Sheets.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to assist readers in understanding Carter Bankshares, Inc.’s operations, financial condition, and current business environment. The MD&A is provided as a supplement to, and should be read in conjunction with, The Company’s Consolidated Financial Statements and the accompanying notes thereto contained in Item 1 of this Quarterly Report on Form 10-Q. 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
    - Contractual Obligations
    - Off-Balance Sheet Arrangements

This section reviews the Company’s financial condition and results of operations and highlights material changes in its financial condition and results of operations as of and for the three and six month periods ended June 30, 2026 and June 30, 2025. Certain prior period amounts have been reclassified to conform to the current period presentation. In addition, certain tables may include additional periods to illustrate trends within the Company’s consolidated financial statements and related disclosures.

The results of operations presented in the consolidated financial statements are not necessarily indicative of future results.

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 may include statements relating to the financial consequences of the Loan Sale Transaction, Insurance Transaction and Portfolio Repositioning, including the expected enhancement of future earnings, asset yields, and net interest income from the Portfolio Repositioning, our expansion in the Carolinas and the anticipated results of such expansion, our financial condition, market conditions, results of operations, plans, including our strategic plan, brand strategy, and guiding principles and the anticipated results of the foregoing, objectives, outlook for earnings, revenues, expenses, capital and liquidity levels and ratios, asset levels, asset quality, loan pipeline and nonaccrual and nonperforming loans (“NPL”). 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 the Company believes 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. Actual results may differ significantly from those expressed in or implied by these forward-looking statements. 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 net interest margin, net interest income, funding costs and its deposit, loan and securities portfolios;
- inflation, market and monetary fluctuations;
- changes in trade policies, tariffs, monetary and fiscal policies and laws of the U.S. government and the related impacts on economic conditions and financial markets, and changes in policies of the Federal Reserve, FDIC and U.S. Department of the Treasury;
- 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, including emerging issues related to the development and use of artificial intelligence that could give rise to legal or regulatory action or increase cybersecurity threats;
- 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 loans, 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 geopolitical conflicts or public health events (such as pandemics), and of any governmental and societal responses thereto; these potential adverse effects may include, without limitation, adverse effects on macroeconomic conditions; 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 and changes impacting the rulemaking, supervision, examination and enforcement priorities of the federal banking agencies;
- 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, slowdowns in economic growth, government shutdowns and geopolitical instability and tensions;

- significant weakening of the local economies in which the Company operates;

- 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 acquisitions or 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, 2025, and any of the Company's 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. The Company cautions 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 the Company undertakes no obligation to update, revise or clarify any forward-looking statement to reflect developments occurring after the statement is made, except as required by law.

Explanation of Use of Non-GAAP Financial Measures

In addition to results presented in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), management uses, and this quarterly report contains or references, certain non-GAAP financial measures, including interest and dividend income, yield on interest earning assets, net interest income, and net interest margin on a fully taxable equivalent ("FTE") basis. These non-GAAP measures should be read along with the accompanying tables that provide reconciliations of GAAP to non-GAAP financial measures.

Management believes these non-GAAP measures are useful because they enhance the ability of investors and management to evaluate and compare the Company's operating results across periods in a meaningful manner. These measures also assist in assessing the Company's underlying operating performance and performance trends and facilitate comparisons with other financial services companies.

The Company believes that presenting interest and dividend income, yield on interest earning assets, net interest income, and net interest margin on an FTE basis improves comparability between income derived from taxable and tax-exempt sources and is consistent with industry practice. Accordingly, GAAP measures presented in the Consolidated Statements of Income are reconciled to their corresponding FTE amounts, including:

- interest and dividend income,
- yield on interest earning assets,
- net interest income, and
- net interest margin.

These reconciliations are provided in the "Results of Operations and Financial Condition - Net Interest Income" section of this MD&A.

While management believes these non-GAAP measures provide meaningful supplemental information, they should not be considered as an alternative to GAAP results, as more relevant than financial results prepared in accordance with GAAP, or as necessarily comparable to similarly titled measures used by other companies. Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for an analysis of the Company's financial condition or results of operations as reported under GAAP. Investors are encouraged to review the Company's GAAP financial results and all other relevant information when evaluating its performance and financial condition.

Critical Accounting Estimates

The Company's critical accounting estimates involving significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of June 30, 2026 have remained unchanged from the disclosures presented under the heading "Critical Accounting Estimates" in its Annual Report on Form 10-K for the year ended December 31, 2025 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 financial holding company, as of October 27, 2025, headquartered in Martinsville, Virginia with assets of $4.8 billion at June 30, 2026. The Company is the parent company of its wholly owned subsidiary, Carter Bank & Trust (the "Bank"). The Bank is a Federal Deposit Insurance Corporation ("FDIC") insured, Virginia state-chartered bank, which operates 63 branches in Virginia and North Carolina. The Bank became a member of the Federal Reserve System on November 13, 2025. The Company provides a full range of commercial banking, consumer banking, mortgage and other services through the Bank. The Company's common stock trades on the Nasdaq Global Select Market under the ticker symbol "CARE".

During 2025, the Company acquired two leased branch facilities, along with the associated deposits, located in Mooresville, North Carolina and Winston Salem, North Carolina (the "Branch Purchase"). In connection with the Branch Purchase, the Bank acquired $55.9 million in deposits, along with cash and premises and equipment associated with the branch locations, and welcomed ten associates to its team. No loans were acquired as part of the Branch Purchase. The Branch Purchase closed during the second quarter of 2025.

The Company earns revenue primarily from interest on loans and investment securities and from fees charged for financial services provided to customers. Expenses consist principally of funding costs, the provision or recovery for credit losses, compensation and benefits, occupancy and equipment, technology and data processing, regulatory assessments, and other operating expenses.

As part of its three-year strategic plan, the Company is working to elevate brand awareness by leveraging its core strengths: exceptional service and lasting customer relationships. We believe these core strengths set the Company apart in a competitive landscape. The multi-year initiative aims for sustainable growth through innovation, operational excellence, and a continual focus on customer experience. A key strategy is expanding consumer and business banking to meet customers' evolving needs. Recent milestones include comprehensive rebranding, new product and service launches, modernization of locations, and upgrades to digital platforms, which we believe have led to deeper customer engagement and increased community impact. The Company's brand identity remains rooted in customers, associates, and communities, reflecting the Company's dedication to delivering superior value and lasting success.

The Company's goal is to shift from balance-sheet restructuring to a prudent growth strategy when appropriate. We anticipate this strategy will primarily focus on organic growth, but the Company will also consider opportunistic acquisitions that align with this strategy. We believe the Bank's strong capital and liquidity positions support this approach. The Company will seek to grow loans and deposits and increase fee income. At the same time, it will closely monitor operating expenses.

The Company is executing this strategy to support its brand and grow its business in its current markets. It will also apply this approach when entering new markets**.**

Following the successful Loan Sale Transaction during the first quarter of 2026, the Company entered the second quarter with enhanced liquidity and a substantially improved risk profile. During the second quarter of 2026, the Company completed the sale of its membership interest in Bearing Insurance Group, LLC (the "Insurance Transaction") to an unaffiliated third party and used a portion of the proceeds from the Insurance Transaction to execute a strategic repositioning of a portion of its available-for-sale investment securities portfolio (the "Portfolio Repositioning").

During the second quarter of 2026, the Company expanded its presence in the Carolinas by opening a loan production office in Greenville, South Carolina, its first physical location in the state. The office supports the Company's strategic growth initiative by providing commercial banking services to businesses throughout the Upstate South Carolina region and reflects managements' continued focus on expanding its commercial banking franchise in attractive growth markets.

Three strategic milestones during the first half of 2026:

Credit Risk Transformation

On March 26, 2026, the Bank completed the Loan Sale Transaction of all loans subsequently reduced to judgments related to various entities in which James C. Justice, II has an interest (such loans, subsequently reduced to judgments, the "Judgments"). The Loan Sale Transaction was completed as an absolute, "as-is, where-is" sale to an unaffiliated third party.

The Company received consideration of $289.5 million in cash in the Loan Sale Transaction. Immediately prior to the Loan Sale Transaction, the Judgments had an outstanding aggregate principal amount of $209.5 million, all of the Judgments were nonperforming and on nonaccrual status, and the Company had recorded a specific reserve with respect to the Judgments of $18.0 million as of December 31, 2025. Management's continued focus on the resolution of this relationship has improved overall asset quality, reduced credit concentration risk and helped to optimize capital and liquidity.

Loan Sale Transaction Summary

- Received consideration of $289.5 million in cash in the Loan Sale Transaction, during the first quarter of 2026;
- Recognized a net gain on the Loan Sale Transaction of $80.0 million, comprised of:
    - $65.0 million gain on the Loan Sale Transaction; and
    - $15.0 million net recovery;
- Released $18.0 million of specific reserves related to the Judgments;
- The Loan Sale Transaction was accretive to diluted earnings per share by $3.50 for the first quarter of 2026; and
- The Loan Sale Transaction increased book value per share by $3.49 for the first quarter of 2026.

Balance Sheet Optimization

On May 1, 2026, the Company announced that it had completed the Insurance Transaction to an unaffiliated third party, effective May 1, 2026. The Company recognized a pre-tax gain of $35.9 million on the Insurance Transaction, which was recognized by the Company in its financial results for the second quarter of 2026.

Insurance Transaction Summary

- Recognized a net gain (pre-tax) from the Insurance Transaction of $35.9 million;
- The Insurance Transaction was accretive to diluted earnings per share by $1.30 for the quarter; and
- The Insurance Transaction increased tangible book value per share by $1.28.

As a result of the successful completion of the Insurance Transaction and the Loan Sale Transaction during the second and first quarters of 2026, respectively, the Company generated approximately $100.9 million of aggregate nonrecurring gains during the first six months of 2026. These gains afforded an opportunity to optimize the Company's balance sheet, improve future earnings potential and enhance interest rate risk positioning. As part of this process, the Company completed a strategic Portfolio Repositioning, which is discussed below, during the second quarter of 2026, resulting in a pre-tax loss of $12.5 million. The Portfolio Repositioning is expected to enhance future earnings performance through improved asset yields and balance sheet positioning.

Positioning for Future Earnings Growth

In the Portfolio Repositioning, the Company sold $139.4 million in book value of securities available-for-sale with a weighted average yield of 2.28% and representing approximately 18.7% of the Company's securities portfolio, and purchased approximately $88.5 million of securities available-for-sale with a weighted average yield of approximately 5.27%. All of the securities purchased were rated AAA or AA by a recognized credit rating agency. The Company expects to use the remaining proceeds from the Portfolio Repositioning to fund organic loan growth during the remainder of 2026.

Results of Operations and Financial Condition

Earnings Summary

Highlights for the Three Months Ended June 30, 2026

- Net interest income totaled $40.0 million, an increase of $7.6 million, or 23.5% compared to the same period in 2025, despite approximately $132.6 million in commercial real estate loan payoffs during the second quarter of 2026;
- Net interest margin, increased 58 basis points to 3.38%, compared to 2.80% for the same period in 2025;
- The provision for credit losses was $2.0 million, compared to a recovery for credit losses of $2.3 million for the same period in 2025;
- Total noninterest income increased $23.8 million to $28.7 million compared to the same period in 2025 primarily due to the net gain recognized from the Insurance Transaction, during the second quarter of 2026, partially offset by the $12.5 million of losses on sales of securities recognized in connection with the Portfolio Repositioning during the second quarter of 2026;
- Total noninterest expense increased $0.7 million to $30.0 million compared to the same period in 2025; and
- Income tax provision increased $6.2 million to $8.3 million compared to $2.1 million for the same period in 2025.

Highlights for the Six Months Ended June 30, 2026

◦ Net interest income totaled $75.9 million, an increase of $13.4 million, or 21.4% compared to the same period in 2025;

◦ Net interest margin, increased 49 basis points to 3.23%, compared to 2.74% for the same period in 2025;

- The recovery for credit losses was $31.9 million, compared to a recovery for credit losses of $4.4 million for the same period in 2025;
- Total noninterest income increased $87.9 million to $99.7 million compared to the same period in 2025 primarily attributable to the $65.0 million gain from the Loan Sale Transaction during the first quarter of 2026 and the $35.9 million net gain recognized from the Insurance Transaction during the second quarter of 2026, partially offset by the $12.5 million of losses on sales of securities recognized in connection with the Portfolio Repositioning during the second quarter of 2026;
- Total noninterest expense increased $3.7 million to $61.0 million compared to the same period in 2025; and
- Income tax provision increased $28.3 million to $32.6 million compared to $4.3 million for the same period in 2025.

Balance Sheet Highlights (period-end balances, June 30, 2026 compared to December 31, 2025)

- The available-for-sale securities portfolio decreased $51.3 million and is currently 13.3% of total assets compared to 14.3% of total assets;
- Total portfolio loans decreased $145.0 million primarily due to the Loan Sale Transaction in the first quarter of 2026, partially offset by net loan growth during the first half of the year;
- The portfolio loans to deposit ratio was 89.0%, compared to 92.1%;
- Nonperforming loans ("NPLs") decreased by $206.4 million to $37.6 million compared to $244.0 million due to the Loan Sale Transaction and NPLs to total portfolio loans were 1.01% compared to 6.29%;
- The allowance for credit losses to total portfolio loans was 1.48%, compared to 1.84%, primarily reflecting the reversal of specific reserves of $18.0 million related to the Judgments;
- Total deposits decreased $13.3 million, or 0.64%, on an annualized basis, to $4.2 billion, compared to December 31, 2025; and
- FHLB borrowings decreased $178.5 million, reflecting the repayment of borrowings utilizing proceeds from the Loan Sale Transaction.

The Company reported net income of $28.9 million, or $1.31 diluted earnings per share, and $114.7 million, or $5.18 diluted earnings per share for the three and six months ended June 30, 2026, respectively, compared to net income of $8.5 million, or $0.37 diluted earnings per share, and $17.5 million, or $0.76 diluted earnings per share, for the three and six months ended June 30, 2025, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
PERFORMANCE RATIOS	**2026**	**2025**	**2026**	**2025**
Return on Average Assets	2.39 %	0.72 %	4.75 %	0.75 %
Return on Average Shareholders' Equity	22.01 %	8.45 %	48.08 %	8.85 %
Portfolio Loans to Deposit Ratio	88.97 %	88.75 %	88.97 %	88.75 %
Allowance for Credit Losses to Total Portfolio Loans	1.48 %	1.90 %	1.48 %	1.90 %
Nonperforming Loans to Total Portfolio Loans	1.01 %	6.69 %	1.01 %	6.69 %

Net Interest Income

Net interest income is the Company's primary source of revenue and represents the difference between interest and fee income earned on interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is influenced by changes in the average balances of interest-earning assets and interest-bearing liabilities, as well as changes in interest rates, asset yields, funding costs, and interest rate spreads.

The composition and mix of interest-earning assets and interest-bearing liabilities are actively managed by the Company's Asset and Liability Committee ("ALCO") to mitigate interest rate risk and liquidity risk within the balance sheet. ALCO utilizes a variety of strategies within established risk parameters to manage exposure to changing interest rate environments and to achieve what management believes to be an appropriate and sustainable level of net interest income.

Interest and dividend income, yield on interest-earning assets, net interest income and net interest margin are presented on an FTE basis, which are non-GAAP financial measures. The FTE presentation adjusts net interest income and net interest margin to reflect the tax-equivalent impact of income earned on certain tax-exempt loans and securities, using the applicable federal statutory income tax rate for each period presented, which was 21%, as well as the impact of the dividends-received deduction on equity securities. Management believes that the FTE basis presentation provides a more meaningful comparison between taxable and tax-exempt sources of interest income and is consistent with industry practice.

Additional discussion regarding the Company's uses of non-GAAP financial measures is included in the "Explanation of Use of Non-GAAP Financial Measures" section above.

The following table reconciles interest and dividend income, yield on interest-earning assets, net interest income, and net interest margin as reported under GAAP to the corresponding amounts presented on an FTE basis for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	**2026**	**2025**	**2026**	**2025**
Interest and Dividend Income (GAAP)	$ 61,491	$ 57,747	$ 120,676	$ 113,754
Tax Equivalent Adjustment	237	171	391	349
Interest and Dividend Income (FTE) (Non-GAAP)	**$ 61,728**	**$ 57,918**	**$ 121,067**	**$ 114,103**
Average Earning Assets	4,736,054	4,634,635	$ 4,742,159	$ 4,594,591
Yield on Interest-earning Assets (GAAP)	**5.21 %**	**5.00 %**	**5.13 %**	**4.99 %**
Yield on Interest-earning Assets (FTE) (Non-GAAP)	**5.23 %**	**5.01 %**	**5.15 %**	**5.01 %**
Net Interest Income (GAAP)	$ 39,950	$ 32,359	$ 75,884	$ 62,497
Tax Equivalent Adjustment	237	171	391	349
Net Interest Income (FTE) (Non-GAAP)	**$ 40,187**	**$ 32,530**	**$ 76,275**	**$ 62,846**
Average Earning Assets	4,736,054	4,634,635	$ 4,742,159	$ 4,594,591
Net Interest Margin (GAAP)	**3.38 %**	**2.80 %**	**3.23 %**	**2.74 %**
Net Interest Margin (FTE) (Non-GAAP)	**3.40 %**	**2.82 %**	**3.24 %**	**2.76 %**

Average Balance Sheet and Net Interest Income Analysis (FTE)

The following table presents average balances, interest income and expense, and average yields and rates on interest-earning assets and interest-bearing liabilities for the periods presented:

	Three Months Ended June 30, 2026			Three Months Ended June 30, 2025		
(Dollars in Thousands)	**Average Balance**	**Income/ Expense**	**Yield/Rate**	**Average Balance**	**Income/ Expense**	**Yield/Rate**
ASSETS						
Interest-Bearing Deposits with Banks	$ 291,575	$ 2,712	3.73 %	$ 58,006	$ 643	4.45 %
Tax-Free Investment Securities[2]	37,890	488	5.17 %	11,622	85	2.93 %
Taxable Investment Securities	671,139	5,323	3.18 %	818,588	6,796	3.33 %
Total Securities	**709,029**	**5,811**	**3.29 %**	**830,210**	**6,881**	**3.32 %**
Commercial Real Estate	2,155,650	31,936	5.94 %	1,986,702	30,522	6.16 %
Commercial & Industrial[2]	251,682	3,769	6.01 %	204,287	3,404	6.68 %
Residential Mortgage	820,831	8,739	4.27 %	811,414	8,581	4.24 %
Other Consumer	25,246	285	4.53 %	27,883	389	5.60 %
Construction	473,565	8,348	7.07 %	429,511	7,358	6.87 %
Other	—	—	— %	278,194	—	— %
Total Loans[1]	**3,726,974**	**53,077**	**5.71 %**	**3,737,991**	**50,254**	**5.39 %**
Other Restricted Stock, at Cost	8,476	128	6.06 %	8,428	140	6.66 %
Total Interest-Earning Assets	**4,736,054**	**$ 61,728**	**5.23 %**	**4,634,635**	**$ 57,918**	**5.01 %**
Noninterest Earning Assets	120,968			126,303		
Total Assets	**$ 4,857,022**			**$ 4,760,938**		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-Bearing Demand	$ 900,160	$ 3,400	1.51 %	$ 805,749	$ 3,661	1.82 %
Money Market	511,221	2,522	1.98 %	536,366	3,510	2.62 %
Savings	325,283	130	0.16 %	347,863	129	0.15 %
Certificates of Deposit	1,872,499	15,350	3.29 %	1,885,486	16,759	3.57 %
Total Interest-Bearing Deposits	**3,609,163**	**21,402**	**2.38 %**	**3,575,464**	**24,059**	**2.70 %**
FHLB Borrowings	—	—	— %	108,753	1,186	4.37 %
Other Borrowings	10,775	139	5.17 %	10,713	143	5.35 %
Total Borrowings	**10,775**	**139**	**5.17 %**	**119,466**	**1,329**	**4.46 %**
Total Interest-Bearing Liabilities	**3,619,938**	**21,541**	**2.39 %**	**3,694,930**	**25,388**	**2.76 %**
Noninterest-Bearing Liabilities	710,174			662,168		
Shareholders' Equity	526,910			403,840		
Total Liabilities and Shareholders' Equity	**$ 4,857,022**			**$ 4,760,938**		
Net Interest Income[2]		**$ 40,187**			**$ 32,530**	
Net Interest Margin[2]			**3.40 %**			**2.82 %**
Net Interest Spread			**2.84 %**			**2.25 %**

[1] Nonaccruing loans are included in the daily average loan amounts outstanding.
[2] Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 21%.

Net interest income for the three months ended June 30, 2026 increased $7.6 million, or 23.5%, to $40.0 million, compared to $32.4 million for the same period in 2025. On a fully taxable equivalent ("FTE") basis (non-GAAP), net interest income increased $7.7 million, or 23.5%, to $40.2 million, compared to $32.5 million for the second quarter of 2025.

The increase was primarily attributable to higher average interest-earning assets, led by growth in the commercial real estate, commercial and industrial, construction, and residential mortgage loan portfolios, as well as a reduction in the average costs of interest-bearing liabilities. The average yield on total interest-earning assets increased 22 basis points to 5.23% from 5.01% primarily as a result of the redeployment of funds from the Loan Sale Transaction, while the average cost of total interest-bearing liabilities declined 37 basis points to 2.39% from 2.76%, primarily due to continued reductions in funding costs, as well as stabilization in deposit pricing, partially reflecting the broader interest rate environment, resulting in expansion of the net interest margin to 3.40%, compared to 2.82% for the second quarter of 2025.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

Average loan balances decreased compared to the prior-year quarter, as a result of the Loan Sale Transaction, and the average yield on total loans improved to 5.71% from 5.39%, reflecting higher market interest rates on new originations and portfolio mix. While average security balances declined from the prior-year period, the Company's strategic balance sheet initiatives, including the second quarter Portfolio Repositioning of a portion of the available-for-sale securities portfolio into higher-yielding investments, are expected to enhance future interest income. In addition, interest-bearing deposits with banks increased from the prior-year period due to elevated liquidity following the Company's strategic transactions completed during the first half of 2026.

Funding costs continued to improve during the quarter as the average costs of interest-bearing liabilities declined to 2.39% from 2.76%, and the Company eliminated FHLB borrowings outstanding compared to the prior-year quarter, further reducing interest expense.

