

## CARTER BANKSHARES, INC. (CARE-NASDAQ)

Banking  
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### Resume Coverage at Market Perform; Resolution of Large Credit Would be a Catalyst

#### RECOMMENDATION

We resume coverage of Carter Bankshares (CARE) with a **Market Perform** rating and Aggressive Risk/Wealth Accumulation (A/ACC) suitability. CARE's management team has made significant progress in resolving problem credits and improving profitability over the past several years. As a result, the bank's ROE is now in the mid-teens with an active share repurchase program. That said, it still has one exceptionally large relationship that management is working out of the bank, which represents 7% of assets, hence our Market Perform rating. With further paydowns, and/or other signs that the large credit is closer to resolution, we would be more favorably inclined to recommend CARE as the upside potential from resolution is significant as the stock trades at TBV, continues to build capital with share repurchases, and has an asset sensitive balance sheet.

- Largest credit exposure brings unique risks and potential upside if successfully resolved.**  
 CARE has a well documented \$309M exposure to West Virginia Governor Jim Justice, which represents 9.8% of loans and 64% of risk-based capital. The loan is cross collateralized by the Greenbrier Resort in West Virginia, and non-operating entities that include undeveloped land and metallurgical coal that is permitted, but not in production. The balance of the loan was reduced by \$41M in 2022, and further reductions are expected in 2023 (additional details below). Per CARE's 10-K as of December 31, 2022, the loans to Governor Justice are classified within the "Other" category, which total \$312.5M. Of these loans, \$131.8M are substandard, and represent 93% of total substandard loans. The total allowance for loan losses for other loans was \$54.7M, of which we believe \$51.3M, or \$1.68 per share, relate to the Governor loans (16.6% reserve). Such reserves will be released as the loans are paid down or paid off. While timing and uncertainty remains, we believe meaningful paydowns in 2023 are likely to continue. In addition, a potential sale of Bluestone or continued strong coal profitability, and personal guarantees, support the potential for a positive resolution and a release of the reserve over the next 12 to 24 months.
- Accretive share repurchases likely to continue, dividend potential longer-term.** CARE's TCE/TA ratio was 7.8% as of December 31, 2022, down from 9.9% for the year-ago period, primarily due to a ~200 bp impact from AFS securities. CARE repurchased 2.6M shares, or 10% of shares outstanding in 2022, and we expect the bank will remain active in 2023. On March 29, 2023, CARE announced a 1.0M share repurchase plan effective May 1, 2023. Given the pullback in the stock, we model 1.0M in share repurchases, or 4% of shares outstanding, and a TCE/TA ratio of 8.5% by YE23.
- See below for the Governor loan, NIM, loan growth, LLR ratio, investment securities, expenses, and dividend.**
- We establish our 2023 and 2024 non-GAAP EPS estimates** of \$2.50 and \$2.20, respectively.

#### Valuation

CARE trades at 5.5x our 2023 non-GAAP EPS estimate and 1x TBV of \$13.72, versus small-cap peers at 8.2x EPS and 1.4x TBV.

APRIL 6, 2023 | 6:00 AM EDT  
COMPANY COMMENT

**Market Perform 3** old: Suspended  
**Target Price NM**

Suitability old A/ACC NM

#### MARKET DATA

Current Price (Apr-4-23)	\$13.68
Market Cap (mln)	\$328
Current Net Debt (mln)	\$152
Enterprise Value (mln)	\$479
Shares Outstanding (mln)	24.0
30-Day Avg. Daily Value (mln)	\$0.9
Dividend	\$0.00
Dividend Yield	0.0%
52-Week Range	\$12.58 - \$18.84
BVPS	\$13.72
Tangible BVPS	\$13.72
ROE	9.4%
ROAE	0.2%
ROTE	9.4%

#### KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
Non-GAAP EPS (\$, Dec FY)				
2022A	0.35	UR	UR	UR
<b>new</b>	<b>0.36</b>	<b>0.44</b>	<b>0.59</b>	<b>0.66</b>
2023E	UR	UR	UR	UR
<b>new</b>	<b>0.68</b>	<b>0.65</b>	<b>0.59</b>	<b>0.57</b>
2024E	UR	UR	UR	UR
<b>new</b>	<b>0.56</b>	<b>0.55</b>	<b>0.55</b>	<b>0.54</b>
	2022A	2023E	2024E	
Non-GAAP EPS (\$, Dec FY)				
old	UR	UR	UR	
<b>new</b>	<b>2.05</b>	<b>2.50</b>	<b>2.20</b>	
P/E (Non-GAAP)	6.7x	5.5x	6.2x	
GAAP EPS (\$, Dec FY)				
old	UR	UR	UR	
<b>new</b>	<b>2.04</b>	<b>2.50</b>	<b>2.20</b>	
Revenue (mln) (\$, Dec FY)				
old	UR	UR	UR	
<b>new</b>	<b>162</b>	<b>174</b>	<b>168</b>	

Source: Thomson One, Raymond James & Associates. Quarterly figures may not add to full year due to rounding.  
Non-GAAP EPS is operating earnings and excludes securities gains/losses and other one-time items.  
UR: Under Review.

- **Large credit to Governor of West Virginia includes personal guarantees, additional indirect met coal exposure.** CARE has a personal guarantee from the Governor, which we view as important given his ownership of Bluestone Resource, a met coal producer, which [The WSJ reported is for sale](#). If successful, the sale proceeds from Bluestone are expected to be used to pay off Credit Suisse and related Greensill obligations. That said, the coal industry has limited access to capital due to ESG policies, even though the Bluestone mines produce met coal which is essential for steel production. Limited capital, and therefore limited investment, supports [strong prices for met coal](#), which has supported strong cash flows for the industry that have allowed many miners to reduce and pay off debt. This could ultimately be the case for Bluestone as well if a sale does not materialize, at which point continued strong coal prices, combined with personal guarantees, could support the potential for a positive resolution and a release of the reserve.
- **NIM has likely peaked as funding costs begin to catch up.** CARE's NIM expanded 125 bp to 4.07% from 4Q21 to 4Q22 due to the bank's asset sensitive balance sheet, as 27% of loans were floating and an additional 41% repriced at least once during the life of the loan as of December 31, 2022. Additionally, 47% of investment securities were variable-rate with 46% that repriced at least once in 12 months. Over the same 4Q21 to 4Q22 period, CARE's deposit beta was only 2%, an unsustainable trend that we expect will catch up over the next several quarters. Deposit run-off is less of a concern for CARE as uninsured represent just 11% of deposits. We model 51 bp of NIM compression by 4Q23 to 3.56%.
- **Loan growth likely to moderate from 2022 levels but remain solid.** Total loans increased 12% in 2022 driven by a 44% increase in residential mortgages, an 11% increase in CRE, and a 25% increase in construction loans, partly offset by lower C&I and other. Loan demand remains solid with loan rates in the 6.5% to 7% range, with growth primarily from North Carolina. Due to higher rates and recent market disruption, we expect loan growth will moderate and model 5% loan growth for 2023.
- **Credit costs likely to remain low.** CARE's LLR ratio was 2.98% as of December 31, 2022, down from 3.41% a year ago due to loan growth and reserve releases for other loans. The elevated reserve reflects the allocation for the loans to Governor Justice, which we expect will decline as pay-offs continue. Total substandard loans were \$142.1M, or 4.51% of total loans, 93% of which is for the Governor. Special mention loans were 0.47% of total loans. We model a 17 bp decline in the LLR ratio to 2.81% by YE23 as we expect further reductions related to Justice, which results in provision expense to average loans of 5 bp. If our estimates were to reflect more typical credit costs of ~15-25 bp to average loans, our annual earnings estimates would be reduced by ~\$0.10-\$0.20 per share.
- **Expenses growth to be driven by investments.** CARE expects quarterly expenses in the \$24.25.5M range in 1H23, with expenses closer to \$25M in 2H23 due to expected marketing spend as CARE works to grow its brand after several years of internal focus, and expansionary activities in Charlottesville. We model expense growth of 4.4% for 2023 and an efficiency ratio of 58.0% for 2023, versus 59.6% for 2022.
- **Dividend could resume after greater economic clarity.** CARE suspended its regular dividend in 2016, but did declare one special dividend in February 2020, a sign that management and the Board are interested in a dividend resumption. We believe CARE will consider a regular dividend longer-term as profitability improved and appears sustainable, but that the current valuation and capital flexibility in the current environment favor a buyback at the current time.
- **TBV and TCE/TA ratio impacted mark-to-market accounting.** Investment securities represent \$836.3M, or 19.9% of total assets as of December 31, 2022. All securities were classified as available for sale, and 47.3% were variable rate, which includes 45.8% that repriced at least once over the next 12 months. The securities had an unrealized loss of \$109.7M, or \$3.58 per share (26% of TBV), and reduced YE22 TCE/TA by ~200 bp.