	Six Months Ended June 30, 2026			Six Months Ended June 30, 2025		
(Dollars in Thousands)	**Average Balance**	**Income/ Expense**	**Rate**	**Average Balance**	**Income/ Expense**	**Rate**
ASSETS						
Interest-Bearing Deposits with Banks	$ 184,375	$ 3,405	3.72 %	$ 62,670	$ 1,391	4.48 %
Tax-Free Investment Securities[2]	24,769	571	4.65 %	11,642	169	2.93 %
Taxable Investment Securities	702,290	10,905	3.13 %	813,269	13,451	3.34 %
Total Securities	**727,059**	**11,476**	**3.18 %**	**824,911**	**13,620**	**3.33 %**
Commercial Real Estate	2,148,588	63,623	5.97 %	1,941,884	59,702	6.20 %
Commercial & Industrial[2]	245,345	7,715	6.34 %	205,771	6,624	6.49 %
Residential Mortgage	825,567	17,467	4.27 %	811,584	17,080	4.24 %
Other Consumer	25,882	564	4.39 %	28,104	808	5.80 %
Construction	470,567	16,444	7.05 %	434,919	14,626	6.78 %
Other	102,574	—	— %	277,279	—	— %
Total Loans[1]	**3,818,523**	**105,813**	**5.59 %**	**3,699,541**	**98,840**	**5.39 %**
Other Restricted Stock, at Cost	12,202	373	6.16 %	7,469	252	6.80 %
Total Interest-Earning Assets	**4,742,159**	**$ 121,067**	**5.15 %**	**4,594,591**	**$ 114,103**	**5.01 %**
Noninterest Earning Assets	125,430			124,048		
Total Assets	**$ 4,867,589**			**$ 4,718,639**		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-Bearing Demand	$ 859,541	$ 6,109	1.43 %	$ 775,490	$ 7,047	1.83 %
Money Market	539,003	5,497	2.06 %	530,944	6,829	2.59 %
Savings	326,206	241	0.15 %	351,473	242	0.14 %
Certificates of Deposit	1,884,958	31,110	3.33 %	1,901,751	34,964	3.71 %
Total Interest-Bearing Deposits	**3,609,708**	**42,957**	**2.40 %**	**3,559,658**	**49,082**	**2.78 %**
FHLB Borrowings	79,575	1,556	3.94 %	89,400	1,888	4.26 %
Other Borrowings	10,822	279	5.20 %	10,566	287	5.48 %
Total Borrowings	**90,397**	**1,835**	**4.09 %**	**99,966**	**2,175**	**4.39 %**
Total Interest-Bearing Liabilities	**3,700,105**	**44,792**	**2.44 %**	**3,659,624**	**51,257**	**2.82 %**
Noninterest-Bearing Liabilities	686,538			661,308		
Shareholders' Equity	480,946			397,707		
Total Liabilities and Shareholders' Equity	**$ 4,867,589**			**$ 4,718,639**		
Net Interest Income[2]		**$ 76,275**			**$ 62,846**	
Net Interest Margin[2]			**3.24 %**			**2.76 %**
Net Interest Spread			**2.71 %**			**2.19 %**

[1] Nonaccruing loans are included in the daily average loan amounts outstanding.
[2] Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 21%.

Net interest income for the six months ended June 30, 2026 increased $13.4 million, or 21.4% to $75.9 million, compared to $62.5 million for the same period in 2025. On an FTE basis (non-GAAP), net interest income increased $13.4 million, or 21.4%, to $76.3 million, compared to $62.8 million for the same period in 2025.

The increase was primarily driven by growth in average interest-earning assets and lower funding costs. Average interest-earning assets increased to $4.7 billion from $4.6 billion, while the average yield on interest-earning assets increased 14 basis points to 5.15% from 5.01%. At the same time, the average cost of total interest-bearing liabilities declined 38 basis points to 2.44% from 2.82%, contributing to an increase in the net interest margin to 3.24%, compared to 2.76% for the same period in 2025.

Average loan balances increased across the commercial real estate, commercial and industrial, construction and residential mortgage portfolios, with the average yield on total loans improving to 5.59% from 5.39%. While average securities balances declined from the prior-year period, the Company's strategic balance sheet initiatives, including the second quarter Portfolio Repositioning into higher-yielding investments, are expected to enhance future interest income. Average interest-bearing deposits with banks also increased as excess liquidity generated from the Company's strategic transactions was deployed into higher-yielding interest-bearing accounts.

Interest expense declined as deposit pricing improved and average FHLB borrowings were lower than the prior-year period, reflecting the Company's continued emphasis on optimizing its funding mix and reducing overall funding costs.

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

	Three Months Ended June 30, 2026 Compared to Three Months Ended June 30, 2025			Six Months Ended June 30, 2026 Compared to Six Months Ended June 30, 2025		
(Dollars in Thousands)	**Volume[3]**	**Rate[3]**	**Increase/ (Decrease)**	**Volume[3]**	**Rate[3]**	**Increase/ (Decrease)**
Interest Earned on:						
Interest-Bearing Deposits with Banks	$ 2,188	$ (119)	$ 2,069	$ 2,283	$ (269)	$ 2,014
Tax-free Investment Securities[2]	301	102	403	265	137	402
Taxable Investment Securities	(1,180)	(293)	(1,473)	(1,758)	(788)	(2,546)
Total Securities	**(879)**	**(191)**	**(1,070)**	**(1,493)**	**(651)**	**(2,144)**
Commercial Real Estate	2,531	(1,117)	1,414	6,181	(2,260)	3,921
Commercial & Industrial[2]	734	(369)	365	1,248	(157)	1,091
Residential Mortgages	100	58	158	295	92	387
Other Consumer	(35)	(69)	(104)	(60)	(184)	(244)
Construction	772	218	990	1,231	587	1,818
Other	—	—	—	—	—	—
Total Loans[1]	**4,102**	**(1,279)**	**2,823**	**8,895**	**(1,922)**	**6,973**
Other Restricted Stock, at Cost	1	(13)	(12)	147	(26)	121
Total Interest-Earning Assets	**$ 5,412**	**$ (1,602)**	**$ 3,810**	**$ 9,832**	**$ (2,868)**	**$ 6,964**
Interest Paid on:						
Interest-Bearing Demand	$ 399	$ (660)	$ (261)	$ 709	$ (1,647)	$ (938)
Money Market	(159)	(829)	(988)	103	(1,435)	(1,332)
Savings	(8)	9	1	(18)	17	(1)
Certificates of Deposit	(114)	(1,295)	(1,409)	(306)	(3,548)	(3,854)
Total Interest-Bearing Deposits	**118**	**(2,775)**	**(2,657)**	**488**	**(6,613)**	**(6,125)**
Federal Home Loan Bank Borrowings	(593)	(593)	(1,186)	(198)	(134)	(332)
Federal Funds Purchased	—	—	—	—	—	—
Other Borrowings	1	(5)	(4)	7	(15)	(8)
Total Borrowings	**(592)**	**(598)**	**(1,190)**	**(191)**	**(149)**	**(340)**
Total Interest-Bearing Liabilities	**$ (474)**	**$ (3,373)**	**$ (3,847)**	**$ 297**	**$ (6,762)**	**$ (6,465)**
Change in Net Interest Margin (FTE) [2]	**$ 5,886**	**$ 1,771**	**$ 7,657**	**$ 9,535**	**$ 3,894**	**$ 13,429**

[1] Nonaccruing loans are included in the daily average loan amounts outstanding.
[2] Tax-exempt income is on an FTE basis (non-GAAP) using the statutory federal corporate income tax rate of 21 percent.
[3] Changes to rate/volume are allocated to both rate and volume on a proportionate dollar basis.

Provision (Recovery) for Credit Losses

The Company records a provision or recovery for credit losses to adjust the allowance for credit losses ("ACL") to the level deemed appropriate to absorb expected credit losses in the loan portfolio. Similarly, the Company records a provision or recovery for unfunded loan commitments to adjust the related reserve to the level considered appropriate to cover expected credit losses associated with those commitments. The provision or recovery for credit losses reflects management's estimate of the ACL required to absorb expected life-of-loan losses in the loan portfolio, after consideration of net charge-offs and recoveries during the period.

The following table presents information regarding the provision (recovery) for credit losses and net (recoveries) / charge-offs for the periods presented:

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in Thousands)	**2026**	**2025**	**$ Change**	**2026**	**2025**	**$ Change**
Provision (Recovery) for Credit Losses	$ 2,010	$ (2,330)	$ 4,340	$ (31,907)	$ (4,355)	$ (27,552)
Recovery for Unfunded Loan Commitments	(554)	(335)	(219)	(772)	(449)	(323)
Total Provision (Recovery) for Credit Losses on Loans	**1,456**	**(2,665)**	**4,121**	**(32,679)**	**(4,804)**	**(27,875)**
Provision for Securities	—	—	—	—	—	—
Total Provision (Recovery) for Credit Losses	**$ 1,456**	**$ (2,665)**	**$ 4,121**	**$ (32,679)**	**$ (4,804)**	**$ (27,875)**
Net Loan (Recoveries) / Charge-offs	$ (657)	$ 165	$ (822)	$ (15,586)	$ 222	$ (15,808)
Net Loan (Recoveries) / Charge-offs (annualized) / Average Portfolio Loans	(0.07)%	0.02 %		(0.82)%	0.01 %	

During the three months ended June 30, 2026, the Company recorded a provision for credit losses of $2.0 million, compared to a recovery of $2.3 million for the same period in 2025. The provision for the quarter ended June 30, 2026 was primarily attributable to a commercial and industrial credit relationship consisting of three loans that transferred to NPL status during the quarter, resulting in the establishment of a $3.1 million specific reserve. This increase was partially offset by $0.7 million net recoveries received during the period. During the six months ended June 30, 2026, the Company recorded a recovery for credit losses of $31.9 million, compared to a recovery of $4.3 million for the same period in 2025. The recovery for credit losses during the six months ended June 30, 2026 primarily reflects the release of previously established specific reserves of $18.0 million, as well as a $15.0 million net recovery associated with the Judgments, in each case related to the Loan Sale Transaction. This recovery was offset by the previously mentioned $3.1 million specific reserve recorded in the second quarter. The recovery for credit losses in the first six months of 2025 was primarily driven by a decline in the Other segment reserve rate, specifically the Company's former largest nonperforming credit relationship due to curtailment payments received during the period.

The Company also recorded a recovery for unfunded loan commitments of $0.6 million and $0.8 million for the three and six months ended June 30, 2026, respectively compared to $0.3 million and $0.4 million for the same periods in 2025, respectively. The increases from the three and six months ended June 30, 2025 were primarily due to a reduction in unfunded loan commitments, which is reflective of the increase in construction loans in the loan composition.

As a result of these factors, the allowance for credit losses to total portfolio loans declined to 1.48% at June 30, 2026 from 1.90% at June 30, 2025. While the Company recorded a provision for credit losses during the second quarter of 2026, the year-to-date recovery for credit losses, primarily driven by the first quarter of 2026 Loan Sale Transaction and related reserve release and recovery discussed above, remained a significant contributor to earnings for the six months ended June 30, 2026.

Net recoveries totaled $0.7 million and $15.6 million for the three and six months ended June 30, 2026, respectively, compared to net charge-offs of $0.2 million for both the three and six months ended June 30, 2025. Net recoveries (annualized) to average portfolio loans, were 0.07% and 0.82% for the three and six months ended June 30, 2026, respectively, compared to net charge-offs of 0.02% and 0.01% for the same periods in 2025, respectively.

See the "Allowance for Credit Losses" section of this MD&A for additional details regarding our charge-offs.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

Noninterest Income

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in Thousands)	2026	2025	$ Change	% Change	2026	2025	$ Change	% Change
Gain on the Insurance Transaction	$ 35,949	$ —	$ 35,949	NM	$ 35,949	$ —	$ 35,949	NM
Gain on the Loan Sale Transaction	—	—	—	NM	65,000	—	65,000	NM
Losses on Sales of Securities, net	(12,531)	—	(12,531)	NM	(12,451)	—	(12,451)	NM
Service Charges, Commissions and Fees	2,491	1,765	726	41.1 %	4,619	3,639	980	26.9 %
Debit Card Interchange Fees	2,063	1,942	121	6.2 %	4,211	4,046	165	4.1 %
Insurance Commissions	164	714	(550)	(77.0) %	1,118	1,058	60	5.7 %
Bank Owned Life Insurance Income	457	357	100	28.0 %	893	698	195	27.9 %
Other	137	130	7	5.4 %	365	2,368	(2,003)	(84.6) %
Total Noninterest Income	**$ 28,730**	**$ 4,908**	**$ 23,822**	**485.4 %**	**$ 99,704**	**$ 11,809**	**$ 87,895**	**744.3 %**

NM- Not Meaningful

Noninterest income for the three months ended June 30, 2026 totaled $28.7 million, an increase of $23.8 million compared to the same period in 2025. The increase was primarily attributable to the $35.9 million net gain recognized on the Insurance Transaction and a $0.7 million increase in service charges on deposit accounts, partially offset by the $12.5 million loss on the sale of securities recognized in connection with the Portfolio Repositioning completed during the second quarter of 2026 and a $0.6 million decline in insurance commissions. The decrease in insurance commissions primarily reflected the Insurance Transaction, which reduced ongoing insurance commission income.

For the six months ended June 30, 2026, noninterest income totaled $99.7 million, compared to $11.8 million for the same period in 2025. The increase was primarily attributable to the $65.0 million gain recognized on the Loan Sale Transaction during the first quarter of 2026, the $35.9 million net gain recognized on the Insurance Transaction during the second quarter of 2026, and a $1.0 million increase in service charges on deposit accounts. These increases were partially offset by the $12.5 million loss on the sale of securities recognized in connection with the Portfolio Repositioning during the second quarter of 2026 and the $1.9 million BOLI death benefit recognized during the first quarter of 2025.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

Noninterest Expense

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in Thousands)	2026	2025	$ Change	% Change	2026	2025	$ Change	% Change
Salaries and Employee Benefits	$ 14,051	$ 14,082	$ (31)	(0.2)%	$ 28,966	$ 27,739	$ 1,227	4.4 %
Occupancy Expense, net	4,584	4,230	354	8.4 %	9,445	8,702	743	8.5 %
FDIC Insurance Expense	(241)	1,436	(1,677)	(116.8)%	1,269	2,866	(1,597)	(55.7)%
Other Taxes	776	922	(146)	(15.8)%	1,701	1,869	(168)	(9.0)%
Advertising Expense	820	708	112	15.8 %	1,746	1,619	127	7.8 %
Telephone Expense	278	307	(29)	(9.4)%	570	611	(41)	(6.7)%
Professional and Legal Fees	2,053	1,921	132	6.9 %	3,599	3,151	448	14.2 %
Data Processing	2,177	1,395	782	56.1 %	4,030	2,839	1,191	42.0 %
Debit Card Expense	1,072	991	81	8.2 %	2,073	1,983	90	4.5 %
Other	4,416	3,312	1,104	33.3 %	7,599	5,967	1,632	27.4 %
Total Noninterest Expense	**$ 29,986**	**$ 29,304**	**$ 682**	**2.3 %**	**$ 60,998**	**$ 57,346**	**$ 3,652**	**6.4 %**

Noninterest expense for the three months ended June 30, 2026 totaled $30.0 million, an increase of $0.7 million compared to the same period in 2025. The increase was primarily driven by $1.1 million of higher other noninterest expense, $0.8 million of higher data processing expense and $0.4 million of higher occupancy expense, partially offset by a $1.7 million decline in FDIC insurance expense.

FDIC insurance expense declined during the second quarter of 2026, primarily reflecting the favorable impact of the Company's improved risk profile following the Loan Sale Transaction completed during the first quarter of 2026, which reduced FDIC assessment costs. Other noninterest expense increased primarily due to a $0.8 million write-down of an OREO property based on an updated appraisal received during the second quarter of 2026, as well as a $0.5 million write-down on a closed corporate office building. Data processing expense increased due to new and expanded service agreements implemented in early 2026. Occupancy expense increased primarily as a result of higher costs associated with service agreements, software licenses, maintenance contracts, and other infrastructure investments.

For the six months ended June 30, 2026, noninterest expense totaled $61.0 million, compared to $57.3 million for the same period in 2025, an increase of $3.7 million. The increase primarily reflected $1.6 million of higher other noninterest expense, $1.2 million of higher data processing expense, $1.2 million of higher salaries and employee benefits, $0.7 million of higher occupancy expense and $0.4 million of higher professional and legal fees, partially offset by a $1.6 million decline in FDIC insurance expense.

Consistent with the quarterly discussion above, other noninterest expense increased primarily due to the OREO property write-down and the write-down on the closed corporate office building, while data processing expense increased due to new and expanded service agreements implemented in early 2026. Occupancy expense increased primarily as a result of higher costs associated with service agreements, software licenses, maintenance contracts, and related infrastructure investments. Salaries and employee benefits increased primarily due to higher incentive compensation, increased medical benefit costs and annual merit increases, partially offset by higher deferred costs on loan originations. Professional and legal fees increased primarily due to costs associated with the Loan Sale Transaction and higher expenses related to the management of special assets. FDIC insurance expense declined as a result of the Company's improved risk profile following the Loan Sale Transaction completed during the first quarter of 2026.

Provision for Income Taxes

The provision for income taxes increased $6.2 million and $28.3 million for the three and six months ended June 30, 2026, respectively, compared to the same periods in 2025. The increases were primarily attributable to higher pre-tax income, which increased $26.6 million and $125.5 million for the three and six month periods, respectively.

For the three months ended June 30, 2026, the increase in pre-tax income was primarily driven by the Insurance Transaction, which resulted in a $35.9 million pre-tax gain, partially offset by a $12.5 million pre-tax loss recognized in connection with the strategic Portfolio Repositioning completed during the second quarter of 2026.

For the six months ended June 30, 2026, the increase in pre-tax income primarily reflected the first quarter 2026 Loan Sale Transaction, which resulted in a $65.0 million gain on sale, an $18.0 million release of specific reserves, and a $15.0 million recovery for credit losses. In addition, the second quarter Insurance Transaction resulted in a $35.9 million pre-tax gain, partially offset by the $12.5 million loss recognized in connection with the strategic Portfolio Repositioning. Comparability to the prior-year period was also affected by a $1.9 million tax-exempt gain recognized on a BOLI death benefit during the first quarter of 2025.

The effective income tax rate was 22.4% and 22.1% for the three and six months ended June 30, 2026, respectively compared to 19.9% and 19.8% for the same periods in 2025. The effective tax rates for 2026 exceeded the statutory federal tax rate of 21.0%, primarily due to state income taxes and the expiration of certain tax credits associated with historic tax credit investments. These items were partially offset by the tax benefits associated with tax-exempt interest income, BOLI income and rehabilitation tax credits. In contrast, the effective tax rate for the prior-year periods benefited from the $1.9 million tax-exempt BOLI death benefit recognized during the first quarter of 2025.

The $0.8 million reversal of a federal valuation allowance related to the realization of capital loss carryforwards from prior tax years, which were created by the exit of tax equity investments and sales of securities. Management assesses all available positive and negative evidence to estimate whether sufficient taxable income of the appropriate character would be available to utilize the capital loss carryforwards prior to their expiration. Management believes that the gains resulting from the second quarter Insurance Transaction create sufficient capital gain income to realize the entirety of the capital loss carryforwards. Consequently, the $0.8 million federal valuation allowance was reversed.

Refer to Note 12, Provision for Income Taxes, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q for additional information.

Financial Condition
June 30, 2026

Total assets were $4.8 billion at June 30, 2026, a decrease of $50.0 million, or 1.0%, from $4.9 billion at December 31, 2025. The decrease primarily reflected lower portfolio loans and available-for-sale securities partially offset by higher cash and cash equivalents, higher other real estate owned, and increased interest-bearing deposits with other financial institutions.

Total cash and cash equivalents increased $171.4 million, or 163.0%, to $276.5 million at June 30, 2026, from $105.2 million at December 31, 2025. The increase primarily reflected liquidity generated from the Loan Sale Transaction during the first quarter of 2026 and the Insurance Transaction during the second quarter of 2026. A portion of these proceeds were strategically redeployed from Federal Reserve Bank excess reserve balances into higher-yielding interest-bearing deposits with other financial institutions.

Available-for-sale securities decreased $51.3 million, or 7.4%, to $640.3 million at June 30, 2026. During the second quarter of 2026, the Company completed the Portfolio Repositioning of approximately $139.4 million of lower-yielding available-for-sale securities, recognizing a pre-tax loss while reinvesting a portion of the proceeds into higher-yielding securities. This Portfolio Repositioning is expected to enhance future net interest income and improve the overall earning asset mix. Available-for-sale securities represented 13.3% of total assets at June 30, 2026, compared to 14.3% at December 31, 2025. FHLB stock, included in Other Restricted Stock, at cost on the Consolidated Balance Sheets, declined $8.4 million in line with lower borrowing levels.

Portfolio loans decreased $145.0 million, or 7.5% annualized, to $3.7 billion at June 30, 2026, compared to $3.9 billion at December 31, 2025. The decline primarily reflected the first quarter Loan Sale Transaction. Excluding the Loan Sale Transaction, the Company continued to generate organic loan growth through new loan originations, partially offset by normal loan repayments and payoffs.

The allowance for credit losses decreased $16.3 million, or 22.8%, to $55.2 million at June 30, 2026. The decline primarily reflected the Loan Sale Transaction during the first quarter of 2026, including the associated release of specific reserves, partially offset by provision recorded during the second quarter related to a commercial and industrial lending relationship that migrated to nonperforming status.

Total deposits decreased $13.3 million, or 0.6% annualized, to $4.2 billion at June 30, 2026. The decrease was primarily attributable to declines in certificates of deposit and savings balances, partially offset by growth in noninterest-bearing demand deposits and interest-bearing demand deposits. The Company continues to maintain a stable and diversified deposit base.

On the funding side, the Company had no FHLB borrowings outstanding at June 30, 2026, as higher cost wholesale borrowings were repaid with proceeds from the Company's recent strategic transactions, improving its funding profile and reducing interest expense.

Shareholders' equity increased $119.4 million, or 28.5%, to $539.1 million at June 30, 2026. The increase was primarily attributable to net income generated during the first six months of 2026 and an improvement in accumulated other comprehensive loss primarily resulting from the Portfolio Repositioning as well as changes in the fair value of the available-for-sale securities portfolio partially offset by dividends declared and share repurchases.

At June 30, 2026, approximately 82.3% of total deposits were insured under FDIC insurance coverage limits, while approximately 17.7% of total deposits were uninsured. At December 31, 2025, approximately 81.3% of total deposits were insured under FDIC insurance coverage limits, while approximately 18.7% of total deposits were uninsured.

Securities

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

(Dollars in Thousands)	June 30, 2026	December 31, 2025	$ Change
U.S. Government Agency Securities	$ 16,153	$ 19,375	$ (3,222)
Residential Mortgage-Backed Securities	61,450	76,773	(15,323)
Commercial Mortgage-Backed Securities	20,910	25,122	(4,212)
Other Commercial Mortgage-Backed Securities	21,261	24,254	(2,993)
Asset Backed Securities	105,594	94,797	10,797
Collateralized Mortgage Obligations	192,539	161,820	30,719
States and Political Subdivisions	166,313	234,224	(67,911)
Corporate Notes	56,082	55,247	835
Total	**$ 640,302**	**$ 691,612**	**$ (51,310)**

The Company invests in various securities to maintain liquidity to satisfy various pledging requirements, enhance net interest income, and support balance sheet diversification and interest rate risk management through oversight by ALCO. Securities are subject to market risk, which could adversely affect the level of liquidity available. All security purchases are governed by the Company's investment policy, which is approved annually by the Board of Directors and administered by ALCO and the treasury function.

The securities portfolio totaled $640.3 million at June 30, 2026, a net decrease of $51.3 million from December 31, 2025. During the second quarter of 2026, the Company completed a strategic Portfolio Repositioning of a portion of its available-for-sale securities portfolio, selling approximately $139.4 million of lower-yielding securities and purchasing approximately $88.5

million of higher-yielding securities. The Portfolio Repositioning resulted in a $12.5 million pre-tax loss and is expected to enhance future net interest income through improved portfolio yields. The Portfolio Repositioning is discussed further in the "Overview and Strategy" section. The Portfolio Repositioning, together with normal principal repayments, calls, maturities and amortization, resulted in the decline in the securities portfolio during the period. Securities represented 13.3% of total assets at June 30, 2026 compared to 14.3% at December 31, 2025.

Total gross unrealized gains in the available-for-sale portfolio were $1.6 million at June 30, 2026, offset by $43.6 million of gross unrealized losses, compared to gross unrealized gains of $0.4 million and gross unrealized losses of $54.2 million at December 31, 2025. Although increases in intermediate and long-term market interest rates during the six months ended June 30, 2026 would have increased unrealized losses on the remaining portfolio, gross unrealized losses declined overall as a result of the Company's strategic Portfolio Repositioning, which realized a portion of previously existing unrealized losses through the sale of securities.

Management believes the unrealized losses on debt securities at June 30, 2026 are temporary and primarily attributable to changes in market interest rates since the securities were purchased rather than deterioration in credit quality. Approximately 48.0% of the securities portfolio is comprised of obligations issued by U.S. government sponsored entities that carry implicit government guarantees. States and political subdivision securities represent 26.0% of the portfolio and consist primarily of general obligation and essential purpose revenue bonds, which have historically demonstrated strong credit performance and are predominantly rated AA and AAA. The Company has the ability and intent to hold these securities until recovery of their amortized cost basis through maturity or sale.

Unrealized losses remained concentrated primarily in securities with intermediate and long-term maturities, whose market values are most sensitive to movements in the U.S. Treasury yield curve, particularly the five year and ten year maturities. During the six months ended June 30, 2026, intermediate-term Treasury yields increased, creating additional valuation pressure on the remaining securities portfolio. At June 30, 2026, the five and ten-year U.S. Treasury yields were 4.19% and 4.44%, respectively, compared to 3.73% and 4.18%, respectively, at December 31, 2025. The increase of approximately 46 basis points in the five year yield and 26 basis points in the ten year yield would generally be expected to increase unrealized losses, particularly for longer duration securities such as municipal bonds. However, the Company's strategic Portfolio Repositioning during the period ended June 30, 2026 reduced the overall gross unrealized loss balance by realizing a portion of previously existing unrealized losses through the sale of selected securities.

Changes in intermediate and long-term interest rates, which are market driven, will continue to affect the market value of fixed rate securities. Accordingly, the Company expects ongoing fluctuations in the market values of its intermediate and long-term maturity securities as Treasury yields change. Floating rate securities generally maintained stable market values, as their coupon rates adjust in line with changes in short-term interest rates set by the Federal Reserve.

If any impairment of securities were determined to be credit related, the Company would recognize an ACL through recovery or provision for credit losses in the period an impairment is identified, while any non-credit related impairment would be recorded in accumulated other comprehensive loss, net of applicable taxes. At June 30, 2026 and December 31, 2025, the Company had no credit related impairments in its securities portfolio.

Under Basel III capital rules, most banking organizations are permitted to make a one-time election to retain the existing regulatory capital treatment for accumulated other comprehensive loss. The Company elected to retain this treatment, under which accumulated other comprehensive loss is excluded from regulatory capital. As a result, changes in unrealized gains and losses on available-for-sale securities do not affect regulatory capital levels, therefore reducing capital volatility associated with interest rate movements.

Loan Composition

The following table summarizes our loan portfolio at the dates presented:

(Dollars in Thousands)	June 30, 2026	December 31, 2025
Commercial		
Commercial Real Estate	$ 2,143,362	$ 2,114,314
Commercial and Industrial	262,432	231,921
Total Commercial Loans	**2,405,794**	**2,346,235**
Consumer		
Residential Mortgages	814,383	822,141
Other Consumer	25,154	28,416
Total Consumer Loans	**839,537**	**850,557**
Construction	489,263	465,613
Other	—	217,155
Total Portfolio Loans	**3,734,594**	**3,879,560**
Loans Held-for-Sale	467	339
Total Loans	**$ 3,735,061**	**$ 3,879,899**

The loan portfolio is the Company's primary source of interest income and is subject to inherent credit risk, including the risk that borrowers may be unable to meet their contractual obligations. Adverse developments in a borrower's industry or in overall economic conditions may negatively affect repayment capacity. For a discussion of risk factors relevant to the Company's business and operations, refer to Part I, Item 1A. "Risk Factors," contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2025.

Total portfolio loans decreased $145.0 million to $3.7 billion at June 30, 2026, compared to December 31, 2025 largely reflecting the Loan Sale Transaction completed during the first quarter of 2026, partially offset by net loan growth during the first half of the year.

The Company actively monitors the loan portfolio in light of changing market conditions, borrower performance, and the interest rate environment. At June 30, 2026, the loan portfolio consisted of 21.0% floating rates loans that reprice monthly, 37.4% variable rate loans that reprice at least once during the life of the loan, and 41.6% fixed rate loans.

CRE loans represented 57.4% of total portfolio loans at June 30, 2026, compared to 54.5% at December 31, 2025. The CRE portfolio is monitored for potential concentrations of credit risk by market, property type and tenant exposure. Collateral securing CRE loans is geographically concentrated primarily in North Carolina, Virginia and South Carolina and includes properties within the retail/restaurant, warehouse, hospitality, multifamily, office, and long-term care sectors.

The following tables present the Company's CRE loan portfolio by collateral type, including outstanding balances, loans classified as special mention or substandard, and the related percentages by collateral category as of the dates presented:

	June 30, 2026							
(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	$ 529,426	$ 110	$ —	$ 36,181	$ —	**$ 565,717**	$ 56,591	21.2 %
Warehouse	483,322	—	—	42,103	—	**525,425**	17,664	19.6 %
Hospitality	283,595	—	—	27,771	—	**311,366**	2,742	11.6 %
Multifamily	364,039	—	—	78,315	—	**442,354**	51,919	16.5 %
Office	202,700	—	—	3,136	—	**205,836**	28,727	7.7 %
Land	606	—	—	114,537	—	**115,143**	36	4.3 %
Single Family	24,135	4	63,848	30,110	—	**118,097**	383	4.4 %
Country Club	3,320	—	—	—	—	**3,320**	—	0.1 %
Long-term Care	70,202	—	—	60,353	—	**130,555**	—	4.9 %
Other	178,876	57	1,696	78,459	—	**259,088**	145	9.7 %
Total	**$ 2,140,221**	**$ 171**	**$ 65,544**	**$ 470,965**	**$ —**	**$ 2,676,901**	**$ 158,207**	**100.0 %**

	December 31, 2025							
(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	$ 501,030	$ 114	$ —	$ 49,172	$ 3,135	**$ 553,451**	$ 6	20.0 %
Warehouse	460,244	—	—	40,472	—	**500,716**	9,568	18.1 %
Hospitality	280,803	—	—	41,192	51,552	**373,547**	51,552	13.5 %
Multifamily	348,794	—	—	86,679	—	**435,473**	5,402	15.7 %
Office	217,092	—	—	—	508	**217,600**	25,658	7.9 %
Land	809	—	—	101,073	36,619	**138,501**	36,660	5.0 %
Single Family	33,420	—	62,072	15,144	13,367	**124,003**	13,460	4.5 %
Country Club	3,346	—	—	—	45,002	**48,348**	45,002	1.7 %
Long-term Care	59,409	—	—	37,232	—	**96,641**	—	3.5 %
Other	208,907	73	—	70,835	—	**279,815**	—	10.1 %
Total	**$ 2,113,854**	**$ 187**	**$ 62,072**	**$ 441,799**	**$ 150,183**	**$ 2,768,095**	**$ 187,308**	**100.0 %**

The decrease in the CRE loan portfolio at June 30, 2026 is primarily related to the Other segment reducing to zero due to the Loan Sale Transaction, partially offset by an increase in CRE construction loans.

CRE loans represent a concentration of credit risk within the loan portfolio. The majority of the Company's CRE loans are originated within its core geographic markets, extended to experienced developers and sponsors, and generally supported by guaranty structures that provide recourse to individuals with demonstrated financial capacity.

Management believes its local and regional market expertise enables effective management of CRE concentration risk. This operating knowledge is derived from direct customer relationships, an understanding of borrower business models, and access to market research tools that provide data on occupancy levels, lease growth rates, and new construction activity. These market indicators are reviewed regularly by credit officers and communicated to lending teams.

The Company's underwriting process incorporates multiple stress scenarios, primarily focused on borrower cash flow and leverage, to determine supportable loan structures and appropriate commitment levels.

Aggregate commitments to the Company's top 10 credit relationships totaled $472.4 million, representing 12.65% of gross loans at June 30, 2026, compared to $477.6 million, or 12.31% of gross loans, at December 31, 2025. The following table reflects the impacts of the Loan Sale Transaction, which resulted in elimination of the Company's largest nonperforming loan relationship and a meaningful decline in borrower concentration. Prior to the Loan Sale Transaction, the top 10 relationships to total gross loans at December 31, 2025 was 17.00%.

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

	For the Periods Ending				
Dollars in Thousands	**June 30, 2026**	**December 31, 2025**	**Change**	**June 30, 2026 % of Gross Loans**	**June 30, 2026 % of RBC**
1. Multifamily	$ 58,475	$ 58,610	$ (135)	1.57 %	9.43 %
2. Retail & Office	53,637	54,838	(1,201)	1.44 %	8.65 %
3. Retail & Warehouse	47,725	38,656	9,069	1.28 %	7.70 %
4. Warehouse	47,120	47,969	(849)	1.26 %	7.59 %
5. Warehouse	44,991	46,687	(1,696)	1.20 %	7.25 %
6. Healthcare	44,779	44,779	—	1.20 %	7.22 %
7. Land & Self-Storage	44,625	47,392	(2,767)	1.19 %	7.20 %
8. Multifamily	44,504	44,842	(338)	1.19 %	7.18 %
9. Long-Term Care	43,618	46,199	(2,581)	1.17 %	7.03 %
10. Retail & Office	42,919	47,619	(4,700)	1.15 %	6.92 %
Top Ten (10) Relationships	**$ 472,393**	**$ 477,591**	**$ (5,198)**	**12.65 %**	**76.17 %**
Total Gross Loans	**$ 3,735,061**	**$ 3,879,899**	**$ (144,838)**		
% of Total Gross Loans	**12.65 %**	**12.31 %**	**0.34 %**		
Concentration (25% of Risk Based Capital ("RBC"))	$ 155,041	$ 128,431			

Unfunded loan commitments on lines of credit were $564.5 million at June 30, 2026 as compared to $643.9 million at December 31, 2025. The majority of unused commitments relate to construction lines of credit, which are expected to be funded as projects progress toward completion.

Total line of credit utilization was 55.1% at June 30, 2026, compared to 53.2% at December 31, 2025. Utilization of commercial operating lines of credit was 55.0% at June 30, 2026, compared to 52.8% at December 31, 2025.

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 the Company's loans.

Credit Quality

On a monthly basis, a Criticized Asset Committee meets to review certain watch, special mention and substandard risk rated loans that fall within prescribed policy thresholds. These loans generally represent those with the highest potential risk of loss to the Company. For loans identified through this process, management establishes action plans and conducts ongoing monitoring, which includes regular communication with the borrower and loan officer, review of current financial information and other supporting documentation, evaluation of existing or proposed loan structures or modifications, and periodic reassessment of collateral values.

On a quarterly basis, the Credit Risk Committee of the Board meets to review loan portfolio metrics, approve segment concentration limits, evaluate the adequacy of the ACL, and review the results of loan review activities identified during the prior quarter. Annually, this committee also approves credit related policy changes and enhancements as they are implemented.

Additional credit risk management practices include continuous monitoring of trends within the Company's lending footprint and ongoing evaluation of lending policies and procedures designed to support sound underwriting standards. These practices include oversight of portfolio concentrations, delinquencies trends, and the results of annual portfolio level stress testing.

The loan review department provides independent oversight of credit quality and evaluates the effectiveness of credit risk management practices. This function has primary responsibility for assessing commercial credit administration, consumer and mortgage underwriting and credit decision processes, and the appropriateness of assigned risk ratings for loans reviewed, as well as providing input into the overall loan risk rating process.

The Company's policy is to place loans on nonaccrual status when collection of principal or interest is doubtful or, generally, when contractual principal or interest payments are 90 days or more past due. Consumer unsecured loans and secured loans are evaluated for charge-off once they become 90 days past due, and loans that reach 90 days delinquent are automatically transferred to nonaccrual status. Management, however, retains discretion at the individual loan level. A loan may be placed on nonaccrual prior to becoming 90 days past due if full collection of principal and interest is deemed unlikely. Conversely, a loan that is 90 days or more past due may be maintained in accrual status if it is well-secured and in process of collection.

Unsecured loans are generally charged-off in full, while secured loans are charged-off to the estimated fair value of the collateral, net of estimated cost to sell.

The repayment capacity of commercial borrowers is dependent on the performance of their underlying businesses and general economic conditions. Given the higher potential for loss within the commercial loan portfolio, these loans are monitored through an internal risk rating system. Risk ratings are assigned based on the borrower's creditworthiness and are reviewed on an ongoing basis in accordance with internal policies. Loans rated special mention or substandard exhibit potential or well-defined weaknesses that are not typically present in higher quality performing loans, and therefore require heightened management attention to mitigate the risk of loss.

Nonperforming assets consist of NPLs and other real estate owned ("OREO"). The following table summarizes nonperforming assets at the dates presented:

(Dollars in Thousands)	June 30, 2026	December 31, 2025	Change
Nonaccrual Loans			
Commercial Real Estate	$ 21,562	$ 23,861	$ (2,299)
Commercial and Industrial	13,546	1,013	12,533
Residential Mortgages	1,945	4,623	(2,678)
Other Consumer	72	25	47
Construction	436	440	(4)
Other	—	214,020	(214,020)
Total Nonperforming Loans	**37,561**	**243,982**	**(206,421)**
Other Real Estate Owned	3,356	142	3,214
Total Nonperforming Assets	**$ 40,917**	**$ 244,124**	**$ (203,207)**

At June 30, 2026, total nonperforming assets decreased $203.2 million to $40.9 million compared to December 31, 2025, primarily reflecting the Loan Sale Transaction, as the Judgments were previously included in the "Other" loan segment. Total nonperforming loans declined $206.4 million to $37.6 million at June 30, 2026. Commercial real estate nonperforming loans decreased $2.3 million, primarily due to the sale of a property in receivership during the first quarter of 2026. Residential mortgage nonperforming loans decreased $2.7 million as two residential mortgage loans were transferred to OREO during the first quarter of 2026. These improvements were partially offset by an increase in commercial and industrial nonperforming loans, which reflected a commercial and industrial relationship consisting of three loans with an aggregate principal balance of $13.4 million that was downgraded to substandard and placed on nonperforming status during the second quarter of 2026. This increase was partially offset by another commercial and industrial relationship that returned to accruing status during the first quarter of 2026. OREO increased to $3.4 million at June 30, 2026 from $0.1 million at December 31, 2025, primarily due to the transfer of the two residential mortgage loans during the first quarter of 2026.

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

	June 30, 2026		December 31, 2025	
(Dollars in Thousands)	**Amount**	**% of NPLs**	**Amount**	**% of NPLs**
Commercial Real Estate	$ 21,562	57.4 %	$ 23,861	9.8 %
Commercial and Industrial	13,546	36.1 %	1,013	0.4 %
Residential Mortgages	1,945	5.2 %	4,623	1.9 %
Other Consumer	72	0.2 %	25	— %
Construction	436	1.1 %	440	0.2 %
Other	—	— %	214,020	87.7 %
Balance End of Period	**$ 37,561**	**100.0 %**	**$ 243,982**	**100.0 %**

Closed-end installment loans, amortizing loans secured by real estate, and other loans with monthly payment schedules are considered past due when payments are two or more months in arrears. Multi-payment obligations with payment schedules other than monthly are reported as past due when a scheduled payment remains unpaid for 30 days or more. Management monitors delinquency trends on a monthly basis, including early-stage delinquencies and loans exhibiting heightened risk characteristics, to identify emerging credit deterioration.

Allowance for Credit Losses

The following is the allocation of the ACL balance by segment at the dates presented:

	June 30, 2026		December 31, 2025	
(Dollars in Thousands)	**Amount**	**% of Loans in each Category to Total Portfolio Loans**	**Amount**	**% of Loans in each Category to Total Portfolio Loans**
Commercial Real Estate	$ 22,133	57.4 %	$ 22,526	54.5 %
Commercial & Industrial	5,890	7.0 %	2,790	6.0 %
Residential Mortgages	11,719	21.8 %	12,449	21.2 %
Other Consumer	569	0.7 %	638	0.7 %
Construction	14,859	13.1 %	15,020	12.0 %
Other	—	— %	18,068	5.6 %
Balance End of Period	**$ 55,170**	**100.0 %**	**$ 71,491**	**100.0 %**

The ACL decreased $16.3 million to $55.2 million, or 1.48%, of total portfolio loans at June 30, 2026 compared to $71.5 million, or 1.84%, of total portfolio loans at December 31, 2025. The decrease primarily reflects the release of reserves associated with the Loan Sale Transaction completed during the first quarter of 2026, which reduced the allowance allocated to the “Other” loan segment by $18.0 million. This decrease was partially offset by an increase in the commercial and industrial loan segment resulting from the downgrade of a $13.4 million commercial and industrial lending relationship to nonperforming status during the second quarter of 2026, for which a $3.1 million specific reserve was established.

The following table summarizes the credit quality ratios and their components at the dates presented:

(Dollars in Thousands)	June 30, 2026	December 31, 2025
Allowance for Credit Losses to Total Portfolio Loans		
Allowance for Credit Losses	$ 55,170	$ 71,491
Total Portfolio Loans	3,734,594	3,879,560
Allowance for Credit Losses to Total Portfolio Loans	**1.48 %**	**1.84 %**
Nonperforming Loans to Total Portfolio Loans		
Nonperforming Loans	$ 37,561	$ 243,982
Total Portfolio Loans	3,734,594	3,879,560
Nonperforming Loans to Total Portfolio Loans	**1.01 %**	**6.29 %**
Allowance for Credit Losses to Nonperforming Loans		
Allowance for Credit Losses	$ 55,170	$ 71,491
Nonperforming Loans	37,561	243,982
Allowance for Credit Losses to Nonperforming Loans	**146.88 %**	**29.30 %**
Net (Recoveries) / Charge-offs to Average Portfolio Loans		
Net (Recoveries) / Charge-offs (annualized)[1]	$ (31,430)	$ 472
Average Total Portfolio Loans	3,817,054	3,759,496
Net (Recoveries) / Charge-offs to Average Portfolio Loans	**(0.82)%**	**0.01 %**

[1]The year-to-date net (recovery)/charge-offs (annualized) for June 30, 2026 includes the $15.0 million recovery (annualized) related to the Loan Sale Transaction.

The provision (recovery) for credit losses, which includes a provision (recovery) for losses on loans and a recovery on unfunded loan commitments, represents the amount necessary to maintain the ACL at a level that reflects management's estimate of expected credit losses in the loan portfolio as of the balance sheet date. During the three months ended June 30, 2026, the Company recognized a provision for credit losses on loans of $2.0 million and a recovery for unfunded loan commitments of $0.6 million. During the six months ended June 30, 2026, the Company recognized a recovery for credit losses on loans of $31.9 million and a recovery for unfunded loan commitments of $0.8 million, primarily reflecting the release of $18.0 million of previously established specific reserves and a $15.0 million recovery associated with the Loan Sale Transaction completed during the first quarter of 2026. As a result, the Company recognized a net recovery for credit losses during the six-month period ended June 30, 2026, contributing to a lower allowance for credit losses as a percentage of total portfolio loans at June 30, 2026.

The reserve for unfunded loan commitments is largely comprised of unfunded loan commitments related to real estate construction loans. There are three basic factors that influence the reserve rates associated with unfunded loan 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 and average portfolio life. Refer to Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements in Item 8. contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2025 for additional information related to the ACL Policy and the discussion of these factors. Second, since the category of construction is generic, management applies a weighting of the reserve rates associated with certain CRE loans. The proportion of these segments affects the weighting. Third, volume changes impact the total reserve calculation.

Net recoveries totaled $0.7 million and $15.6 million for the three and six months ended June 30, 2026, respectively, compared to net charge-offs of $0.2 million for both the three and six month periods ended June 30, 2025. As a percentage of average portfolio loans, net recoveries were 0.07% and 0.82% for the three and six months ended June 30, 2026, respectively, compared to net charge-offs of 0.02% and 0.01% for the same periods in 2025. The six month results for 2026 included a $15.0 million recovery recognized in connection with the first quarter 2026 Loan Sale Transaction, representing the recovery of the previously charged-off principal balance associated with the "Other" segment of the loan portfolio.

The following table summarizes portfolio loans past due 30-89 days for the periods presented:

(Dollars in Thousands)	June 30, 2026	December 31, 2025	$ Change
Loans 30 to 89 Days Past Due			
Commercial			
Commercial Real Estate	$ —	$ 3	$ (3)
Commercial & Industrial	90	159	(69)
Total Commercial Loans	**90**	**162**	**(72)**
Consumer			
Residential Mortgages	2,337	1,899	438
Other Consumer	148	267	(119)
Total Consumer Loans	**2,485**	**2,166**	**319**
Construction	36	908	(872)
Other	—	—	—
Total Loans 30 to 89 Days Past Due	**$ 2,611**	**$ 3,236**	**$ (625)**

There were no portfolio loans past due more than 90 days and still accruing at June 30, 2026 or December 31, 2025. Loans past due 30 to 89 days and still accruing decreased by $0.6 million to $2.6 million at June 30, 2026, compared to December 31, 2025.