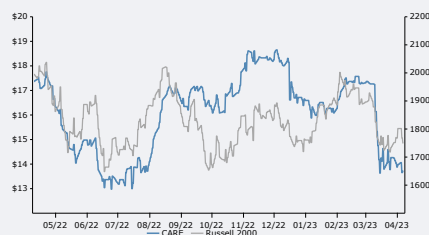
Our **Aggressive Risk/Wealth Accumulation (A/ACC)** suitability rating reflects the large loan to the Governor, which represents 7% of assets and 64% of risk-based capital.

Carter Bankshares Inc 4/5/2023 (\$ in thousands, except as noted)	Raymond James & Associates Steve Moss (202) 872-5931 steve.moss@raymondjames.com							
	2021	% Chg	2022	% Chg	2023E	% Chg	2024E	% Chg
<b>Income Statement Summary:</b>								
Net Interest Income (FTE)	112,675	5%	141,071	25%	153,967	9%	147,562	-4%
Core Non-interest Income:								
Service Charges, Commissions and Fees	6,662	43%	7,168	8%	7,383	3%	7,605	3%
Debit Card Interchange Fees	7,226	23%	7,427	3%	7,576	2%	7,727	2%
Insurance Commissions	1,901	10%	1,961	3%	2,020	3%	2,080	3%
BOLI	1,380	-1%	1,357	-2%	1,400	3%	1,400	0%
OREO	90	-81%	423	370%	0	-100%	0	NM
Commercial Loan Swap Fee Income	2,416	-40%	784	-68%	100	-87%	100	0%
Other	2,337	41%	2,862	22%	2,100	-27%	2,000	-5%
Subtotal Core	22,012	11%	21,982	0%	20,578	-6%	20,912	2%
Market Sensitive Non-interest Income:								
Gain (loss) on investment securities	6,869		-264		0		0	
Nonrecurring Income	6,869	0%	-264	-104%	0	-100%	0	NM
Total Non-interest Income	28,881	8%	21,718	-25%	20,578	-5%	20,912	2%
Operating Revenue (FTE)	140,064	6%	161,646	15%	173,776	8%	167,736	-3%
Non-interest Expense:								
Salaries and employee benefits	54,157	3%	52,399	-3%	52,100	-1%	54,705	5%
Occupancy Expense, net	13,556	1%	13,527	0%	13,700	1%	14,100	3%
FDIC Insurance	2,157	-7%	2,015	-7%	4,000	99%	4,400	10%
Other Taxes	3,129	-1%	3,319	6%	3,400	2%	3,400	0%
Advertising	952	-42%	1,434	51%	2,100	46%	2,400	14%
Telephone	2,208	-4%	1,781	-19%	2,000	12%	2,000	0%
Professional and Legal	5,255	5%	5,818	11%	5,400	-7%	5,400	0%
Data Processing	3,758	42%	4,051	8%	4,000	-1%	4,000	0%
Loss on Sales/Write-downs of OREO	3,622	130%	432	-88%	600	39%	600	0%
Loss on Sales/Write-downs Bank Premises	231	133%	0	-100%	0	NM	0	NM
Debit Card Expense	2,777	8%	2,750	-1%	2,800	2%	2,800	0%
Tax Credit Amortization	1,708	57%	621	-64%	2,000	222%	2,000	0%
OREO	407	-38%	343	-16%	400	17%	400	0%
Other	8,368	6%	8,511	2%	8,800	3%	9,700	10%
Core Expenses	102,285	6%	97,001	-5%	101,300	4%	105,905	5%
Nonrecurring Expense	0	-100%	0	NM	0	NM	0	NM