The following tables represent credit exposures by internally assigned risk ratings at the dates presented:

	June 30, 2026						
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other	Total
Pass	$ 2,121,252	$ 248,879	$ 811,353	$ 25,082	$ 470,891	$ —	$ 3,677,457
Special Mention	548	7	87	—	696	—	1,338
Substandard	21,562	102	2,943	72	17,676	—	42,355
Doubtful	—	13,444	—	—	—	—	13,444
Total Portfolio Loans	**$ 2,143,362**	**$ 262,432**	**$ 814,383**	**$ 25,154**	**$ 489,263**	**$ —**	**$ 3,734,594**
Performing Loans	$ 2,121,800	$ 248,886	$ 812,438	$ 25,082	$ 488,827	$ —	$ 3,697,033
Nonaccrual Loans	21,562	13,546	1,945	72	436	—	37,561
Total Portfolio Loans	**$ 2,143,362**	**$ 262,432**	**$ 814,383**	**$ 25,154**	**$ 489,263**	**$ —**	**$ 3,734,594**

	December 31, 2025						
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other	Total
Pass	$ 2,079,579	$ 230,899	$ 816,315	$ 28,391	$ 459,071	$ 3,135	$ 3,617,390
Special Mention	10,874	9	89	—	700	—	11,672
Substandard	23,861	1,013	5,737	25	5,842	214,020	250,498
Total Portfolio Loans	**$ 2,114,314**	**$ 231,921**	**$ 822,141**	**$ 28,416**	**$ 465,613**	**$ 217,155**	**$ 3,879,560**
Performing Loans	$ 2,090,453	$ 230,908	$ 817,518	$ 28,391	$ 465,173	$ 3,135	$ 3,635,578
Nonaccrual Loans	23,861	1,013	4,623	25	440	214,020	243,982
Total Portfolio Loans	**$ 2,114,314**	**$ 231,921**	**$ 822,141**	**$ 28,416**	**$ 465,613**	**$ 217,155**	**$ 3,879,560**

At June 30, 2026, the Company had $13.4 million of loans classified as doubtful, compared to none at December 31, 2025. The increase during the second quarter of 2026 was attributable to a change in the classification of a relationship from Substandard in May 2026 to Doubtful in June 2026. The relationship was transferred to nonaccrual status in June 2026. The borrower's financial condition continued to deteriorate with the most recent results indicating inadequate working capital due to an exacerbated cash conversion cycle. The levels of special mention and substandard loans at June 30, 2026, compared to December 31, 2025, reflected a decrease of $10.3 million in special mention and a decrease of $208.1 million in substandard loans.

Special mention loans decreased primarily due to an upgrade of a $10.8 million CRE office building loan that was moved to watch from special mention during the first quarter of 2026.

Substandard loans decreased $208.1 million during the six months ended June 30, 2026 compared to December 31, 2025, primarily reflecting the first quarter 2026 Loan Sale Transaction. At December 31, 2025, the "Other" segment had an aggregate balance of approximately $214.0 million, which was reduced to zero upon completion of the Loan Sale Transaction. Additional reductions included the payoff of a $5.4 million construction loan, the transfer of two residential mortgage loans totaling $2.9 million to OREO, and the sale of a commercial real estate property in receivership, which reduced the related substandard loan balance by $1.5 million. In addition, a commercial and industrial borrower relationship consisting of two loans totaling $0.9 million improved to a pass rating due to sustained payment performance. These improvements were partially offset by the downgrade of a $17.2 million construction loan to substandard during the first quarter of 2026. Overall these actions resulted in a significant reduction in substandard loans despite the migration of certain credits to substandard status during the period.

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 Company's ACL.

Deposits

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

(Dollars in Thousands)	June 30, 2026	December 31, 2025	$ Change	% Change
Noninterest-Bearing Demand	$ 655,482	$ 620,473	$ 35,009	5.64 %
Interest-Bearing Demand	866,759	808,171	58,588	7.25 %
Money Market	510,125	553,964	(43,839)	(7.91)%
Savings	318,774	326,182	(7,408)	(2.27)%
Certificates of Deposit	1,846,416	1,902,099	(55,683)	(2.93)%
Total Deposits	**$ 4,197,556**	**$ 4,210,889**	**$ (13,333)**	**(0.32)%**

Deposits are the Company's primary source of funding, and management believes its deposit base remains stable, with the ability to attract new customers while maintaining a diversified deposit mix. Total deposits decreased $13.3 million to $4.2 billion at June 30, 2026, compared to December 31, 2025. The decrease primarily reflected declines in CDs of $55.7 million, money market accounts of $43.8 million, and savings accounts of $7.4 million, partially offset by increases in interest-bearing demand deposits of $58.6 million and noninterest-bearing demand deposits of $35.0 million.

Noninterest-bearing demand deposits represented 15.6% of total deposits at June 30, 2026, compared to 14.7% at December 31, 2025, while CDs comprised 44.0% of total deposits at June 30, 2026, compared to 45.2% at December 31, 2025.

Based on the assumptions used in preparing the Company's regulatory Call Reports, approximately 82.3% of total deposits were insured under standard FDIC insurance coverage limits at June 30, 2026, while approximately 17.7% were uninsured, compared to approximately 81.3% insured and 18.7% uninsured at December 31, 2025.

The following table presents additional information in relation to deposits at the dates presented:

(Dollars in Thousands)	June 30, 2026	December 31, 2025
Noninterest-Bearing Public Funds Deposits	$ 38,481	$ 33,220
Interest-Bearing Public Funds Deposits	142,362	137,600
Total Deposits not Covered by Deposit Insurance[1]	743,449	787,114
Certificates of Deposits not Covered by Deposit Insurance	300,132	310,723
Deposits for Certain Directors, Executive Officers and their Affiliates	1,980	3,207

[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, excluding brokered deposits, not covered by deposit insurance at June 30, 2026 are summarized as follows:

(Dollars in Thousands)	Amount	Percent
Three Months or Less	$ 92,750	30.9 %
Over Three Months Through Twelve Months	167,428	55.8 %
Over Twelve Months Through Three Years	38,176	12.7 %
Over Three Years	1,778	0.6 %
Total	**$ 300,132**	**100.0 %**

FHLB Borrowings and Federal Funds Purchased

Information pertaining to FHLB borrowings and federal funds purchased at the dates presented are summarized in the table below:

(Dollars in Thousands)	June 30, 2026	December 31, 2025
Balance at Period End		
Federal Home Loan Bank Borrowings	$ —	$ 178,500
Federal Funds Purchased	—	—
Average Balance during the Period		
Federal Home Loan Bank Borrowings	$ 79,575	$ 110,944
Federal Funds Purchased	—	—
Average Interest Rate during the Period		
Federal Home Loan Bank Borrowings	3.94 %	4.19 %
Federal Funds Purchased	— %	— %
Maximum Month-end Balance during the Period		
Federal Home Loan Bank Borrowings	$ 193,500	$ 178,500
Federal Funds Purchased	—	—
Average Interest Rate at Period End		
Federal Home Loan Bank Borrowings	— %	3.89 %
Federal Funds Purchased	— %	— %

Borrowings represent an additional source of liquidity for the Company. FHLB borrowings decreased $178.5 million to zero at June 30, 2026, from $178.5 million at December 31, 2025, reflecting the repayment of borrowings utilizing proceeds from the Loan Sale Transaction completed during the first quarter of 2026. The Company had no overnight federal funds purchased outstanding at June 30, 2026 or December 31, 2025.

The level and composition of borrowed funds fluctuates over time based on a variety of factors, including market conditions, loan and deposit growth, investment securities activity, and capital considerations. Management actively monitors and manages borrowings to ensure they remain a reliable and cost-effective source of liquidity.

As a member of the Federal Home Loan Bank of Atlanta, the Company is required to purchase and maintain a specified level of FHLB capital stock based on asset size, outstanding borrowings, and participation in other FHLB programs. At June 30, 2026, the Company held $3.4 million of FHLB stock, compared to $11.7 million at December 31, 2025. The decrease in FHLB stock was attributable to the lower required level of stock holdings resulting from decreased FHLB borrowings.

Dividends recognized on FHLB stock totaled $0.1 million and $0.2 million for the three and six months ended June 30, 2026, respectively, compared to $0.1 million and $0.3 million for the same periods in 2025, respectively. The investment in FHLB stock is carried at cost and evaluated for impairment based on the ultimate recoverability of its par value.

FHLB stock is non-marketable and may be redeemed only at the discretion of the FHLB. Members do not purchase stock for capital appreciation purposes, as FHLB stock can only be purchased, redeemed, or transferred at par value. Rather, ownership of FHLB stock provides members with access to the funding, liquidity, and other financial services offered by the FHLB.

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 the Company's borrowings.

Liquidity and Capital Resources

Liquidity

Liquidity refers to the Company's ability to meet cash and collateral obligations in a timely manner and at a reasonable cost, including funding deposit withdrawals and borrower credit demands. The Company's Board of Directors has delegated oversight of liquidity risk management to ALCO, which is responsible for maintaining sufficient liquidity at a reasonable cost under both normal operating conditions and potential stress scenarios.

ALCO monitors and manages liquidity risk by reviewing cash flow projections, performing balance sheet stress testing, and maintaining a comprehensive contingency funding plan. This plan includes defined liquidity metrics and graduated risk tolerance levels, which are reviewed monthly. If liquidity levels reach thresholds defined as high risk, enhanced monitoring and the implementation of specific predefined action plans to reduce risk are required.

The Company's primary source of liquidity is its stable customer deposit base. Management believes it can retain existing deposits and attract new deposits, limiting reliance on more volatile funding sources. In addition to deposits, the Company maintains access to multiple supplemental funding sources as part of its normal liquidity management strategy. At June 30, 2026, funding sources accessible to the Company included borrowing availability at the FHLB equal to 30.0% of total assets, or $1.4 billion, subject to eligible collateral pledged, of which the Company had the capacity to borrow an additional $879.5 million. During the six months ended June 30, 2026, the Company's previously disclosed $45.0 million secured line of credit with a correspondent financial institution was decreased to $25.0 million, and during the second quarter of 2026, this line of credit was converted to an unsecured facility. In addition, a $50.0 million unsecured line of credit with an unrelated correspondent financial institution was fully reinstated. Reflecting the Company's improved earnings performance and enhanced credit risk profile following the Loan Sale Transaction during the first quarter of 2026, the Company now maintains unsecured borrowing lines of credit totaling $105.0 million with four correspondent financial institutions, inclusive of the converted unsecured facility noted previously. The Company also continues to have access to the institutional CD market.

Additional liquidity can be provided by $500.6 million of unpledged available-for-sale investment securities at fair value at June 30, 2026. Refer to the Liquidity Sources table below for further detail regarding FHLB borrowing capacity and correspondent bank lines of credit.

As of June 30, 2026, approximately 82.3% of total deposits were insured under standard FDIC coverage limits, while 17.7% were uninsured. Management actively monitors industry and market conditions that could affect liquidity and evaluates alternative funding strategies as needed. In addition, the Company closely monitors the potential impacts of interest rate movements and market conditions on the fair value of its securities portfolio, particularly in light of evolving banking industry dynamics that may influence liquidity availability or market expectations.

Maintaining a cushion of highly liquid assets or assets that can be converted to cash quickly, with little or no loss in value, is a key component of the Company's liquidity risk management framework. ALCO policy establishes graduated risk tolerance levels for the ratio of highly liquid assets to total assets. At June 30, 2026, the Bank had $736.5 million of highly liquid assets, consisting of $235.4 million in excess reserves at the Federal Reserve and interest-bearing deposits at other financial institutions, $0.5 million of loans held-for-sale, and $500.6 million of unpledged securities. This resulted in highly liquid assets to total assets ratio of 15.3%. Total available liquidity relative to uninsured deposits was 237.9% at June 30, 2026.

While management believes current liquidity sources are sufficient, an extended economic downturn or significant market disruption could increase reliance on more volatile or higher cost funding sources.

The following table provides detail of liquidity sources at the dates presented:

(Dollars in Thousands)	June 30, 2026	December 31, 2025
Cash and Due From Banks	$ 41,101	$ 36,935
Interest Bearing Deposits in Other Financial Institutions	167,427	12,134
Federal Reserve Bank Excess Reserves	68,007	56,094
Unpledged Investment Securities	500,568	402,220
Excess Pledged Securities	7,066	33,443
FHLB Borrowing Availability	879,466	609,392
Collateralized Lines of Credit	—	45,000
Unsecured Lines of Credit Availability	105,000	30,000
Total Liquidity Sources	**$ 1,768,635**	**$ 1,225,218**

The following table provides total liquidity sources and ratios at the dates presented:

(Dollars in Thousands)	June 30, 2026	December 31, 2025
Total Liquidity Sources	$ 1,768,635	$ 1,225,218
Highly Liquid Assets[1] to Total Assets	15.3 %	9.7 %
Highly Liquid Assets[1] to Uninsured Deposits	99.1 %	59.8 %
Total Available Liquidity to Uninsured Deposits	237.9 %	155.7 %

[1] Highly liquid assets consist of $235.4 million in Federal Reserve Board excess reserves and interest-bearing deposits in other financial institutions, loans held-for-sale of $0.5 million and unpledged securities of $500.6 million.

Capital Resources

The Company reviews, on an ongoing basis, its and the Bank's capital levels and opportunities to effectively deploy the Company's capital or return capital to shareholders through stock repurchases or potential dividends. The following table summarizes the actual risk-based capital amounts and ratios for the Company and the Bank at the dates presented:

(Dollars in Thousands)	Minimum Required Basel III	Well Capitalized [1]	June 30, 2026 Amount	June 30, 2026 Ratio	December 31, 2025 Amount	December 31, 2025 Ratio
Carter Bankshares, Inc.						
Leverage Ratio	4.00 %	NA	$ 570,098	11.65 %	$ 459,735	9.43 %
Common Equity Tier 1 (to Risk-weighted Assets)	7.00 %	NA	570,098	14.26 %	459,735	10.70 %
Tier 1 Capital (to Risk-weighted Assets)	8.50 %	NA	570,098	14.26 %	459,735	10.70 %
Total Capital (to Risk-weighted Assets)	10.50 %	NA	620,164	15.51 %	513,722	11.95 %
Carter Bank & Trust						
Leverage Ratio	4.00 %	5.00 %	$ 572,804	11.73 %	$ 437,670	9.01 %
Common Equity Tier 1 (to Risk-weighted Assets)	7.00 %	6.50 %	572,804	14.34 %	437,670	10.23 %
Tier 1 Capital (to Risk-weighted Assets)	8.50 %	8.00 %	572,804	14.34 %	437,670	10.23 %
Total Capital (to Risk-weighted Assets)	10.50 %	10.00 %	622,810	15.60 %	491,396	11.49 %

[1] To be "well capitalized" under the prompt corrective action framework applies to the Bank only.

Total capital was $539.1 million at June 30, 2026, an increase of $119.4 million compared to December 31, 2025. The increase was primarily driven by net income of $114.7 million, a $9.2 million improvement in accumulated other comprehensive loss, reflecting favorable changes in the fair value of the available-for-sale portfolio and a $0.6 million increase related to restricted stock activity during the six months ended June 30, 2026. These increases were partially offset by $2.9 million of common stock repurchases and $2.2 million of dividends declared.

The Company and the Bank remained well capitalized at June 30, 2026, exceeding all regulatory capital requirements. The capital ratios were favorably impacted by the Loan Sale Transaction. The key capital ratios included a leverage ratio of 11.65%, a Common Equity Tier 1 ratio of 14.26%, a Tier 1 ratio of 14.26%, and a Total risk-based capital ratio of 15.51%, all well above regulatory well-capitalized thresholds. Management believes the Company maintains a strong capital position and has the capacity to raise additional capital if needed.

The Company and the Bank are subject to various capital requirements administered by federal banking regulators. Failure to meet minimum capital requirements may result in mandatory and, in certain cases, discretionary actions by regulators that could have a direct material effect on the Company's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital standards that are based on quantitative measures of assets, liabilities and certain off-balance sheet items calculated in accordance with regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators regarding components, risk weightings and other factors. Prompt corrective action provisions do not apply to bank holding companies.

Regulatory capital guidelines require the maintenance of minimum capital amounts and ratios. Under Basel III capital rules, the Company and the Bank are required to maintain minimum ratios of common equity Tier 1 capital, Tier 1 capital and total capital, as well as a capital conservation buffer, which effectively increases the minimum capital levels required. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions that do not maintain capital ratios above the required minimums plus the applicable buffer are subject to restrictions on dividends, equity repurchases and discretionary compensation.

The Basel III capital framework also provides for a "countercyclical capital buffer" applicable to certain covered institutions. This buffer is not currently applicable to the Company or the Bank.

Banking organizations with less than $15 billion in total assets are permitted to make a one-time election to exclude accumulated other comprehensive loss from regulatory capital. The Company elected to retain this treatment, which reduces volatility in regulatory capital levels.

Management believes that, as of June 30, 2026, the Company and the Bank met all applicable capital adequacy requirements, including the capital conservation buffer.

Prompt corrective action regulations establish five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. These classifications are not intended to represent overall financial condition. Institutions that are adequately capitalized require regulatory approval to accept brokered deposits, while undercapitalized institutions are subject to restrictions on capital distributions, asset growth, and expansion and are required to submit capital restoration plans.

As of June 30, 2026 and December 31, 2025, the most recent regulatory notification classified the Company and the Bank as well-capitalized under the prompt corrective action framework. Management is not aware of any conditions or events since that notification that management believes would have changed the Company and the Bank's capital category.

Stock Repurchase Plan

On February 2, 2026, the Company announced that its Board authorized a repurchase program to purchase up to $10.0 million of the Company's common stock in the aggregate over a period of twelve months beginning February 11, 2026, the date of receipt of non-objection from the Federal Reserve Bank of Richmond. The program authorizes the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. The authorization permits management to repurchase shares of the Company's common stock from time to time at management's discretion. The actual means and timing of any shares purchased under the program, and the number of shares actually purchased under the program, will depend on a variety of factors, including the market price of the Company's common stock, general market and economic conditions, management's evaluation of the Company's financial condition and liquidity position and applicable legal and regulatory requirements. The repurchase program may be modified or terminated by the Board at any time. The repurchase program does not obligate the Company to purchase any particular number of shares.

During both the three and six months ended June 30, 2026, the Company repurchased 108,601 shares of its common stock at a total cost of $2.9 million and a weighted average cost per share of $26.50.

On May 20, 2025, the Company announced that its Board authorized a repurchase program to purchase up to $20.0 million of the Company's common stock in the aggregate through May 14, 2026. The program authorized the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended.

The 2025 Program was fully utilized on October 30, 2025.

Contractual Obligations

As of June 30, 2026, there have been no material changes 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, 2025 (the "2025 Annual Report"), except that the Company repaid its outstanding FHLB advances during the six months ended June 30, 2026, reducing its contractual debt obligations.

Off-Balance Sheet Arrangements

As of June 30, 2026, 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 2025 Annual Report.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk that changes in market factors, including interest rates, foreign exchange rates, commodity prices, or equity prices, could adversely affect the Company's earnings or capital. For the Company, market risk arises primarily from interest rate risk associated with its lending, investment, and deposit-taking activities.

Interest rate risk results from differences in the timing of the repricing and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected cash flows or maturities of assets and liabilities resulting from embedded options, such as borrowers' ability to prepay loans or depositors' ability to withdraw certificates of deposit before maturity (option risk), changes in the shape and slope of the yield curve (yield curve risk), and changes in the relationships between different market interest rate indices, such as U.S. Treasuries and other benchmark rates (basis risk).

Changes in interest rates affect earnings primarily through their impact on net interest income and other interest-sensitive revenues and expenses. Interest rate changes also affect capital by altering the present value of expected future cash flows. While assuming interest rate risk is an inherent part of banking and an important source of profitability and shareholder value, excessive exposure can adversely affect earnings, capital, liquidity, and overall financial condition.

The Company's ALCO is responsible for monitoring the Company's interest rate risk position, establishing policies and limits to manage exposure, and implementing strategies designed to optimize the balance between asset yields and funding costs within established policy limits. The Board of Directors' Investment / Interest Rate Risk Committee provides oversight by reviewing and approving the policies established by ALCO.

Earnings Simulation Modeling

The ALCO uses an asset/liability management ("ALM") model to estimate the sensitivity of net interest income to changes in market interest rates. The model projects earnings under a variety of interest rate scenarios using current and forecasted balance sheet volumes, contractual repricing characteristics, and key behavioral assumptions. Significant assumptions include expected loan growth, loan prepayments, deposit growth and pricing, non-maturity deposit betas and decay rates, and projected market interest rates and investment yields.

The ALM model assumes that maturing, called, and prepaid securities are reinvested in similar investment instruments and that projected balance sheet assumptions remain consistent throughout the forecast period. Because the model relies on numerous assumptions, actual results may differ materially from simulated results. In addition, the model does not reflect potential management actions that could be taken in response to changing market conditions. ALCO reviews model assumptions at least quarterly and performs periodic sensitivity analyses of key assumptions, including deposit betas, deposit decay rates, and loan prepayment speeds, to assess their impact on projected results.

The ALM model evaluates the Company's exposure to interest rate risk using multiple interest rate scenarios, including instantaneous parallel rate shocks of +/- 100, 200, 300, and 400 basis points, as well as selected non-parallel yield curve scenarios. The primary measure monitored by ALCO is the estimated percentage change in net interest income over a twelve-month forecast horizon.

The following table presents the estimated percentage change in pretax net interest income over the next twelve months under various instantaneous parallel interest rate shocks at June 30, 2026 and December 31, 2025.

	June 30, 2026	December 31, 2025
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Pretax Net Interest Income
400	4.1%	(3.9)%
300	3.6%	(2.2)%
200	2.8%	(1.0)%
100	1.7%	(0.3)%
-100	0.3%	3.1%
-200	1.0%	6.2%
-300	2.3%	6.1%
-400	—%	4.8%

The June 30, 2026 earnings simulation indicates that the Company remains modestly asset sensitive. Under rising rate scenarios, projected net interest income increases modestly due primarily to the repricing characteristics of earning assets and funding sources, the current balance sheet composition, and asset and liability maturity structures. Under moderate declining rate scenarios, projected net interest income also improves modestly, reflecting the Company's deposit pricing assumptions and balance sheet positioning.

The Company's interest rate risk profile at June 30, 2026 reflects several factors, including:

- higher than market rate unfunded loan commitments originated during 2024 and early 2025 that are expected to fund over the next twelve months;
- a shorter duration time deposit portfolio resulting from promotional deposit campaigns during the recent inverted yield curve environment;
- deposit pricing assumptions that incorporate more responsive non-maturity deposit betas in declining rate environments based on observed customer behavior during the most recent interest rate cycle; and
- changes in the balance sheet following the Company's recent strategic transactions, including the repayment of all outstanding FHLB borrowings and the investment of remaining excess liquidity in reserve balances at the Federal Reserve, which earn the Interest Rate on Reserve Balances (IORB) rate of 3.65%.

Economic Value of Equity Modeling

Economic value of equity ("EVE") simulation is used to estimate the sensitivity of the fair value of the Company's assets and liabilities to changes in interest rates. The ALM calculates EVE using discounted cash flow ("DCF") analysis, with economic value defined as the present value of projected asset cash flows less the present value of projected liability cash flows. Changes in EVE under various interest rate scenarios provide an indication of the longer-term impact of interest rate movements on the Company's capital position.

The EVE model incorporates the same key assumptions used in the earnings simulation model, including assumptions related to loan prepayments, deposit behavior, and balance sheet growth. The analysis applies instantaneous parallel interest rate shocks to the current balance sheet and measures the resulting change in EVE. The Company's policy guidelines establish limits for changes in EVE under instantaneous parallel interest rate shocks of +/- 100, 200, 300, and 400 basis points, as well as selected non-parallel yield curve scenarios.

Results for the EVE analysis are primarily influenced by the shape of the yield curve, option-adjusted discount spreads applied to projected cash flows, and assumptions regarding the expected lives of interest-earning assets and interest-bearing liabilities. Because the analysis is based on numerous assumptions, actual results may differ from model outcomes as market conditions, customer behavior, and balance sheet composition change over time.

The following table presents the estimated percentage change in EVE under various instantaneous interest rate shock scenarios at the dates indicated. At both June 30, 2026 and December 31, 2025, modeled results remained within management's established policy limits.

	June 30, 2026	December 31, 2025
Change in Interest Rate (basis points)	**% Change in Economic Value of Equity**	**% Change in Economic Value of Equity**
400	(18.6) %	(21.3) %
300	(12.4) %	(14.1) %
200	(7.0) %	(7.9) %
100	(2.7) %	(3.1) %
-100	1.8 %	2.0 %
-200	2.9 %	2.6 %
-300	0.9 %	(0.4) %
-400	(3.6) %	(9.9) %

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"), who serve as the Company's Principal Executive Officer and Principal Financial Officer, respectively, management evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2026. In designing and evaluating these controls and procedures, management recognizes that any system of controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the U.S. Securities and Exchange Commission (the "SEC"), and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based on this evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective in all material respects as of June 30, 2026.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended June 30, 2026 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company is subject to various legal and administrative proceedings and claims. Legal and administrative proceedings are subject to inherent uncertainties and unfavorable rulings could occur, and the timing and outcome of any legal or administrative proceeding cannot be predicted with certainty. Other than as set forth below, as of June 30, 2026, the Company is not involved in any material pending legal proceedings other than proceedings occurring in the ordinary course of business.

The Company and the Bank, along with certain unaffiliated third parties, have been named as defendants in a lawsuit filed on April 12, 2026, and subsequently amended on April 29, 2026, in the Circuit Court of Greenbrier County, West Virginia by James C. Justice, II, Cathy L. Justice, James C. Justice, III and various related entities that he and/or they own and control (such entities, the "Justice Entities" and collectively, the "Plaintiffs"). The allegations contained in the lawsuit relate to a series of loans, which were later reduced to judgments (such loans subsequently reduced to judgments, the "Judgments") made by the Bank to certain Justice Entities that are secured by collateral pledged by certain Justice Entities and are backed by personal guarantees from James C. Justice, II and Cathy L. Justice and, in certain cases, by personal guarantees from James C. Justice, III. The allegations contained in the lawsuit also relate to the Loan Sale Transaction in which the Bank sold its interest in the Judgments and related collateral to one of the unaffiliated third-party defendants.

In the lawsuit the Plaintiffs allege that the Bank (i) breached an implied covenant of good faith and fair dealing, (ii) tortiously interfered with Plaintiffs' business interests, (iii) harmed Plaintiffs through a series of allegedly misleading promises, representations and/or omissions on which Plaintiffs allegedly relied, (iv) tortiously interfered with the Plaintiffs' business interests under agreements between Plaintiffs and the unaffiliated third-party defendants, and (v) together with the unaffiliated third-party defendants, participated in a scheme to restrain trade and competition in an alleged market in which certain collateral securing the Judgments operates. With respect to the Bank, the Plaintiffs have requested the court to rescind the Bank's sale of the Judgments to the unaffiliated third-party purchaser and seek declaratory relief that the Plaintiffs are entitled to pay-off the Judgments at no more than the sale price. The Plaintiffs further seek injunctions against the unaffiliated third-party defendants, direct damages of at least $500 million and additional consequential and punitive damages, and payment of costs, expenses and attorneys' fees.

The Company and the Bank deny the allegations contained in the lawsuit and intend to vigorously defend the matter, the validity of the Bank's sale of the Judgments to the unaffiliated third-party purchaser and the Bank's conduct prior to selling the Judgments. Based on information presently available to the Company and the Bank and based on consultation with legal counsel, the Company believes that the Company and the Bank have meritorious defenses to all allegations contained in the lawsuit.

At this early stage of the lawsuit, the Company is not yet able to make a determination as to the likelihood of an unfavorable outcome in this matter or to estimate the range of any possible loss.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors faced by the Company from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2025.

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

On February 2, 2026, the Company announced that its Board authorized a repurchase program to purchase up to $10.0 million of the Company's common stock in the aggregate over a period of twelve months beginning February 11, 2026, the date of receipt of non-objection from the Federal Reserve Bank of Richmond. The program authorizes the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. The authorization permits management to repurchase shares of the Company's common stock from time to time at management's discretion. The actual means and timing of any shares purchased under the program, and the number of shares actually purchased under the program, will depend on a variety of factors, including the market price of the Company's common stock, general market and economic conditions, management's evaluation of the Company's financial condition and liquidity position and applicable legal and regulatory requirements. The repurchase program may be modified or terminated by the Board at any time. The repurchase program does not obligate the Company to purchase any particular number of shares.

During both the three and six months ended June 30, 2026, the Company repurchased 108,601 shares of its common stock at a total cost of $2.9 million and a weighted average cost per share of $26.50.

On May 20, 2025, the Company announced that its Board authorized a repurchase program to purchase up to $20.0 million of the Company's common stock in the aggregate through May 14, 2026. The program authorized the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended.

The 2025 Program was fully utilized on October 30, 2025.

The following table provides information regarding the Company's purchases of its common stock during the quarter ended June 30, 2026:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum number (or approximate dollar value) of Shares that may yet be purchased under the plans or programs[2]
04/01/2026 - 04/30/2026	2,477	$24.24	—	$10,000,000
05/01/2026 - 05/31/2026	104,480	26.46	98,601	7,391,586
06/01/2026 - 06/30/2026	10,000	26.97	10,000	7,121,855
Total	**116,957**	**$26.46**	**108,601**	

[1] Reflects 8,356 shares that were withheld upon vesting of restricted shares granted to associates of the Company in order to satisfy tax withholding obligations.
[2] The number shown represents, as of the end of each period, the approximate dollar value of Common Stock shares that may yet be purchased under the 2026 Program, which was announced on February 2, 2026 and authorizes the purchase of up to $10.0 million of the Company's common stock in the aggregate through February 11, 2027. The shares may be purchased, from time-to-time, depending on a variety of factors.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

During the three months ended June 30, 2026, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934, as amended) adopted, modified or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

CARTER BANKSHARES, INC. AND SUBSIDIARIES

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)
10.1	Second Amended and Restated Employment Agreement, effective June 18, 2026, by and between Carter Bankshares Inc., Carter Bank & Trust and Litz Van Dyke (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 24, 2026)
10.2	Second Amended and Restated Employment Agreement, effective June 18, 2026, by and between Carter Bankshares Inc., Carter Bank & Trust and Bradford N. Langs (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 24, 2026)
10.3	Second Amended and Restated Employment Agreement, effective June 18, 2026, by and between Carter Bankshares Inc., Carter Bank & Trust and Wendy S. Bell (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on June 24, 2026)
10.4	Second Amended and Restated Employment Agreement, effective June 18, 2026, by and between Carter Bankshares Inc., Carter Bank & Trust and Matthew M. Speare (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on June 24, 2026)
10.5	Amended and Restated Change of Control Severance Agreement, effective June 18, 2026, by and between Carter Bankshares Inc., Carter Bank & Trust and Tony E. Kallsen (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on June 24, 2026)
10.6	Second Amended and Restated Employment Agreement, effective June 18, 2026, by and between Carter Bankshares, Inc., Carter Bank & Trust and Jane Ann Davis (filed herewith)
10.7	Amended and Restated Change of Control Severance Agreement, effective June 18, 2026, by and between Carter Bankshares, Inc., Carter Bank & Trust and Arthur Loran Adams (filed herewith)
31.1	Certification by principal executive officer pursuant to Rule 13a-14(a) (filed herewith)
31.2	Certification by principal financial officer pursuant to Rule 13a-14(a) (filed herewith)
32	Certification by principal executive officer and principal financial officer pursuant to 18 U.S.C. §1350 (furnished 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)

CARTER BANKSHARES, INC. AND SUBSIDIARIES

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)

By:	/s/ Litz H. Van Dyke
Name:	Litz H. Van Dyke
Title:	Chief Executive Officer (Principal Executive Officer)
Date:	August 6, 2026

By:	/s/ Wendy S. Bell
Name:	Wendy S. Bell
Title:	Chief Financial Officer (Principal Financial and Accounting Officer)
Date:	August 6, 2026

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SECOND AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS SECOND AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement"), originally dated as of September 29, 2017 and originally effective as of October 1, 2017 ("Original Effective Date"), which was amended and restated effective as of November 20, 2020, and which is further amended and restated, effective June 18, 2026 (the "Effective Date"), and is made by and between Carter Bankshares, Inc. ("Holding Company"), Carter Bank & Trust ("Bank") (Holding Company and Bank, both individually and collectively, are referred to herein as "Employer") and Jane Ann Davis ("Executive").

WHEREAS, Employer wishes to continue the employment of Executive as a key executive of Bank and it is the desire of Employer to have the benefit of Executive's continued loyalty and service; and

WHEREAS, Executive wishes to continue in the employ of Bank on the terms and subject to the conditions set forth herein, and both Employer and Executive consent to this Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth herein, and the payment to Executive of One Hundred Dollars ($100.00) as additional consideration, the parties agree as follows:

1. Employment and Duties.

(a) Executive shall be employed as Executive Vice President and Chief Administrative Officer of Bank (collectively referred to herein as the "Position") on the terms and subject to the conditions of this Agreement. Executive accepts such employment and agrees to perform the duties and responsibilities of the Position, as may be assigned to Executive by the Chief Executive Officer or the Board of Directors of Holding Company and Bank.

(b) Executive shall devote Executive's best efforts and full time to rendering services on behalf of Employer in furtherance of its best interests. Executive shall comply with all policies, standards and regulations of Employer now or hereafter promulgated, and shall perform all duties under this Agreement to the best of Executive's abilities and in accordance with the ethics and standards of conduct applicable to employees in the banking industry.

2. Term. The Term (as defined below) of this Agreement was effective as of the Original Effective Date and continued for one year from the Original Effective Date (the "Initial Term"); provided, however, that, at the end of the Initial Term, this Agreement was automatically extended for a one-year term (a "Renewal Term"), commencing at the end of the Initial Term, and was further extended for additional Renewal Terms thereafter. This Agreement shall continue to be further extended for an additional one-year term at the end of each Renewal Term, unless either party gives written notice of non-renewal no later than sixty (60) calendar

days prior to the end of the applicable Renewal Term. During any Renewal Term, however, this Agreement may be terminated at any time pursuant to Section 6 or Section 16 below. The Term of this Agreement, including all Renewal Terms, is referred to herein as the "Term."

3. Compensation.

(a) Base Salary. During the Term, Bank shall cause Executive to be paid an annual base salary of no less than Three Hundred Thousand, Seven Hundred and Ninety-Two Dollars and Ninety-Six Cents ($300,792.96), paid in equal installments to Executive in accordance with Bank's established payroll practices (but no less frequently than monthly). Holding Company's Board of Directors or its designee, in its discretion, may increase Executive's base salary during the Term. Bank shall withhold state and federal income taxes, social security taxes and such other payroll deductions as may from time to time be required by law or agreed upon in writing by Executive and Bank. Bank shall also withhold and remit to the proper party any amounts agreed to in writing by Bank and Executive for participation in any corporate sponsored benefit plans for which a contribution is required.

(b) Bonuses. Executive shall receive only such annual bonuses, if any, as Holding Company's Board of Directors or its designee, in its sole discretion, decides to pay to Executive. Notwithstanding the prior sentence, to the extent that, during the Term, Employer establishes an annual bonus plan covering executive employees, Executive shall be eligible for a bonus in accordance with the terms of such plan. Any such bonus payable under this Section 3(b) shall be paid annually by March 15 of the calendar year following the fiscal year for which performance is being evaluated.

(c) Equity Awards. Executive may be eligible to receive equity awards under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan, or any successor plan, in such manner and subject to such terms and conditions as Holding Company's Board of Directors or its designee, in its sole discretion, may determine, if at all.

(d) Clawback. Executive agrees that any incentive compensation that Executive receives from Employer or a related entity shall be subject to repayment (i.e., clawback) to Employer or such related entity to the extent required under any repayment or clawback policy adopted by Holding Company's Board of Directors (or a committee thereof) or under any provisions of applicable law or regulation or securities exchange listing standard, in all cases whether in effect on the Effective Date or as may be adopted or amended in the future, and further consents to and agrees to abide by the terms of any such policies or provisions both during and after Executive's employment with Bank.

(e) Automobile Allowance. Employer will provide Executive the sum of $700 per month as an automobile allowance. This allowance will be included in Executive's regular payroll payments and will not be grossed up for taxes.

4. Benefits.

(a) Corporate Benefit Plans. Executive shall be entitled to participate in or become a participant in any employee benefit plan maintained by Employer for which Executive is or will become eligible on such terms as Holding Company's Board of Directors or its designee may, in its discretion, establish, modify or otherwise change.

(b) Personal Time Off. Executive shall be entitled to four weeks (20 business days) of paid time off ("PTO") each year (or such greater annual number of days allowed under Employer's PTO policy), which shall be taken in accordance with Employer's PTO Policy.

5. Reimbursement of Expenses. Executive shall be reimbursed upon Executive's incurring reasonable and customary business expenses in connection with the performance of Executive's duties, subject to presentation of adequate substantiation, including receipts, for the reasonable business travel, entertainment, lodging, and other business expenses incurred by Executive. In no event will such reimbursements be made later than the last day of the calendar month following the calendar month in which Executive submits the request for payment of the reimbursable expense, which shall be submitted no later than sixty (60) calendar days after the expense is incurred.

6. Termination of Employment.

(a) Death or Incapacity. Executive's employment under this Agreement shall terminate automatically upon Executive's death. Upon her death, Executive's spouse, if the spouse survives Executive, or, if not, Executive's estate shall receive (i) any unpaid base salary which otherwise would be payable to Executive through the date of termination payable in a lump sum on the next regular payroll date of Employer following termination, but not later than thirty (30) calendar days thereafter; (ii) any annual bonus compensation earned and awarded pursuant to Section 3(b) above for the calendar year preceding the calendar year of termination, but not yet paid as of the date of termination, payable on the earlier of (A) the thirtieth (30th) calendar day after the date of termination, or (B) when otherwise due; (iii) any benefits vested, due and owing pursuant to the terms of any other plans, policies or programs, payable when otherwise due (hereinafter subsections (i) – (iii) collectively are referred to as the "Accrued Obligations"). Executive's spouse, if the spouse survives Executive, or, if not, Executive's estate shall also receive an amount equal to Executive's base salary from the date of Executive's death through the end of the month in which Executive's death occurs, payable in a lump sum as soon as administratively feasible following Executive's death, but not later than thirty (30) calendar days thereafter. If Holding Company's Board of Directors or its designee determines that Incapacity (as defined below) of Executive has occurred, Employer may terminate Executive's employment and this Agreement upon ninety (90) calendar days' written notice, provided that, within ninety (90) calendar days after receipt of such notice, Executive shall not have returned to full-time performance of Executive's assigned duties. In the event of a termination due to "Incapacity," Bank shall pay the Accrued Obligations to Executive. For purposes of this Agreement, "Incapacity" shall occur if (i) Executive is unable to perform the material functions of Executive's position for thirteen (13) consecutive weeks and is then deemed to be unable to continue in the Position for the reasonably foreseeable future by a physician selected by Employer, and acceptable to Executive or Executive's legal representative, which consent shall not be unreasonably withheld, or (ii) Executive is deemed disabled as defined in the policy of disability insurance maintained by Employer for the benefit of Executive (and others if a group policy). Notwithstanding any other provision in this Agreement, Employer shall comply with all requirements of the Americans with Disabilities Act. Further, if Executive's employment is terminated due to death or "Incapacity," then no payments (other than the Accrued Obligations and spousal death benefit (in the event of Executive's death) described above) shall be owed or paid, including those under Section 7(a) or Section 9(a); provided, however, that in the event that Executive's employment is terminated due to Incapacity, Executive shall receive a severance amount equal to one-twelfth (1/12) of Executive's annual base salary in effect immediately preceding such termination, payable on the sixtieth (60^{th}) calendar day after Executive's termination of employment.

(b) Termination by Employer With or Without Cause. Employer may terminate Executive's employment at any time during the Term of this Agreement, with or without notice (unless otherwise required herein) and with or without Cause. For purposes of this Agreement, "Cause" shall mean:

(i) Executive's willful misconduct in connection with the performance of Executive's duties;

(ii) Executive's misappropriation or embezzlement of funds or material property of Employer or any affiliate;

(iii) Executive's fraud or dishonesty with respect to Employer or any affiliate;

(iv) Executive's willful failure to perform any of the material duties and responsibilities required by the Position (other than by reason of Incapacity), or Executive's willful failure to follow reasonable instructions or policies of Employer, in either case after being advised in writing of such failure and being given a reasonable opportunity and period (as determined by Holding Company's Board of Directors or its designee in its reasonable business judgment) to remedy such failure (if such breach or violation is capable of being remedied), which period shall be not less than thirty (30) calendar days;

(v) Executive's conviction of, indictment for (or the procedural equivalent), or entering of a guilty plea or plea of no contest with respect to any felony or any misdemeanor involving moral turpitude;

(vi) Executive's breach of a material term of this Agreement, or violation in any material respect of any policy, code or standard of behavior or ethics generally applicable to officers of Employer, after being advised in writing of such breach or violation and being given a reasonable opportunity and period (as determined by Holding Company's Board of Directors or its designee in its reasonable business judgment) to remedy such breach or violation (if such breach or violation is capable of being remedied), which period shall be not less than thirty (30) calendar days;

(vii) Executive's willful violation of any final cease and desist order;

(viii) Executive's breach of any fiduciary duty or duty of loyalty owed to Employer or its affiliates; or

(ix) Executive's engaging in conduct that, if it became known by any regulatory or governmental agency or the public, would be or is reasonably likely to result, in the good faith judgment of Holding Company's Board of Directors or its designee, in material injury to Employer, monetarily or otherwise.

(c) Termination by Executive for Good Reason. Executive may terminate employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) The assignment of duties to Executive by Employer which results in Executive having materially less authority or responsibility than Executive has on the Effective Date, without Executive's express written consent;

(ii) Employer requiring Executive to maintain Executive's principal office outside of the City of Martinsville, Virginia or any contiguous counties unless Holding Company moves its principal executive offices to the place to which Executive is required to move;

(iii) A material reduction in Executive's base salary; or

(iv) Any action or inaction by Employer that constitutes a material breach of this Agreement.

Executive is required to provide written notice to Employer detailing the existence of a condition described above in this Section 6(c) within a sixty (60) calendar day period after the initial existence of the condition, and Employer shall have thirty (30) calendar days after notice to remedy the condition without liability. In addition to the foregoing requirements, to trigger payment under this Section 6(c), Executive must also terminate employment within one hundred twenty (120) calendar days after the initial occurrence of the event constituting "Good Reason" and Employer must have been allowed the full opportunity to cure, as set forth above. In the event Executive terminates for Good Reason due to a material reduction of base salary under Section 6(c)(iii), the amount of any severance due under this Agreement shall be determined using the base salary as it exists immediately prior to such reduction.

Notwithstanding the above, "Good Reason" shall not include any resignation by Executive where Cause for Executive's termination by Employer exists under Section 6(b), or there is an isolated, insubstantial or inadvertent action by Employer (provided that such action is remedied by Employer after written notice by Executive).

(d) Other. Executive's employment hereunder may be terminated voluntarily by Executive without Good Reason upon ninety (90) calendar days' prior written notice to Employer or at any time by mutual agreement in writing. In the event of such voluntary termination notice by Executive without Good Reason, Employer may terminate Executive's employment prior to the expiration of the notice period without incurring any liability under Section 7 or Section 9, and Employer shall be required only to pay the Accrued Obligations (as defined Section 6(a)) and, for a termination due to mutual agreement of the parties or a termination by Employer prior to the expiration of the notice period described above (but not otherwise for a voluntary termination without Good Reason by Executive), a severance amount equal to one-twelfth (1/12) of Executive's annual base salary in effect immediately preceding such termination, payable on the sixtieth (60^{th}) calendar day after Executive's termination of employment.

(e) Resignation of All Positions. Unless otherwise agreed in writing, upon termination of Executive's employment hereunder, regardless of the reason for the termination or whether the employment relationship is terminated at the option of Executive or Employer, Executive shall be deemed to have resigned from all positions that Executive holds as an officer or, to the extent applicable, as a member of the board of directors (or a committee thereof) of the Employer or any of its affiliates.

7. Obligations Upon Termination Other Than Related to a Change of Control.

(a) Without Cause or for Good Reason. If either Employer terminates Executive's employment with Bank without Cause or Executive terminates Executive's employment with Bank for Good Reason during the Term, in each case other than within two (2) years after a Change of Control (as defined in Section 10), Executive shall be entitled to receive, subject to any applicable delay set forth in Section 19(b):

(i) The Accrued Obligations (as defined in Section 6(a)); and

(ii) Subject to Executive's signing, delivering and not revoking a Separation Agreement and General Release ("Release") in a form satisfactory to Employer that is substantially similar to **Exhibit A**, which Release must be signed, delivered and not revoked within the period set forth in the Release:

(A) A payment in a monthly amount equal to one-twelfth (1/12) of Executive's annual base salary in effect immediately preceding such termination for twelve (12) months, payable in accordance with Bank's established payroll practices (but no less frequently than monthly), provided that the amounts Executive would otherwise have received during the sixty (60) calendar days after Executive's termination had the payments begun immediately after Executive's termination of employment shall be paid in a lump sum on the sixtieth (60^{th}) calendar day after Executive's termination of employment (the "Severance Benefit"); and

(B) For twelve (12) months after the date of termination, Executive shall receive coverage under all employee health insurance programs or plans (medical, dental and vision) ("Health Care Plans") in which Executive and/ or Executive's spouse and any of Executive's dependents were entitled to participate immediately prior to such termination, with Employer paying the employer portion of the premium therefor (the "Health Care Continuance Benefit"), provided that the continued participation of Executive and/or Executive's spouse and any of Executive's dependents is possible under the general terms and provisions of the Health Care Plans. If Employer cannot maintain such coverage for Executive or Executive's spouse or dependents under the terms and provisions of the Health Care Plans (or where such continuation would adversely affect the tax status of the Health Care Plans pursuant to which the coverage is provided), Employer shall provide the Health Care Continuance Benefit by either providing substantially identical benefits directly or through an insurance arrangement or by paying Executive the estimated cost of the expected premium for twelve (12) months after the date of termination with such payments to be made in accordance with Bank's established payroll practices (but no less frequently than monthly) for employees generally for the period during which such cash payments are to be provided. To the extent allowed by applicable law, the twelve (12)-month Health Care Continuance Benefit period shall run concurrently with the period for which Executive and/or Executive's spouse and any of Executive's dependents would be eligible for continuation coverage under the Consolidated Omnibus Reconciliation Act of 1985 (the "COBRA Period").