Total Non-interest Expense	102,285	6%	97,001	-5%	101,300	4%	105,905	5%
Pre-tax Pre-Provision Earnings	39,271	5%	65,788	68%	73,246	11%	62,569	-15%
Subtract Loan Loss Provision	2,081	-88%	2,928	41%	1,762	-40%	2,505	42%
Add Net Nonrecurring Gains/Charges)	(6,869)	-112%	264	-104%	0	-100%	0	NM
Reported Pretax FTE Income	35,698	109%	61,717	73%	70,714	15%	59,326	-16%
FTE Tax Rate (reported)	12%		19%		17%		17%	
Reported Net Income	31,590	-169%	50,118	59%	58,693	17%	49,241	-16%
Normalized Net Income	26,163	-1310%	50,327	92%	58,693	17%	49,241	-16%
<b>Per Share Data:</b>								
Diluted EPS - Reported	1.20		2.04	70%	2.50	23%	2.20	-12%
Diluted EPS - Core	0.99		2.05	70%	2.50	23%	2.20	-12%
Dividends	0.00	NM	0.00	NM	0.00	NM	0.20	NM
Payout ratio	0%		0%		0%		9%	
Book Value	15.42	-8%	13.72	-11%	16.19	18%	18.12	12%
Tangible Book Value	15.42	-8%	13.72	-11%	16.19	18%	18.12	12%
Avg. F.D. Shares Outstanding (000s)	26,410	0%	24,601	-7%	23,504	-4%	22,425	-5%
<b>Profitability Measures:</b>								
Return on Assets (Reported)	0.76%		1.21%		1.35%		1.11%	
Return on Assets (Normalized)	0.76%		1.21%		1.35%		1.11%	
Return on Common Equity (Norm.)	7.82%		14.57%		16.66%		12.80%	
Net Interest Margin	2.84%		3.50%		3.73%		3.50%	
Efficiency Ratio	72%		60%		58%		63%	
Fee Income % Revenues	20%		13%		12%		12%	
<b>Balance Sheet</b>								
EOP Loans	2,812,357	-6%	3,148,913	12%	3,315,858	5%	3,471,034	5%
Average Loans	2,941,315	-1%	2,988,109	2%	3,226,948	8%	3,390,385	5%
Average Earning Assets	3,971,470	4%	4,023,358	1%	4,139,448	3%	4,215,385	2%
Average Total Assets	4,142,388	0%	4,132,694	0%	4,357,314	0%	4,437,248	0%
<b>Asset Quality Measures:</b>								
Provision % Avg. Loans	0.07%		0.10%		0.05%		0.07%	
Net Charge-offs % Avg. Loans	0.79%		0.15%		0.08%		0.15%	
Loss Reserve % Loans	3.41%		2.98%		2.81%		2.61%	
Loss Reserve % Noncurrent Lns	1297%		1412%		685%		546%	
Nonperforming Asset Ratio (%)	0.65%		0.48%		0.66%		0.72%	
Noncurrent Asset Ratio (%)	0.65%		0.48%		0.66%		0.72%	
<b>Capital &amp; Leverage Measures:</b>								
Total Equity % Assets	9.9%		7.8%		8.5%		8.9%	
Tangible Common Equity % Assets	9.9%		7.8%		8.5%		8.9%	
Earnings Retention Ratio (%)	8%		15%		17%		12%	
Avg. Loans % Avg. Emrg Assets	74%		74%		78%		80%	