(iii) In the event that Executive's employment is terminated without Cause or due to Good Reason and Executive does not sign the Release required herein, then Executive shall only receive the Accrued Obligations (as defined in Section 6(a)) and a severance amount equal to one-twelfth (1/12) of Executive's annual base salary in effect immediately preceding such termination, payable on the sixtieth (60^{th}) calendar day after Executive's termination of employment. This severance payment, along with the Accrued Obligations, shall satisfy all severance obligations of Employer to Executive under this Agreement.

Notwithstanding the foregoing, and in addition to Employer's remedies set forth in Section 8(e), all such payments and benefits under Section 7(a)(ii) otherwise to be made after Executive's termination of employment shall cease to be paid, and Employer shall have no further obligation with respect thereto, in the event Executive, without the consent of Employer, breaches or engages in any activity prohibited in Section 8 or any of its sub-parts.

(b) For Cause; Other Than for Good Reason. If Executive's employment is terminated for Cause or if Executive voluntarily terminates Executive's employment other than for Good Reason, this Agreement shall terminate without any further obligation of Employer to Executive other than the payment to Executive of the Accrued Obligations.

8. Covenants of Executive.

(a) Confidentiality. As an employee of Bank, Executive will have access to and may participate in the origination of non-public, proprietary and confidential information relating to Employer and/or its affiliates and Executive acknowledges a fiduciary duty owed to Employer and its affiliates not to disclose any such information. Confidential information may include, but is not limited to, trade secrets, customer lists and information, internal corporate planning, methods of marketing and operation, and other data or information of or concerning Employer and its affiliates or their customers that is not generally known to the public or generally in the banking industry. Executive agrees that for a period of five (5) years following the cessation of employment, Executive will not use or disclose to any third party any such confidential information, either directly or indirectly, except as may be authorized in writing specifically by Employer; provided, however that to the extent the information covered by this Section 8 is otherwise protected by the law, such as "trade secrets," as defined by the Virginia Uniform Trade Secrets Act, or customer information protected by banking privacy laws, that information shall not be disclosed or used for however long the legal protections applicable to such information remain in effect.

Nothing in this Agreement restricts or prohibits Executive or Executive's counsel from initiating communications directly with, responding to any inquiry from, volunteering information to, or providing testimony before a self-regulatory authority or a governmental, law enforcement or other regulatory authority, including the U.S. Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, the Department of Justice, the Securities and Exchange Commission, the Financial Industry Regulatory Authority, the Congress, and any Office of Inspector General (collectively, the "Regulators"), from participating in any reporting of, investigation into, or proceeding regarding suspected violations of law, or from making other disclosures that are protected under or from receiving an award for information provided under the whistleblower provisions of state or federal law or regulation. Executive does not need the prior authorization of Employer to engage in such communications with the Regulators, respond to such inquiries from the Regulators, provide confidential information or documents containing confidential information to the Regulators, or make any such reports or disclosures to the Regulators. Executive is not required to notify Employer that Executive has engaged in such communications with the Regulators. Executive recognizes and agrees that, in connection with any such activity outlined above, Executive must inform the Regulators that the information Executive is providing is confidential.

Furthermore, notwithstanding the foregoing, nothing in this Agreement shall prohibit Executive from discussing or disclosing the details relating to any claims of sexual assault, including claims under §§ 18.2-61, 18.2-67.1, 18.2-67.3 or 18.2-67.4 of the Code of Virginia, or claims of sexual harassment, including as defined in § 30-129.4 of the Code of Virginia, and including the settlements of such claims. In addition, nothing in this Section 8 or any other provision of this Agreement shall (i) prohibit Executive from making reports of possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934, as amended, or Section 806 of the Sarbanes-Oxley Act of 2002, or of any other whistleblower protection provisions of federal law or regulation, or (ii) require notification or prior approval by anyone of any such report.

Federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

- Where the disclosure is made (a) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (b) solely for the purpose of reporting or investigating a suspected violation of law; or

- Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (a) files any document containing the trade secret under seal; and (b) does not disclose the trade secret, except pursuant to court order.

(b) Non-Competition. In consideration for Employer's entering into this Agreement and in exchange for the benefits promised herein, and other valuable consideration, Executive agrees that Executive will not engage in "Competition" for a period of twelve (12) months after Executive's employment with Bank ceases for any reason. For purposes hereof, "Competition" means Executive's owning, managing or controlling, or participating in the ownership, management or control, or performing duties that are the same as or substantially similar to those duties performed by Executive for Employer during the last twelve (12) months of Executive's employment, as an officer, a director, an employee, a partner, or in any other capacity, if such ownership, management or control, or the participation therein, or the performance of such duties are of or performed for a bank, a bank holding company or other financial institution that provides products or services that are the same as or substantially similar to, and competitive with, any of the products or services provided by Employer at the time Executive's employment ceases. The restrictions set forth in this Section 8(b) shall apply only to the extent that Executive's activities (as described above in this Section 8(b)) are on behalf of a bank, bank holding company or other financial institution and its operations located within a fifty (50) mile radius surrounding the headquarters of the Bank (or any Virginia headquarters (if any) of a successor) or within a fifteen (15) mile radius surrounding any branch office of the Bank (or any successor as to its Virginia and North Carolina branches only) as such headquarters and branches are located as of the date Executive's employment ceases. Nothing herein shall prohibit Executive from working in a role that does not compete with Employer or from owning securities (debt or equity) in a publicly traded company, including competitors of Employer, if such ownership constitutes two percent (2%) or less of the aggregate principal amount of such securities issued and outstanding.

(c) Non-Piracy. In consideration for Employer's entering into this Agreement and in exchange for the benefits promised herein, and other valuable consideration, Executive agrees that for a period of twelve (12) months after Executive's employment ceases for any reason, Executive will not, directly or indirectly, solicit, divert from Bank or transact business with any "Customer" of Bank with whom Executive had "Material Contact" during the last twelve (12) months of Executive's employment or about whom Executive obtained information not known generally to the public while acting within the scope of Executive's employment during the last twelve (12) months of employment, if the purpose of such solicitation, diversion or transaction is to provide products or services that are the same as or substantially similar to, and competitive with, those offered by Bank at the time Executive's employment ceases. "Material Contact" means that Executive personally communicated with the Customer, either orally or in writing, for the purpose of providing, offering to provide or assisting in providing products or services of Bank during the last twelve (12) months of Executive's employment. "Customer" means any person or entity with whom Bank had a depository or other contractual relationship, pursuant to which Bank provided products or services during the last twelve (12) months of Executive's employment.

(d) Non-Solicitation. In consideration for Employer's entering into this Agreement and in exchange for the benefits promised herein, and other valuable consideration, Executive agrees that for a period of twelve (12) months after Executive's employment ceases for any reason, Executive will not, directly or indirectly, hire any person employed by Bank during the last six (6) months of Executive's employment, or assist others in hiring or soliciting for hire or inducing any such person to terminate employment with Bank, if the purpose is to compete with Bank.

(e) Remedies. Executive acknowledges that the covenants set forth in Section 8 of this Agreement are just, reasonable, and necessary to protect the legitimate business interests of Employer. Executive further acknowledges that if Executive breaches or threatens to breach any provision of Section 8, all payments otherwise due under Section 7(a)(ii) and 9(a) shall immediately cease, but Employer's remedies at law will be inadequate, and Employer will be irreparably harmed. Accordingly, Employer shall also be entitled to an injunction, both preliminary and permanent, restraining Executive from such breach or threatened breach, such injunctive relief not to preclude Employer from pursuing all available legal and equitable remedies, including money damages, and being entitled to all reasonable attorney's fees and costs incurred in connection with the breach, threatened breach, or any challenge to the enforceability of Section 8.

9. Termination Related to a Change of Control. The severance provisions in Section 9 shall apply for two (2) years after a Change of Control and shall replace the provisions under Section 7 during that period. This Agreement does not provide for the payment of any amounts solely due to the occurrence of a Change of Control and in all events severance benefits require a termination of employment without Cause or a resignation for Good Reason, as described herein.

(a) Without Cause or for Good Reason. If Executive's employment with Bank is involuntarily terminated without Cause within two (2) years after a Change of Control shall have occurred or if Executive terminates employment with Bank for Good Reason within two (2) years after a Change of Control shall have occurred, Executive shall be entitled to receive, subject to any applicable delay set forth in Section 19(b) below:

(i) The Accrued Obligations (as defined in Section 6(a));

(ii) Subject to Executive's signing, delivering and not revoking a Release in a form satisfactory to Employer that is substantially similar to Exhibit A, which Release must be signed, delivered and not revoked within the period set forth in the Release:

(A) A payment equal to two (2) times Executive's annual base salary in effect immediately preceding such termination payable in one lump sum, less all applicable withholdings, on the sixtieth (60th) day after Executive's termination of employment (the "Severance Benefit"); and

(B) For eighteen (18) months after the date of termination, Executive shall receive coverage under all Health Care Plans in which Executive and/or Executive's spouse and any of Executive's dependents were entitled to participate immediately prior to such termination, with Employer paying the employer portion of the premium therefor (the "Health Care Continuance Benefit"), provided that the continued participation of Executive and/or Executive's spouse and any of Executive's dependents is possible under the general terms and provisions of the Health Care Plans. If Employer cannot maintain such coverage for Executive or Executive's spouse or dependents under the terms and provisions of the Health Care Plans (or where such continuation would adversely affect the tax status of the Health Care Plans pursuant to which the coverage is provided), Employer shall provide the Health Care Continuance Benefit by either providing substantially identical benefits directly or through an insurance arrangement or by paying Executive the estimated cost of the expected premium for eighteen (18) months after the date of termination with such payments to be made in accordance with Bank's established payroll practices (but no less frequently than monthly) for employees generally for the period during which such cash payments are to be provided, less all applicable withholdings. To the extent allowed by applicable law, the eighteen (18)-month Health Care Continuance Benefit period shall run concurrently with the period for which Executive and/or Executive's spouse and any of Executive's dependents would be eligible for continuation coverage under the COBRA Period.

(C) An additional amount, payable in one lump sum, less all applicable withholdings, on the sixtieth (60th) day following Executive's termination of employment, equal to one (1) times the highest annual bonus compensation pursuant to Section 3(b) above earned by Executive for the three (3) immediately preceding complete fiscal years or such fewer number of complete fiscal years as Executive may have been employed by Employer. For the avoidance of any doubt, if Employer makes a determination to award no annual bonus compensation to Executive for the three (3) immediately preceding complete fiscal years or such fewer number of complete fiscal years as Executive may have been employed by Employer, then no amount is payable under this Section 9(a)(ii)(C).

(iii) In the event that Executive's employment is terminated without Cause or due to Good Reason within two (2) years after a Change of Control and Executive does not sign the Release required herein, then Executive shall only receive the Accrued Obligations (as defined in Section 6(a)) and a severance amount equal to one-twelfth (1/12) of Executive's annual base salary in effect immediately preceding such termination, payable on the sixtieth (60^{th}) calendar day after Executive's termination of employment. This severance payment, along with the Accrued Obligations, shall satisfy all severance obligations of Employer to Executive under this Agreement.

Notwithstanding the foregoing, and in addition to Employer's remedies set forth in Section 8(e), all such payments and benefits under Section 9(a)(ii) otherwise to be made after Executive's termination of employment shall cease to be paid, and Employer shall have no further obligation with respect thereto, in the event Executive, without the consent of Employer, engages in any activity prohibited by Section 8.

(b) Modified Cutback of Compensation Deemed to be Contingent on a Change of Control. If any benefits or payments are to be made under the terms of this Agreement or any other agreement between Executive and Employer following a transaction that constitutes a change in the ownership or effective control of Holding Company or in the ownership of a substantial portion of the assets of Holding Company such that the provisions of Section 280G of the Internal Revenue Code of 1986, as amended, and any regulations thereunder ("Code Section 280G") or Section 4999 of the Internal Revenue Code and any regulations thereunder could potentially apply to such compensation, then the following provisions shall be applicable:

(i) In the event the independent accountants serving as auditors for Holding Company on the date of a change of control within the meaning of Code Section 280G (or any other independent accounting firm designated by Holding Company) determine that some or all of the payments or benefits scheduled under this Agreement, as well as any other payments or benefits on such change of control, would be nondeductible by Employer under Code Section 280G, then the payments scheduled under this Agreement and all other agreements between Executive and Employer will be reduced to one dollar less than the maximum amount which may be paid without causing any such payment or benefit to be nondeductible. Any reduction of benefits or payments required to be made under this Section 9(b)(i) shall be taken in the following order: first from cash compensation and then from payments or benefits not payable in cash, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the date of determination.

(ii) Notwithstanding the foregoing Section 9(b)(i), in the event the independent accountants serving as auditors for Holding Company on the date of a change of control within the meaning of Code Section 280G (or any other independent accounting firm designated by Holding Company) determine that the net economic benefit to Executive after payment of all income and excise taxes is greater without giving effect to Section 9(b)(i) than Executive's net economic benefit after a reduction by reason of the application of Section 9(b)(i), then Section 9(b)(i) shall be a nullity and without any force or effect. Any decisions regarding the requirement or implementation of the reductions to compensation described in Section 9(b)(i) shall be made by the independent accountants serving as auditors for Holding Company on the date of a change of control within the meaning of Code Section 280G (or any other independent accounting firm designated by Holding Company), shall be made at Employer's expense and shall be binding on the parties.

(c) Superseding Provisions. The benefits and payments set forth in Section 9(a) that may be due in connection with a termination of employment within two (2) years after a Change of Control shall supersede all payments, entitlements and benefits of Executive otherwise payable under Section 7(a). The benefits and payments due under Section 9(a) replace those in Section 7(a), and are not cumulative thereof.

(d) For Cause; Other Than for Good Reason. If Executive's employment is terminated for Cause or if Executive voluntarily terminates Executive's employment other than for Good Reason, within two (2) years after a Change of Control, this Agreement shall terminate without any further obligation of Employer to Executive other than the payment to Executive of the Accrued Obligations.

10. Change of Control Defined. For purposes of this Agreement, a "Change of Control" occurs if (a) any person, including persons acting as a group, as defined in Treasury Regulation § 1.409A-3(i)(5), becomes the owner or beneficial owner of securities of Holding Company having more than fifty percent (50%) of the combined voting power of the then outstanding securities of Holding Company that may be cast for the election of Holding Company's directors other than a result of an issuance of securities initiated by Holding Company, or open market purchases approved by Holding Company's Board of Directors, as long as the majority of Holding Company's Board of Directors approving the purchases constitutes a majority of Holding Company's Board of Directors at the time the purchases are made; (b) during any twelve (12)-month period, as the direct or indirect result of, or in connection with, a tender or exchange offer, a merger or other business combination, a sale of assets, a contested election of directors, or any combination of these events, the persons who were directors of Employer before such events cease to constitute a majority of Holding Company's Board of Directors or any successor's board, as applicable. For purposes of this Agreement, a Change of Control occurs on the date on which an event described in (a) – (b) occurs. If a Change of Control occurs on account of a series of transactions or events, the Change of Control occurs on the date of the last of such transactions or events. The above definition of Change of Control is intended to, and shall be interpreted and applied in a manner as to, comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and any regulations thereunder ("Code Section 409A").

11. Documents. All documents, records, tapes and other media of any kind or description relating to the business of Employer or any of its affiliates or subsidiaries, and all passwords for accounts belonging to Employer (the "Documents"), whether or not prepared by Executive, shall be the sole and exclusive property of Employer. The Documents (and any copies) shall be returned to Employer upon Executive's termination of employment for any

reason or at such earlier time or times as Holding Company's Board of Directors or its designee may specify.

12. Suspension or Temporary Prohibition of Services; Permanent Prohibition of Services. If Executive is suspended and/or temporarily prohibited from participating in the conduct of Employer's affairs by a notice served pursuant to the Federal Deposit Insurance Act, Employer's obligations under this Agreement shall be suspended as of the date of service unless stayed by appropriate proceedings. If the charges in the notice are dismissed, Employer may in its discretion (a) pay Executive all or part of the compensation withheld while its contract obligations were suspended, and (b) reinstate (in whole or in part) any of its obligations which were suspended. If Executive is removed and/or permanently prohibited from participating in the conduct of Employer's affairs by an order issued under the Federal Deposit Insurance Act or the Code of Virginia, all obligations of Employer under this Agreement shall terminate as of the effective date of the order, but vested rights of the parties shall not be affected.

13. Severability/Breach Not Excuse Performance. If any provision of this Agreement, or part thereof, is determined to be unenforceable for any reason whatsoever, it shall be severable from the remainder of this Agreement and shall not invalidate or affect the other provisions of this Agreement, which shall remain in full force and effect and shall be enforceable according to their terms. No covenant shall be dependent upon any other covenant or provision herein, each of which stands independently. No breach of this Agreement by Employer shall excuse Executive's obligations under Section 8.

14. Governing Law/Venue. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia without regard to its conflict of law rules. The parties further agree that venue in the event of a dispute shall be exclusively in the Circuit Court of the City of Martinsville, or the applicable federal court encompassing that jurisdiction, at the sole option of Employer, and Executive agrees not to object to venue.

15. Notices. All written notices required by this Agreement shall be deemed given when delivered personally or sent by overnight or registered or certified mail, return receipt requested, to the parties at the following addresses (or to such other address as the party entitled to notice shall hereafter designate in accordance with the terms hereof):

To Employer: Chief Executive Officer
Carter Bankshares, Inc.
1300 Kings Mountain Road
Martinsville, VA 24112

To Executive: At Executive's home address as shown on the records of Bank.

16. Amendment and Termination of Agreement. This Agreement may not be varied, altered, modified or in any way amended except by an instrument in writing executed by the parties hereto or their legal representatives. Except as specifically set forth herein, including pursuant to the provisions of Section 6 above, this Agreement may not be terminated except by an instrument in writing executed by the parties hereto or their legal representatives.

17. Binding Effect. This Agreement shall be binding upon Executive and on Employer, its successors and assigns on the Effective Date. Employer will require any successor to all or substantially all of the business, stock or assets of Employer to assume expressly and agree to perform this Agreement in the same manner and to the same extent that Employer would be required to perform it if no such succession had taken place. This Agreement shall be freely assignable by Employer.

18. No Construction Against Any Party. This Agreement is the product of informed negotiations between Executive and Employer. If any part of this Agreement is deemed to be unclear or ambiguous, it shall be construed as if it were drafted jointly by all parties. Executive and Employer agree that neither party was in a superior bargaining position regarding the substantive terms of this Agreement.

19. Code Section 409A Compliance.

(a) The intent of the parties is that payments and benefits under this Agreement comply with Code Section 409A or comply with an exemption from the application of Code Section 409A and, accordingly, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the form or timing of payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" (within the meaning of Code Section 409A) and, for purposes of any such provision of this Agreement under which (and to the extent) deferred compensation subject to Code Section 409A is paid, references to a "termination" or "termination of employment" or like references shall mean separation from service. A "separation from service" shall not occur under Code Section 409A unless such Executive has completely severed Executive's relationship with Employer or Executive has permanently decreased Executive's services to twenty percent (20%) or less of the average level of bona fide services over the immediately preceding thirty-six (36) month period (or the full period if Executive has been providing services for less than thirty-six (36) months). A leave of absence shall only trigger a termination of employment that constitutes a separation from service at the time required under Code Section 409A. If Executive is deemed on the date of separation from service with Employer to be a "specified employee", within the meaning of that term under Code Section 409A(a)(2)(B) and using the identification methodology selected by Employer from time to time, or if none, the default methodology, then with regard to any payment or benefit that is required to be delayed for six (6) months in compliance with Code Section 409A(a)(2)(B), such payment or benefit shall be paid with interest on the earlier of (i) the first day of the seventh (7^{th}) month measured from the date of Executive's separation from service or (ii) the date of Executive's death. The amount of interest to be paid shall be based on the prime rate of interest in effect on the first day of the month following Executive's separation from service as reported in the Wall Street Journal. In the case of benefits required to be delayed under Code Section 409A, however, Executive may pay the cost of benefit coverage, and thereby obtain benefits, during such six (6) month delay period and then be reimbursed by Employer thereafter on the first day of the seventh (7th) month following the date of Executive's separation from service or, if earlier, on the date of Executive's death.

(c) With regard to any provision herein that provides for reimbursement of expenses or in-kind benefits subject to Code Section 409A, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect. All reimbursements shall be reimbursed in accordance with Employer's reimbursement policies but in no event later than the calendar year following the calendar year in which the related expense is incurred.

(d) If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment.

(e) When, if ever, a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten (10) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of Employer. In the event any payment payable upon termination of employment would be exempt from Code Section 409A under the short-term deferral exception or the involuntary severance exception under Treasury Regulation § 1.409A-1(b)(9)(iii) but for the amount of such payment, the determination of the payments to Executive that are exempt under such provisions shall be made by first applying the short-term deferral exception and then by applying the involuntary severance exception to payments based on chronological order beginning with the payments paid closest in time on or after such termination of employment.

(f) Notwithstanding any other provision of this Agreement, Executive shall be solely liable, and Employer shall not be liable in any way to Executive if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

20. Regulatory Limitation. Notwithstanding any other provision of this Agreement, neither Employer nor any subsidiary shall be obligated to make, and Executive shall have no right to receive, any payment, benefit or amount under this Agreement that would violate any law, regulation or regulatory order applicable to Employer or the subsidiary at the time such payment is due, including without limitation, any regulation or order of the Federal Deposit Insurance Corporation or the Board of Governors of the Federal Reserve System. Executive agrees that compliance by Employer with such regulatory restrictions, even to the extent that compensation or other benefits paid to Executive are limited, shall not be a breach of this Agreement by Employer.

21. Waiver of Breach. The failure at any time to enforce or exercise any right under any of the provisions of this Agreement or to require at any time performance by the other parties of any of the provisions of this Agreement shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement or any part of this Agreement, or the right of any party hereafter to enforce or exercise its rights under each and every provision in accordance with the terms of this Agreement.

22. No Attachment. Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge or hypothecation or to execution, attachment, levy or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void and of no effect; provided, however, that nothing in this Section 22 shall preclude the assumption of such rights by executors, administrators or other legal representatives of Executive or Executive's estate and their assigning any rights under this Agreement to the person or persons entitled hereto.

23. Full Capacity. The persons signing this Agreement represent that they have full authority and representative capacity to execute this Agreement in the capacities indicated below and to perform all obligations under this Agreement.

24. Representation and Warranty of Executive. Executive represents and warrants to Employer that Executive is not under any obligation, contractual or otherwise, to any other firm or corporation, which would prevent Executive from continuing in the employ of Bank under this Agreement or prevent Executive from performing the terms of this Agreement.

25. Entire Agreement. Except as otherwise provided herein, this Agreement constitutes the entire agreement of the parties with respect to the matters addressed herein and, upon the Effective Date, it supersedes all other prior agreements and understandings, both written and oral, express or implied, including the Employment Agreement between Bank and Executive dated September 29, 2017, and the amended and restated Employment Agreement, dated November 20, 2020, with respect to the subject matter of this Agreement.