Carter Bankshares Inc 4/5/2023 (\$ in thousands, except as noted)					Raymond James & Associates Steve Moss (202) 872-5931 steve.moss@raymondjames.com							
	1Q22	2Q22	3Q22	4Q22	1Q23E	2Q23E	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E
<b>Income Statement Summary:</b>												
Net Interest Income (FTE)	28,520	32,752	38,004	41,795	39,712	38,966	37,883	37,407	36,431	36,727	37,050	37,354
Core Non-interest Income:												
Service Charges, Commissions and Fees	1,953	1,749	1,750	1,716	2,012	1,801	1,803	1,767	2,072	1,856	1,857	1,821
Debit Card Interchange Fees	1,932	1,850	1,788	1,857	1,971	1,887	1,824	1,894	2,010	1,925	1,860	1,932
Insurance Commissions	269	568	876	248	277	585	902	255	285	603	929	263
BOLI	334	334	341	348	350	350	350	350	350	350	350	350
OREO	383	12	13	15	0	0	0	0	0	0	0	0
Commercial Loan Swap Fee Income	10	756	18	0	25	25	25	25	25	25	25	25
Other	478	296	457	1,631	500	500	500	600	500	500	500	500
Subtotal Core	5,359	5,565	5,243	5,815	5,134	5,149	5,404	4,892	5,242	5,258	5,521	4,891
Market Sensitive Non-interest Income:												
Gain (loss) on investment securities	(24)	39	(8)	(271)	0	0	0	0	0	0	0	0
Nonrecurring Income	(24)	39	(8)	(271)	0	0	0	0	0	0	0	0
Total Non-interest Income	5,335	5,604	5,235	5,544	5,134	5,149	5,404	4,892	5,242	5,258	5,521	4,891
Operating Revenue (FTE)	33,557	38,063	42,960	47,066	44,648	43,920	43,097	42,112	41,491	41,801	42,386	42,058
Non-interest Expense:												
Salaries and employee benefits	11,757	12,444	13,520	14,678	12,400	12,700	13,500	13,500	13,020	13,335	14,175	14,175
Occupancy Expense, net	3,352	3,296	3,412	3,467	3,500	3,400	3,400	3,400	3,600	3,500	3,500	3,500
FDIC Insurance	368	629	543	475	1,000	1,000	1,000	1,000	1,100	1,100	1,100	1,100
Other Taxes	804	819	848	848	850	850	850	850	850	850	850	850
Advertising	239	267	368	560	400	500	600	600	600	600	600	600
Telephone	488	454	448	391	500	500	500	500	500	500	500	500
Professional and Legal	1,219	1,202	1,310	2,087	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350
Data Processing	841	842	833	1,535	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Loss on Sales/Write-downs of OREO	159	(60)	169	164	150	150	150	150	150	150	150	150
Loss on Sales/Write-downs Bank Premise:	0	0	0	0	0	0	0	0	0	0	0	0
Debit Card Expense	633	659	797	661	700	700	700	700	700	700	700	700
Tax Credit Amortization	615	615	(764)	155	500	500	500	500	500	500	500	500
OREO	41	141	38	123	100	100	100	100	100	100	100	100
Other	1,995	2,102	1,941	2,473	2,200	2,200	2,200	2,200	2,200	2,500	2,500	2,500
Core Expenses	22,511	23,410	23,463	27,617	24,650	24,950	25,850	25,850	25,670	26,185	27,025	27,025
Nonrecurring Expense	0	0	0	0	0	0	0	0	0	0	0	0
Total Non-interest Expense	22,511	23,410	23,463	27,617	24,650	24,950	25,850	25,850	25,670	26,185	27,025	27,025
Pre-tax Pre-Provision Earnings	11,344	14,946	19,776	19,722	20,196	19,165	17,436	16,449	16,003	15,799	15,546	15,220
Subtract Loan Loss Provision	394	2,083	80	371	360	423	497	481	490	675	676	664
Add Net Nonrecurring Gains(Charges)	24	(39)	8	271	0	0	0	0	0	0	0	0
Reported Pretax FTE Income	10,652	12,570	19,417	19,078	19,638	18,547	16,749	15,780	15,331	14,941	14,685	14,369
FTE Tax Rate (reported)	12%	14%	26%	18%	17%	17%	17%	17%	17%	17%	17%	17%