26. Survivability. The provisions of Sections 8, 11, 13, 14, 15, 17, 18, 20, 21, 22, and 26 shall survive the termination, expiration or non-renewal of this Agreement.

27. Counterparts/Facsimile. This Agreement may be executed and delivered in multiple counterparts (including by Docusign or a similarly accredited secure signature service or other electronic transmission or signature), each of which when so executed and delivered shall be deemed to be an original, and all of which together shall constitute one and the same instrument. Counterparts may be delivered by facsimile, e-mail (including .pdf) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and shall be valid and effective for all purposes.

28. Case and Gender. Wherever required by the context of this Agreement, the singular or plural case and the masculine, feminine and neuter genders shall be interchangeable.

29. Title. The titles and sub-headings of each Section and Sub-Section in this Agreement are for convenience only and should not be considered part of this Agreement to aid in interpretation or construction.

[Signature Block on Next Page]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

Date: 6/23/2026	/s/ Jane Ann Davis Jane Ann Davis
Date: 6/18/2026	Carter Bankshares, Inc. By: /s/ Litz H. Van Dyke Name: Litz H. Van Dyke Title: Chief Executive Officer
Date: 6/18/2026	Carter Bank & Trust By: /s/ Litz H. Van Dyke Name: Litz H. Van Dyke Title: Chief Executive Officer
Holding Company and Bank Address: Chief Executive Officer Carter Bankshares, Inc. 1300 Kings Mountain Road Martinsville, VA 24117	Employee Address: xxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxx

EXHIBIT A

[Form of Exhibit A – Do not execute before date of termination]

SEPARATION AGREEMENT AND GENERAL RELEASE

THIS SEPARATION AGREEMENT AND GENERAL RELEASE (the "Agreement") is made and entered into by and between ___________ ("Employee") and Carter Bankshares, Inc. (the "Holding Company") and Carter Bank & Trust (the "Bank") (collectively, the Holding Company and the Bank are referred to herein as "Employer").

Statement Of Facts

Employee's employment with the Bank ceased on ________, 20__, and Employee desires to accept the following agreements, including, without limitation, certain additional consideration from the Bank to which Employee would not otherwise be entitled, in return for Employee's general release and non-disclosure agreement set forth below. Accordingly, the Bank is providing certain severance benefits pursuant to and expressly provided by a Second Amended and Restated Employment Agreement ("Employment Agreement"), dated _______. Employee, the Bank, and the Holding Company desire to settle fully and finally all differences and disputes between them that might arise, or have arisen, out of the Employment Agreement, Employee's employment, and the cessation thereof.

Statement Of Terms

In consideration of the mutual promises herein, it is agreed as follows:

1. Non-Admission of Liability. Neither this Agreement nor the Bank's offer to enter into this Agreement shall in any way be construed as an admission by the Bank or the Holding Company that they have acted wrongfully with respect to Employee or any other person, or that Employee has any rights whatsoever against them.

2. Cessation of Employment. Employee represents, understands and agrees that Employee's employment with the Bank ceased on _______, 20_ ("Separation Date"). Effective on the close of business _______, 20_, Employee ceased to be an Employee of the Bank for any purpose whatsoever and is entitled to no further payments or benefits except as provided herein.

3. Effective Date. The effective date of this Agreement shall be the eighth day after Employee signs and delivers to the Bank and the Holding Company this Agreement ("Effective Date") without revocation. The Agreement cannot be signed by Employee until the Separation Date, and it must be signed by Employee, delivered to the Director of Human Resources of the Bank, and not revoked as set forth herein, to be effective.

4. Additional Consideration. In full consideration and as a material inducement for Employee's signing this Agreement, the Bank will provide additional consideration, to which Employee would not have been otherwise entitled in the absence of this Agreement. Pursuant to Section ____ of the Employment Agreement, the Bank shall provide to Employee the payments and benefits referenced therein.

5. Cessation of Authority. Employee understands and agrees that as of the Separation Date, Employee will be no longer authorized to incur any expenses, obligations or liabilities, or to make any commitments on behalf of the Bank or the Holding Company.

6. Return of the Bank Materials and Property/Non-Interference. Employee understands and agrees that Employee immediately will return to the Bank all files, memoranda, records, credit cards, manuals, computer equipment, computer software, pagers, cellular phones, facsimile machines, vehicle, passwords, and any other equipment and other documents, and all other physical or personal property that Employee received from the Bank and Holding Company or that Employee used in the course of Employee's employment with the Bank and that are the property of the Bank and Holding Company. Employee further agrees that Employee will provide immediately upon request any and all information used by Employee to access any Bank database or other electronically stored information, including any and all passwords.

7. Continuing Obligations. Employee agrees that Employee remains bound by Employee's obligations under Sections 8, 11, 13, 14, 15, 17, 18, 20, 21, 22, and 26 of the Employment Agreement and that nothing herein affects or impedes the rights of the Bank and the Holding Company to enforce those obligations and provisions, which are incorporated herein and remain in full force and effect.

8. Severability. The provisions of this Agreement are severable, and if any part of it is found to be unenforceable, the other Sections shall remain fully valid and enforceable. This Agreement shall survive the termination of any arrangements contained herein.

9. Complete Release. As a material inducement to the Bank and the Holding Company to enter into this Separation Agreement and General Release, Employee hereby irrevocably and unconditionally releases, acquits, and forever discharges the Bank, the Holding Company, and each of their owners, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives and attorneys of such parent companies, divisions, subsidiaries and affiliates), and all persons acting by, through, under or in concert with any of them (collectively "Releasees"), or any of them, from any and all charges, complaints, claims, liabilities, obligations, promises, agreements (including the Employment Agreement), controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses of any nature whatsoever, known or unknown, suspected or unsuspected, including, but not limited to, any rights arising out of any alleged violations or breaches of any contracts, express or implied, or any tort, or any legal restrictions on the Bank's right to terminate employees, or any federal, state or other governmental law, statute, regulation, or ordinance, including without limitation (1) Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991, (race, color, religion, sex, and national origin discrimination); (2) the Americans with Disabilities Act (disability discrimination); (3) 42 U.S.C. § 1981 (discrimination); (4) the federal Age Discrimination in Employment Act (age discrimination); (5) the Older Workers Benefit Protection Act; (6) the Equal Pay Act; and (7) the Employee Retirement Income Security Act ("ERISA") ("Claim" or "Claims"), which Employee now has, owns or holds, or claims to have, own or hold, or which Employee at any time heretofore had owned or held, or claimed to have owned or held, against each or any of the Releasees at any time up to and including the Effective Date of this Agreement; provided, however, that nothing herein shall preclude Employee from filing an administrative charge with the Equal Employment Opportunity Commission, but Employee agrees that Employee shall not be entitled to any monetary recovery or any other relief arising therefrom or from any subsequent lawsuit based upon such charge or any other charge filed by anyone else.

10. Age Discrimination In Employment Act. Employee hereby acknowledges and agrees that this Agreement and the cessation of Employee's employment and all actions taken in connection therewith are in compliance with the Age Discrimination in Employment Act and the Older Workers Benefit Protection Act and that the releases set forth in Section 10 hereof shall be applicable, without limitation, to any claims brought under these Acts. Employee further acknowledges and agrees that:

a. The release given by Employee in this Agreement is given solely in exchange for the consideration set forth in Section 4 of this Agreement and such consideration is in addition to anything of value which Employee was entitled to receive prior to entering into this Agreement;

b. By entering into this Agreement, Employee does not waive rights or claims that may arise after the date this Agreement is executed;

c. Employee has been advised to consult an attorney prior to entering into this Agreement, and this provision of the Agreement satisfies the requirement of the Older Workers Benefit Protection Act that Employee be so advised in writing;

d. Employee has been offered twenty-one (21) [or forty-five (45) if applicable] calendar days from receipt of this Agreement within which to consider this Agreement; and

e. For a period of seven (7) calendar days following Employee's execution of this Agreement, Employee may revoke this Agreement by delivering written notice to the Bank's Director of Human Resources, and this Agreement shall not become effective or enforceable until such seven (7) day period has expired.

f. No change to this Agreement, material or otherwise, shall re-start the 21-day [45-day] period.

11. ADEA Notice [If needed for a group termination]. The information in this Notice is provided so Employee may make an informed decision as to whether to sign this Agreement and receive the additional consideration referenced in Section 4 hereunder. The list attached as **Exhibit 1** reflects the job titles and corresponding ages of each Employee in the class of Employees considered for termination, i.e., ______________. Those Employees collectively comprise the decisional unit from which the decisions at issue were made. _________________.

12. Continued Cooperation. Employee agrees that Employee will continue to provide reasonable cooperation in connection with any litigation, judicial or administrative proceedings or healthcare investigations, surveys or credentialing, as reasonably requested by the Bank or the Holding Company, and for which Employee possesses relevant knowledge. Nothing herein is intended to restrict or affect Employee's testimony or statements, which shall at all times be truthful.

13. No Other Representations. Employee represents and acknowledges that in executing this Agreement, Employee does not rely, and has not relied, upon any representation or statement not set forth herein made by any of the Releasees or by any of the Releasees' agents, representatives, or attorneys with regard to the subject matter, basis or effect of the Agreement or otherwise.

14. Sole and Entire Agreement. This Agreement sets forth the entire agreement between the parties hereto, and except as set forth above in Section 7 hereof in regard to continuing obligations under the Severance Agreement and the payments to be made under the Severance Agreement, supersedes any and all prior agreements or understandings between the parties pertaining to the subject matter hereof.

15. Binding Effect, Assignment. This Agreement shall be binding upon and insure to the benefit of the parties hereto and their respective heirs, representatives, successors, transferees and permitted assigns. This Agreement shall not be assignable by Employee but shall be freely assignable by the Bank and the Holding Company.

16. Counterparts. This Agreement may be executed by electronic signature and in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one (1) and the same instrument. Counterparts may be delivered by facsimile, electronic mail (including .pdf) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

____________________	____________________________________
Date	EMPLOYEE
	CARTER BANKSHARES, INC.
____________________	____________________________________
Date	By: Title: ______________________________
	CARTER BANK & TRUST
____________________	____________________________________
Date	By: Title: ______________________________

316290450v4

CHANGE OF CONTROL SEVERANCE AGREEMENT
(As Amended and Restated)

THIS CHANGE OF CONTROL SEVERANCE AGREEMENT (this "Agreement"), originally dated and effective as of January 8, 2018, which was amended and restated effective as of November 20, 2020, and which is further amended and restated, effective June 18, 2026 (the "Effective Date"), by and between Carter Bankshares, Inc. (the "Holding Company") and Carter Bank & Trust (the "Bank") and Arthur Loran Adams ("Employee").

WITNESSETH:

WHEREAS, Employee is a valuable employee of the Bank;

WHEREAS, the Bank wishes to encourage Employee to continue Employee's career and services with the Bank and to remain with the Bank during any potential change of control of the Holding Company; and

WHEREAS, the Holding Company, the Bank and Employee have agreed to enter into this Agreement, as amended and restated, to set forth the terms on which Employee may be entitled to severance pay from the Bank following a Change of Control (as defined below).

NOW, THEREFORE, for good and valuable consideration, including the mutual promises contained herein and the promise of severance benefits by the Bank and the Holding Company as described below, and the payment to Employee of One Hundred Dollars ($100.00) as additional consideration, and subject to the terms and conditions of this Agreement, it is hereby agreed by and between the parties hereto as follows:

1. Definitions.

(a) "Cause" shall mean:

(i) Employee's misconduct in connection with the performance of Employee's duties;

(ii) Employee's misappropriation or embezzlement of funds or property of the Bank or any affiliate;

(iii) Employee's fraud or dishonesty with respect to the Bank or any affiliate;

(iv) Employee's conviction of, indictment for (or the procedural equivalent), or entering of a guilty plea or plea of no contest with respect to any felony, or any misdemeanor involving moral turpitude;

(v) Employee's breach of a material term of this Agreement or any employment agreement, willful failure to perform the material duties and responsibilities of Employee's position, or willful violation in any material respect of any policy, code or standard of behavior generally applicable to officers or employees of the Bank, after being advised in writing of such breach, failure, or violation and being given a reasonable opportunity and period (as determined by the Bank) to remedy such breach, failure or violation (if such breach, failure or violation is deemed by the Bank to be capable of being remedied), which period shall be not less than thirty (30) calendar days;

(vi) Employee's material breach of any fiduciary duty or duty of loyalty owed to the Bank; or

(vii) Employee's engaging in conduct that, if it became known by any regulatory or governmental agency or the public, would be or is reasonably likely to result, in the good faith judgment of the Bank, in injury to the Bank or Holding Company, monetarily or otherwise.

(b) "Change of Control" shall mean the date any one of the following events occurs after the Effective Date of this Agreement:

(i) any one person, or more than one person acting as a group, acquires ownership of stock of the Holding Company that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Holding Company. However, if any one person or group, is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Holding Company, the acquisition of additional stock by the same person or group is not considered to cause a Change of Control. An increase in the percentage of stock owned by any one person or group, as a result of a transaction in which the Holding Company acquires its stock in exchange for property will be treated as an acquisition of stock. This applies only when there is a transfer of stock of the Holding Company (or issuance of stock of the Holding Company) and stock in the Holding Company remains outstanding after the transaction.

(ii) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the Holding Company possessing thirty percent (30%) or more of the total voting power of the stock of the Holding Company.

(iii) a majority of members of the Holding Company's Board of Directors is replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of the Holding Company's Board of Directors prior to the date of the appointment or election.

(iv) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group) assets from the Holding Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Holding Company immediately prior to such acquisition or acquisitions. For this purpose, "gross fair market value" shall mean the value of the assets of the Holding Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. A transfer of assets by the Holding Company shall not be treated as a Change of Control if the assets are transferred to: (A) a shareholder of the Holding Company (immediately before the asset transfer) in exchange for or with respect to its stock; (B) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Holding Company; (C) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Holding Company; or (D) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in Section 1(b)(iv)(C) above. A person's status is determined immediately after the transfer of the assets. For example, a transfer to a corporation in which the Holding Company has no ownership interest before the transaction, but which is a majority-owned subsidiary of the Holding Company after the transaction is not treated as a Change of Control.

For purposes of Section 1(b)(ii) and (iii) above, if any one person or more than one person acting as a group is considered to effectively control the Holding Company (within the meaning of Section 1(b)(ii) or (iii) above), the acquisition of additional control of the Holding Company by the same person or group is not considered to cause a Change of Control. For purposes of this Section 1, "more than one person acting as a group" shall include the owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock or assets, or similar business transaction with the Holding Company. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock or assets, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. Persons will not be considered to be acting as a group solely because they (I) purchase or own stock of the same corporation at the same time, or as a result of the same public offering, or (II) purchase assets of the same corporation at the same time. The above definition of Change of Control is intended to and shall be interpreted and applied in a manner as to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and any regulations thereunder ("Code Section 409A").

(c) "Good Reason" shall mean within twenty-four (24) months after a Change of Control:

(i) a material diminution in Employee's authority, duties, or responsibilities;

(ii) the Bank's required relocation of Employee to any other primary work location more than fifty (50) miles from the Employee's primary work location immediately prior to the relocation, without Employee's express written consent to such relocation; or

(iii) a material reduction in Employee's base salary as it exists as of the date of the Change of Control.

Employee is required to provide notice to the Bank of the existence of a condition described in Section 1(c) above within a sixty (60) calendar day period of the initial existence of the condition, and the Bank shall have thirty (30) calendar days after notice to remedy the condition without liability. If not remedied by the Bank, Employee shall have thirty (30) calendar days after the end of such remedy period to terminate employment for Good Reason, which termination shall be a condition of receiving benefits under Section 2(a). In the event Employee terminates for Good Reason due to a material reduction of base salary under Section 1(c)(iii), the amount of any severance due under this Agreement shall be determined using the base salary as it exists as of the date of the Change of Control.

(d) "Incapacity" shall mean (i) Employee is suffering a physical or mental impairment that renders Employee unable to perform the essential functions of Employee's position for thirteen (13) consecutive weeks and is then deemed to be unable to continue in the Position for the reasonably foreseeable future by a physician selected by the Bank , or (ii) Employee is deemed totally or residually disabled as defined in the policy of disability insurance maintained by the Bank for the benefit of Employee (and others if a group policy). Notwithstanding any other provision in this Agreement, the Bank shall comply with all requirements of the Americans with Disabilities Act.

2. Severance Payments and Other Matters Related to Termination of Employment.

(a) Without Cause or for Good Reason Within Two (2) Years After a Change of Control. If Employee's employment is involuntarily terminated without Cause (and not due to Employee's death or Incapacity) within two (2) years after a Change of Control shall have occurred or if Employee resigns for Good Reason within two (2) years after a Change of Control shall have occurred, then the Bank shall pay to Employee (subject to any applicable payroll or other taxes required to be withheld), (i) (A) any unpaid base salary for time worked through the date of termination payable in a lump sum on the next regularly scheduled payroll date thereafter (but in no event later than thirty (30) days following termination); (B) any annual bonus compensation earned and awarded during the calendar year preceding the calendar year of termination, but not yet paid as of the date of termination, payable on the earlier of the thirtieth (30th) day after the date of termination, or when otherwise due; and (C) any benefits vested, due and owing pursuant to the terms of any other plans, policies or programs, payable when otherwise due (hereinafter subsections (a)(i)(A) — (C) collectively are referred to as the "Accrued Obligations"), and (ii) subject to Employee's signing, delivering and not revoking a Separation and General Release Agreement ("Release") in a form satisfactory to the Bank and the Holding Company that shall include the provisions similar to those attached as Exhibit A, which Release must be signed, delivered and not revoked within the time period set forth therein, the following:

(A) An amount equal to one times Employee's base salary as in effect at the time of termination, payable over a period of twelve (12) months in accordance with the regular pay periods of the Bank (but not less frequently than monthly and in equal installments) beginning on the first payroll following the date of termination of employment; provided, however, that all payments otherwise due during the first sixty (60) calendar days following termination of employment shall be accumulated and, if the Release requirements have been met, paid on the sixtieth (60^{th}) calendar day following termination of employment.

(B) An amount equal to one times the average annual bonus payable for the three (3) years preceding the calendar year in which the termination occurs (or, if Employee has been employed for less than three (3) years, the average for the number of whole years the Employee has been employed prior to the calendar year in which the termination occurs). If no bonus was paid for a calendar year, then the amount to be used for that year in computing the average shall be zero. The bonus amount shall be payable over a period of twelve (12) months in accordance with the regular pay periods of the Bank (but not less frequently than monthly and in equal installments), payable in the same manner and at the same time as the payments in Section 2(a)(A).

(C) An amount equal to the product of twelve (12) times the monthly rate of the Bank's subsidy for coverage in its medical, dental and vision plans for active employees (including any applicable coverage for spouses and dependents) in effect for the Employee (and Employee's spouse or dependents, if applicable) on the date of termination, payable in a lump sum on the sixtieth (60^{th}) day following termination of employment.

(b) Modified Cutback of Compensation Deemed to be Contingent on a Change of Control. If any benefits or payments are to be made under the terms of this Agreement or any other agreement between Employee and the Holding Company and/or the Bank or a subsidiary following a transaction that constitutes a change in the ownership or effective control of the Holding Company or in the ownership of a substantial portion of the assets of the Holding Company such that the provisions of Section 280G of the Internal Revenue Code of 1986, as amended, and any regulations thereunder ("Code Section 280G") or Section 4999 of the Internal Revenue Code and any regulations thereunder could potentially apply to such compensation, then the following provisions shall be applicable:

(i) In the event the independent accountants serving as auditors for the Holding Company on the date of a change of control within the meaning of Code Section 280G (or any other independent accounting firm designated by the Holding Company) determine that some or all of the payments or benefits scheduled under this Agreement, as well as any other payments or benefits on such change of control, would be nondeductible by the Holding Company or a subsidiary under Code Section 280G, then the payments scheduled under this Agreement and all other agreements between Employee and the Holding Company or the Bank or a subsidiary will be reduced to one dollar less than the maximum amount which may be paid without causing any such payment or benefit to be nondeductible. Any reduction of benefits or payments required to be made under this Section 2(b)(i) shall be taken in the following order: first from cash compensation and then from payments or benefits not payable in cash, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the date of determination.

(ii) Notwithstanding the foregoing Section 2(b)(i), in the event the independent accountants serving as auditors for the Holding Company on the date of a change of control within the meaning of Code Section 280G (or any other independent accounting firm designated by the Holding Company) determine that the net economic benefit to Employee after payment of all income and excise taxes is greater without giving effect to Section 2(b)(i) than Employee's net economic benefit after a reduction by reason of the application of Section 2(b)(i), then Section 2(b)(i) shall be a nullity and without any force or effect. Any decisions regarding the requirement or implementation of the reductions to compensation described in Section 2(b)(i) shall be made by the independent accountants serving as auditors for the Holding Company on the date of a change of control within the meaning of Code Section 280G (or any other independent accounting firm designated by the Holding Company), shall be made at the Bank's expense and shall be binding on the parties.

(c) Other Terminations. If Employee's employment is terminated by the Bank or the Holding Company for any reason not covered in Section 2(a) above, including a termination for Cause or due to Employee's death or Incapacity or if Employee voluntarily terminates his employment other than for Good Reason within two (2) years after a Change of Control shall have occurred or if Employee's employment is terminated without Cause or by Employee for any reason other than within two (2) years after a Change of Control shall have occurred, this Agreement shall terminate without any further obligation of the Bank or the Holding Company to Employee other than the payment to Employee of the Accrued Obligations (as defined in Section 2(a) above), and, if applicable, the severance provided under Section 2(e).

(d) Resignation of All Positions. Upon termination of Employee's employment hereunder, regardless of the reason for the termination or whether the employment relationship is terminated at the option of Employee or the Bank or the Holding Company, Employee shall be deemed to have resigned from all positions that Employee holds as an officer or, to the extent applicable, as a member of the board of directors (or a committee thereof) of the Bank or the Holding Company or any of its affiliates.

(e) Failure to Sign Release; Certain Other Terminations. In the event that (i) Employee's employment is terminated without Cause or for Good Reason within the two (2) years after a Change of Control, and Employee does not sign the Release required herein, (ii) Employee's employment ends due to Incapacity, or (iii) Employee's employment is terminated by the Bank or the Holding Company without Cause other than within the two (2) years after a Change of Control, then Employee shall receive, as Employee's sole severance, an amount equal to one month of Employee's then-base salary, payable on the sixtieth (60^{th}) calendar day following termination of employment. This payment, along with the Accrued Obligations, shall satisfy all obligations of the Bank and the Holding Company under this Agreement.

3. Covenants.

(a) Non-Competition. Notwithstanding the foregoing, all such payments and benefits otherwise due under Section 2(a) of this Agreement (other than the Accrued Obligations) shall cease to be paid, and the Bank and the Holding Company shall have no further obligation due with respect thereto, immediately upon Employee engaging in any conduct prohibited in this Section 3, including any of its sub-parts. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that Employee will not engage in Competition for a period of twelve (12) months after Employee's employment with the Bank ceases for any reason, regardless of whether any benefits are due or owing under Section 2(a) at the time employment ceases but subject in all events to the requirement to pay the severance amount under Section 2(e). For purposes hereof, "Competition" means Employee's owning, managing or controlling, or participating in the ownership, management or control, or performing duties that are the same as or substantially similar to those duties performed by Employee for the Bank during the last twelve (12) months of Employee's employment, as an officer, a director, an employee, a partner, or in any other capacity, if such ownership, management or control, or the participation therein, or the performance of such duties are of or performed for a bank, a bank holding company or other financial institution that provides products or services that are the same as or substantially similar to, and competitive with, any of the products or services provided by the Bank at the time Employee's employment ceases. The restrictions set forth in this Section 3(a) shall apply only to the extent that Employee's activities (as described above in this Section 3(a)) are on behalf of a bank, bank holding company or other financial institution and its operations located within a fifty (50) mile radius surrounding the headquarters of the Bank (or any Virginia or North Carolina headquarters (if any) of a successor) or within a fifteen (15) mile radius surrounding any branch office of the Bank (or any successor as to its Virginia and North Carolina branches only) as such headquarters and branches are located as of the date Employee's employment ceases. Nothing herein shall prohibit Employee from working in a role that does not compete with the Bank or from owning securities (debt or equity) in a publicly traded company, including competitors of the Bank, if such ownership constitutes two percent (2%) or less of the aggregate principal amount of such securities issued and outstanding.

(b) Non-Piracy. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that for a period of twelve (12) months after Employee's employment ceases for any reason, Employee will not, directly or indirectly, solicit, divert from the Bank or transact business with any "Customer" of the Bank with whom Employee had "Material Contact" during the last twelve (12) months of Employee's employment or about whom Employee obtained non-public information while acting within the scope of Employee's employment during the last twelve (12) months of employment, if the purpose of such solicitation, diversion or transaction is to provide products or services that are the same as or substantially similar to, and competitive with, those offered by the Bank at the time Employee's employment ceases. "Material Contact" means that Employee personally communicated with the Customer, either orally or in writing, for the purpose of providing, offering to provide or assisting in providing products or services of the Bank. "Customer" means any person or entity with whom the Bank had a depository or other contractual relationship, pursuant to which the Bank provided products or services during the last twelve (12) months of Employee's employment.

(c) Non-Solicitation of Employees. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that for a period of twelve (12) months after Employee's employment ceases, for any reason, Employee will not, directly or indirectly, hire, assist others in hiring, or solicit for hire any person, or induce or encourage any person to terminate employment with the Bank, if such person was known by Employee to have been an employee of the Bank at any time during the last six (6) months of Employee's employment and the purpose of such hire, solicitation, or inducement is to compete with the Bank.

(d) Confidentiality. As an employee of the Bank, Employee will have access to and may participate in the origination of non-public, proprietary and confidential information relating to the Bank and/or its affiliates, including the Holding Company, and Employee acknowledges a fiduciary duty owed to the Bank and its affiliates not to disclose impermissibly any such information. Confidential information may include, but is not limited to, trade secrets, customer lists and information, internal corporate planning, methods of marketing and operation, and other data or information of or concerning the Holding Company or the Bank or its customers that is not generally known to the public or generally in the banking industry. In exchange for the benefits promised in this Agreement and other valuable consideration, Employee agrees that during employment and for a period of five (5) years following the cessation of employment, Employee will not use or disclose to any third party any such confidential information, either directly or indirectly, except as may be authorized in writing specifically by the Bank; provided, however that to the extent the information covered by this Section 3 is otherwise protected by the law, such as "trade secrets," as defined by the Virginia Uniform Trade Secrets Act, or customer information protected by banking privacy laws, that information shall not be disclosed or used for however long the legal protections applicable to such information remain in effect.

Notwithstanding the foregoing, nothing in this Agreement is intended to prohibit Employee from performing any duty or obligation that shall arise as a matter of law or limit Employee's right to communicate with any government agency. Employee shall continue to be under a duty to truthfully respond to any legal and valid subpoena or other legal process. In the event Employee is requested to disclose confidential information by subpoena or other legal process or lawful exercise of authority, Employee shall promptly provide the Bank with notice of the same and cooperate with the Bank in the Bank's effort, at its sole expense, to avoid disclosure. Moreover, nothing herein is intended to and shall not in any way proscribe or limit

Employee's right and ability to volunteer information to any federal, state, or local agency or governmental or regulatory authority.

Federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

- Where the disclosure is made (A) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or
- Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.

Furthermore, notwithstanding the foregoing, nothing in this Agreement shall prohibit Employee from discussing or disclosing the details relating to any claims of sexual assault, including claims under §§ 18.2-61, 18.2-67.1, 18.2-67.3 or 18.2-67.4 of the Code of Virginia, or claims of sexual harassment, including as defined in § 30-129.4 of the Code of Virginia, and including the settlements of such claims. In addition, nothing in this Section 3 or any other provision of this Agreement shall (i) prohibit Employee from making reports of possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934, as amended, or Section 806 of the Sarbanes-Oxley Act of 2002, or of any other whistleblower protection provisions of federal law or regulation, or (ii) require notification or prior approval by anyone of any such report. Finally, nothing herein shall preclude employee from discussing or disclosing the terms and conditions of Employee's employment or the terms and conditions of other employee's employment, including wages and hours, for the mutual aid or protection of any employee of the Holding Company and the Bank, in accordance with, if applicable, the exercise of Employee's rights under Section 7 of the National Labor Relations Act.

(e) <u>Remedies.</u> Employee acknowledges that the covenants set forth in Section 3 of this Agreement are just, reasonable, and necessary to protect the legitimate business interests of the Holding Company and the Bank. Employee further acknowledges that if Employee breaches or threatens to breach any provision of Section 3, the Holding Company's and Bank's remedies at law will be inadequate, and the Holding Company and the Bank will be irreparably harmed. Accordingly, the Holding Company and the Bank shall be entitled to their attorney's fees, costs and an injunction, both preliminary and permanent, restraining Employee from such breach or threatened breach, such injunctive relief not to preclude the Holding Company and the Bank from pursuing all other available legal and equitable remedies, including monetary damages.

4. Documents. All documents, records, tapes and other media of any kind or description relating to the business of the Bank or any of its affiliates, as well as any passwords to accounts belonging to the Bank (the "Documents"), whether or not prepared by Employee, shall be the sole and exclusive property of the Bank. The Documents (and any copies) shall be returned to the Bank upon Employee's termination of employment for any reason or at such earlier time or times as the Board of Directors of the Holding Company or its designee may specify.

5. Severability. If any provision of this Agreement, or part thereof, is determined to be unenforceable for any reason whatsoever, it shall be severable from the remainder of this Agreement and shall not invalidate or affect the other provisions of this Agreement, which shall remain in full force and effect and shall be enforceable according to their terms. No covenant shall be dependent upon any other covenant or provision herein, each of which stands independently.

6. Governing Law/Venue/Jury Waiver. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia without regard to its conflict of law rules. The parties further agree that venue in the event of any dispute between them for any reason shall be exclusively in the Circuit Court of the City of Martinsville, Virginia, or the applicable federal court, at the sole option of the Holding Company or the Bank, and Employee expressly consents to personal jurisdiction in Virginia and agrees not to object to venue. Employee further WAIVES EMPLOYEE'S RIGHT TO TRIAL BY JURY in any dispute of any nature as to the Bank, the Holding Company, or their officers, directors or employees as to matters arising out of Employee's employment. Employee acknowledges that neither the Bank nor the Holding Company has made any representation (other than this Agreement) to induce this waiver, that Employee is acting voluntarily, and that Employee has had the opportunity to seek the advice of counsel.

7. Notices. All written notices required by this Agreement shall be deemed given when delivered personally or sent by registered or certified mail, return receipt requested, to the parties at their addresses set forth on the signature page of this Agreement. Each party may, from time to time, designate a different address to which notices should be sent.

8. Amendment. This Agreement may not be varied, altered, modified or in any way amended except by an instrument in writing executed by the parties hereto or their legal representatives.

9. Binding Effect. This Agreement shall be binding upon Employee, on the Holding Company and on the Bank, their successors and assigns, effective on the Effective Date. The Holding Company will require any successor to all or substantially all of the business and/or assets of the Holding Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Holding Company or the Bank would be required to

perform it if no such succession had taken place. This Agreement shall be freely assignable by the Holding Company and the Bank.

10. No Construction Against Any Party. This Agreement is the product of informed negotiations between Employee, the Holding Company and the Bank. If any part of this Agreement is deemed to be unclear or ambiguous, it shall be construed as if it were drafted jointly by all parties. Employee, the Holding Company and the Bank agree that none of the parties was in a superior bargaining position regarding the substantive terms of this Agreement.

11. Code Section 409A Compliance.

(a) The intent of the parties is that payments and benefits under this Agreement comply with Code Section 409A or comply with an exemption from the application of Code Section 409A and, accordingly, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A.

(b) Neither Employee nor the Holding Company nor the Bank shall take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A.

(c) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the form or timing of payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" (within the meaning of Code Section 409A) and, for purposes of any such provision of this Agreement under which (and to the extent) deferred compensation subject to Code Section 409A is paid, references to a "termination" or "termination of employment" or like references shall mean separation from service. A "separation from service" shall not occur under Code Section 409A unless such Employee has completely severed Employee's relationship with the Bank and its affiliates (as determined under Code Section 409A) or Employee has permanently decreased Employee's services to twenty percent (20%) or less of the average level of bona fide services over the immediately preceding thirty-six (36) month period (or the full period if Employee has been providing services for less than thirty-six (36) months). A leave of absence shall only trigger a termination of employment that constitutes a separation from service at the time required under Code Section 409A. If Employee is deemed on the date of separation from service with the Bank to be a "specified employee", within the meaning of that term under Code Section 409A(a)(2)(B) and using the identification methodology selected by the Bank from time to time, or if none, the default methodology, then with regard to any payment or benefit that is required to be delayed in compliance with Code Section 409A(a)(2)(B), such payment or benefit shall not be made or provided prior to the earlier of (i) the expiration of the six-month period measured from the date of Employee's separation from service or (ii) the date of Employee's death. In the case of benefits required to be delayed under Code Section 409A, however, Employee may pay the cost of benefit coverage, and thereby obtain benefits, during such six-month delay period and then be reimbursed by the Bank thereafter when delayed payments are made pursuant to the next sentence. On the first day of the seventh month following the date of Employee's separation from service or, if earlier, on the date of Employee's death, all payments delayed pursuant to this Section 11(c) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to Employee in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. If any cash payment is delayed under this Section 11(c), then interest shall be paid on the amount delayed calculated at the prime rate reported in The Wall Street Journal for the date of Employee's termination to the date of payment.

(d) With regard to any provision herein that provides for reimbursement of expenses or in-kind benefits subject to Code Section 409A, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect. All reimbursements shall be reimbursed in accordance with the Bank's reimbursement policies but in no event later than the calendar year following the calendar year in which the related expense is incurred.

(e) If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment. In the event any payment payable upon termination of employment would be exempt from Code Section 409A under the short-term deferral exception or the involuntary severance exception under Treas. Reg. § 1.409A-1(b)(9)(iii) but for the amount of such payment, the determination of the payments to Employee that are exempt under such provision shall be made by first applying the short-term deferral exception and then by applying the involuntary severance exception to payments based on chronological order beginning with the payments paid closest in time on or after such termination of employment.

(f) When, if ever, a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten (10) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Bank.

(g) Notwithstanding any of the provisions of this Agreement, neither the Holding Company nor the Bank shall be liable to Employee if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

12. Regulatory Limitation. Notwithstanding any other provision of this Agreement, neither the Bank nor any affiliate shall be obligated to make, and Employee shall have no right to receive, any payment, benefit or amount under this Agreement that would violate any law, regulation or regulatory order applicable to the Bank or the affiliate at the time such payment is due, including without limitation, any regulation or order of the Federal Deposit Insurance Corporation or the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency.

13. Entire Agreement. Except as otherwise provided herein, this Agreement constitutes the entire agreement of the parties with respect to the matters addressed herein and it supersedes all other prior agreements and understandings, both written and oral, express or implied, with respect to the subject matter of this Agreement. It is further specifically agreed and acknowledged that, except as provided herein, Employee shall not be entitled to severance payments or benefits under any severance or similar plan, program, arrangement or agreement of or the Bank for any cessation of employment occurring while this Agreement is in effect.

14. Not an Employment Agreement. This Agreement is not an employment agreement, and nothing herein confers upon Employee a right of continued employment nor limits the Bank's right to terminate Employee at any time.

15. Survivability. The provisions of Sections 3, 4, 5, 6, 9, 10, and 15 shall survive the termination of this Agreement.

16. Title. The titles and sub-headings of each Section and Sub-Section in this Agreement are for convenience only and should not be considered part of this Agreement to aid in interpretation or construction.

17. Counterparts/Facsimile. This Agreement may be executed and delivered in multiple counterparts (including by Docusign or a similarly accredited secure signature service or other electronic transmission or signature), each of which when so executed and delivered shall be deemed to be an original, and all of which together shall constitute one and the same instrument. Counterparts may be delivered by facsimile, e-mail (including .pdf) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and shall be valid and effective for all purposes.

[Signature page follows]

IN WITNESS WHEREOF, the Holding Company and the Bank have caused this Agreement to be executed by an officer thereunto duly authorized, and Employee has signed this Agreement, all effective as of the date first above written.

CARTER BANKSHARES, INC.

By /s/ Litz H. Van Dyke
Litz H. Van Dyke
Title: Chief Executive Officer

ARTHUR LORAN ADAMS

/s/ Authur Loran Adams

CARTER BANK & TRUST

By /s/ Litz H. Van Dyke
Litz H. Van Dyke
Title: Chief Executive Officer

Holding Company and Bank Address:
Chief Executive Officer
Carter Bankshares, Inc.
1300 Kings Mountain Road
Martinsville, VA 24117

Employee Address:
xxxxxxxxxxxxxxx
xxxxxxxxxxxxxxxxxxxxx

[Form of Exhibit A – Do not execute before date of termination]

EXHIBIT A

SEPARATION AGREEMENT AND GENERAL RELEASE

THIS SEPARATION AGREEMENT AND GENERAL RELEASE (this "Agreement") is made and entered into by and between _______________ ("Employee") and Carter Bankshares, Inc. (the "Holding Company") and Carter Bank & Trust (the "Bank").

Statement Of Facts

Employee's employment with the Bank ceased on ________, 202__, and Employee desires to accept the following agreements, including, without limitation, certain additional consideration from the Bank to which Employee would not otherwise be entitled, in return for Employee's general release and non-disclosure agreement set forth below. Accordingly, the Bank is providing certain severance benefits pursuant to and expressly provided by a Change of Control Severance Agreement ("Severance Agreement"), dated ________, 2025. Employee, the Bank, and the Holding Company desire to settle fully and finally all differences and disputes between them that might arise, or have arisen, out of Employee's employment with the Bank, and the cessation thereof.

Statement Of Terms

In consideration of the mutual promises herein, it is agreed as follows:

1. Non-Admission of Liability. Neither this Agreement nor the Bank's offer to enter into this Agreement shall in any way be construed as an admission by the Bank or the Holding Company that they have acted wrongfully with respect to Employee or any other person, or that Employee has any rights whatsoever against them.

2. Cessation of Employment. Employee represents, understands and agrees that Employee's employment with the Bank ceased on _______, 20_ ("Separation Date"). Effective on the close of business _______, 20_, Employee ceased to be an Employee of the Bank for any purpose whatsoever and is entitled to no further payments or benefits except as provided herein.

3. Effective Date. The effective date of this Agreement shall be the eighth day after Employee signs and delivers to the Bank and the Holding Company this Agreement ("Effective Date") without revocation. This Agreement cannot be signed by Employee until the Separation Date, and it must be delivered from Employee to the Director of Human Resources of the Bank to be effective.

4. Additional Consideration. In full consideration and as a material inducement for Employee's signing this Agreement, the Bank will provide additional consideration, to which Employee would not have been otherwise entitled in the absence of this Agreement. Pursuant to Section 2(a) of the Severance Agreement, the Bank shall provide to Employee the severance payments referenced therein.

5. Cessation of Authority. Employee understands and agrees that as of the Separation Date, Employee will be no longer authorized to incur any expenses, obligations or liabilities, or to make any commitments on behalf of the Bank or the Holding Company.

6. Return of the Bank Materials and Property/Non-Interference. Employee understands and agrees that Employee immediately will return to the Bank all files, memoranda, records, credit cards, manuals, computer equipment, computer software, pagers, cellular phones, facsimile machines, vehicle, passwords, and any other equipment and other documents, and all other physical or personal property that Employee received from the Bank and Holding Company or that Employee used in the course of Employee's employment with the Bank and that are the property of the Bank and Holding Company. Employee further agrees that Employee will provide immediately upon request any and all information used by Employee to access any Bank database or other electronically stored information, including any and all passwords.

7. Continuing Obligations. Employee agrees that Employee remains bound by Employee's obligations under Sections 3, 4, 5, 6, 9, 10, and 15 of the Severance Agreement and that nothing herein affects or impedes the rights of the Bank and the Holding Company to enforce those obligations and provisions, which are incorporated herein and remain in full force and effect.

8. Severability. The provisions of this Agreement are severable, and if any part of it is found to be unenforceable, the other Sections shall remain fully valid and enforceable. This Agreement shall survive the termination of any arrangements contained herein.

9. Complete Release. As a material inducement to the Bank and the Holding Company to enter into this Separation Agreement and General Release, Employee hereby irrevocably and unconditionally releases, acquits, and forever discharges the Bank, the Holding Company, and each of their owners, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives and attorneys of such parent companies, divisions, subsidiaries and affiliates), and all persons acting by, through, under or in concert with any of them (collectively "Releasees"), or any of them, from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses of any nature whatsoever, known or unknown, suspected or unsuspected, including, but not limited to, any rights arising out of any alleged violations or breaches of any contracts, express or implied, or any tort, or any legal restrictions on the Bank's right to terminate employees, or any federal, state or other governmental law, statute, regulation, or ordinance, including without limitation (1) Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991, (race, color, religion, sex, and national origin discrimination); (2) the Americans with Disabilities Act (disability discrimination); (3) 42 U.S.C. § 1981 (discrimination); (4) the federal Age Discrimination in Employment Act (age discrimination); (5) the Older Workers Benefit Protection Act; (6) the Equal Pay Act; and (7) the Employee Retirement Income Security Act ("ERISA") ("Claim" or "Claims"), which Employee now has, owns or holds, or claims to have, own or hold, or which Employee at any time heretofore had owned or held, or claimed to have owned or held, against each or any of the Releasees at any time up to and including the Effective Date of this Agreement; provided, however, that nothing herein shall preclude Employee from filing an administrative charge with the Equal Employment Opportunity Commission, but Employee agrees that Employee shall not be entitled to any monetary recovery or any other relief arising therefrom or from any subsequent lawsuit based upon such charge or any other charge filed by anyone else.

10. Age Discrimination In Employment Act. Employee hereby acknowledges and agrees that this Agreement and the cessation of Employee's employment and all actions taken in connection therewith are in compliance with the Age Discrimination in Employment Act and the Older Workers Benefit Protection Act and that the releases set forth in Section 10 hereof shall be applicable, without limitation, to any claims brought under these Acts. Employee further acknowledges and agrees that:

a. The release given by Employee in this Agreement is given solely in exchange for the consideration set forth in Section 4 of this Agreement and such consideration is in addition to anything of value which Employee was entitled to receive prior to entering into this Agreement;

b. By entering into this Agreement, Employee does not waive rights or claims that may arise after the date this Agreement is executed;

c. Employee has been advised to consult an attorney prior to entering into this Agreement, and this provision of this Agreement satisfies the requirement of the Older Workers Benefit Protection Act that Employee be so advised in writing;

d. Employee has been offered twenty-one (21) [or forty-five (45) if applicable] calendar days from receipt of this Agreement within which to consider this Agreement; and

e. For a period of seven (7) calendar days following Employee's execution of this Agreement, Employee may revoke this Agreement by delivering written notice to the Bank's Director of Human Resources, and this Agreement shall not become effective or enforceable until such seven (7) day period has expired.

f. No change to this Agreement, material or otherwise, shall re-start the 21-day [45-day] period.

11. ADEA Notice [If needed for a group termination]. The information in this Notice is provided so Employee may make an informed decision as to whether to sign this Agreement and receive the additional consideration referenced in Section 4 hereunder. The list attached as **Exhibit 1** reflects the job titles and corresponding ages of each Employee in the class of Employees considered for termination, i.e., ______________. Those Employees collectively comprise the decisional unit from which the decisions at issue were made. _________________.

12. Continued Cooperation. Employee agrees that Employee will continue to provide reasonable cooperation in connection with any litigation, judicial or administrative proceedings or healthcare investigations, surveys or credentialing, as reasonably requested by the Bank or the Holding Company, and for which Employee possesses relevant knowledge. Nothing herein is intended to restrict or affect Employee's testimony or statements, which shall at all times be truthful.

13. No Other Representations. Employee represents and acknowledges that in executing this Agreement, Employee does not rely, and has not relied, upon any representation or statement not set forth herein made by any of the Releasees or by any of the Releasees' agents, representatives, or attorneys with regard to the subject matter, basis or effect of this Agreement or otherwise.

14. Sole and Entire Agreement. This Agreement sets forth the entire agreement between the parties hereto, and except as set forth above in Section 7 hereof in regard to continuing obligations under the Severance Agreement and the payments to be made under the Severance Agreement, supersedes any and all prior agreements or understandings between the parties pertaining to the subject matter hereof.

15. Binding Effect, Assignment. This Agreement shall be binding upon and insure to the benefit of the parties hereto and their respective heirs, representatives, successors, transferees and permitted assigns. This Agreement shall not be assignable by Employee but shall be freely assignable by the Bank and the Holding Company.

16. Counterparts. This Agreement may be executed by electronic signature and in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one (1) and the same instrument. Counterparts may be delivered by facsimile, electronic mail (including .pdf) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

____________________	____________________________________
Date	EMPLOYEE
	CARTER BANKSHARES, INC.
____________________	____________________________________
Date	By: Title: ______________________________
	CARTER BANK & TRUST
____________________	____________________________________
Date	By: Title: ______________________________

Exhibit 31.1

CARTER BANKSHARES, INC. AND SUBSIDIARIES

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.

Date: August 6, 2026

/s/ Litz H. Van Dyke

Litz H. Van Dyke

Chief Executive Officer

Exhibit 31.2

CARTER BANKSHARES, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Wendy S. Bell, certify that:

1. I have reviewed this 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.

Date: August 6, 2026

/s/ Wendy S. Bell

Wendy S. Bell
Chief Financial Officer

Exhibit 32

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 June 30, 2026, 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: August 6, 2026

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

Dated: August 6, 2026

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