Reported Net Income	9,323	10,778	14,408	15,609	16,299	15,394	13,902	13,098	12,725	12,401	12,188	11,926
Normalized Net Income	9,342	10,747	14,414	15,823	16,299	15,394	13,902	13,098	12,725	12,401	12,188	11,926
<b>Per Share Data:</b>												
Diluted EPS - Reported	0.36	0.44	0.59	0.65	0.68	0.65	0.59	0.57	0.56	0.55	0.55	0.54
Diluted EPS - Core	0.36	0.44	0.59	0.66	0.68	0.65	0.59	0.57	0.56	0.55	0.55	0.54
Dividends	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.05	0.05	0.05
Payout ratio	0%	0%	0%	0%	0%	0%	0%	0%	9%	9%	9%	9%
Book Value	14.35	13.60	13.06	13.72	14.38	15.03	15.63	16.19	16.69	17.17	17.65	18.12
Tangible Book Value	14.35	13.60	13.06	13.72	14.38	15.03	15.63	16.19	16.69	17.17	17.65	18.12
Avg. F.D. Shares Outstanding (000s)	25,741	24,490	24,265	23,907	23,891	23,675	23,375	23,075	22,800	22,550	22,300	22,050
<b>Profitability Measures:</b>												
Return on Assets (Reported)	0.92%	1.05%	1.39%	1.49%	1.53%	1.42%	1.26%	1.18%	1.17%	1.12%	1.09%	1.06%
Return on Assets (Normalized)	0.92%	1.05%	1.39%	1.49%	1.53%	1.42%	1.26%	1.18%	1.17%	1.12%	1.09%	1.06%
Return on Common Equity (Norm.)	9.87%	12.48%	17.62%	19.25%	19.70%	17.74%	15.40%	14.16%	13.77%	13.03%	12.46%	12.00%
Net Interest Margin	2.91%	3.27%	3.75%	4.07%	3.91%	3.79%	3.62%	3.56%	3.53%	3.49%	3.49%	3.49%
Efficiency Ratio	66%	61%	54%	58%	55%	57%	60%	61%	62%	62%	63%	64%
Fee Income % Revenues	16%	15%	12%	12%	11%	12%	12%	12%	13%	13%	13%	12%
<b>Balance Sheet</b>												
EOP Loans	2,894,200	2,997,896	3,032,862	3,148,913	3,180,402	3,224,928	3,270,077	3,315,858	3,349,016	3,389,205	3,429,875	3,471,034
Average Loans	2,844,898	2,978,444	3,024,872	3,104,221	3,164,658	3,202,665	3,247,502	3,292,967	3,332,437	3,369,110	3,409,540	3,450,454
Average Earning Assets	3,974,341	4,020,589	4,024,880	4,073,623	4,114,658	4,127,665	4,147,502	4,167,967	4,182,437	4,219,110	4,209,540	4,250,454
Average Total Assets	4,129,312	4,123,253	4,118,795	4,159,415	4,331,218	4,344,910	4,365,792	4,387,334	4,402,565	4,441,169	4,431,095	4,474,162
<b>Asset Quality Measures:</b>												
Provision % Avg. Loans	0.06%	0.28%	0.01%	0.05%	0.05%	0.05%	0.06%	0.06%	0.06%	0.08%	0.08%	0.08%
Net Charge-offs % Avg. Loans	0.03%	0.03%	0.49%	0.05%	0.05%	0.05%	0.10%	0.10%	0.15%	0.15%	0.15%	0.15%
Loss Reserve % Loans	3.33%	3.27%	3.10%	2.98%	2.95%	2.91%	2.86%	2.81%	2.76%	2.71%	2.66%	2.61%
Loss Reserve % Noncurrent Lns	1321%	815%	1343%	1412%	1380%	1031%	806%	685%	557%	553%	550%	546%
Nonperforming Asset Ratio (%)	0.64%	0.68%	0.50%	0.48%	0.48%	0.54%	0.61%	0.66%	0.74%	0.74%	0.73%	0.72%
Noncurrent Asset Ratio (%)	0.64%	0.68%	0.50%	0.48%	0.48%	0.54%	0.61%	0.66%	0.74%	0.74%	0.73%	0.72%
<b>Capital &amp; Leverage Measures:</b>												
Total Equity % Assets	8.7%	8.1%	7.7%	7.8%	7.9%	8.1%	8.3%	8.5%	8.6%	8.7%	8.8%	8.9%
Tangible Common Equity % Assets	8.7%	8.1%	7.7%	7.8%	7.9%	8.1%	8.3%	8.5%	8.6%	8.7%	8.8%	8.9%
Earnings Retention Ratio (%)	10%	12%	18%	19%	20%	18%	15%	14%	13%	12%	11%	11%
Avg. Loans % Avg. Erng Assets	72%	74%	75%	76%	77%	78%	78%	79%	80%	80%	81%	81%

### COMPANY DESCRIPTION

Carter Bank & Trust, headquartered in Martinsville, Virginia, is a more than \$4 billion in asset community bank with roughly 90 branches in Virginia and North Carolina.



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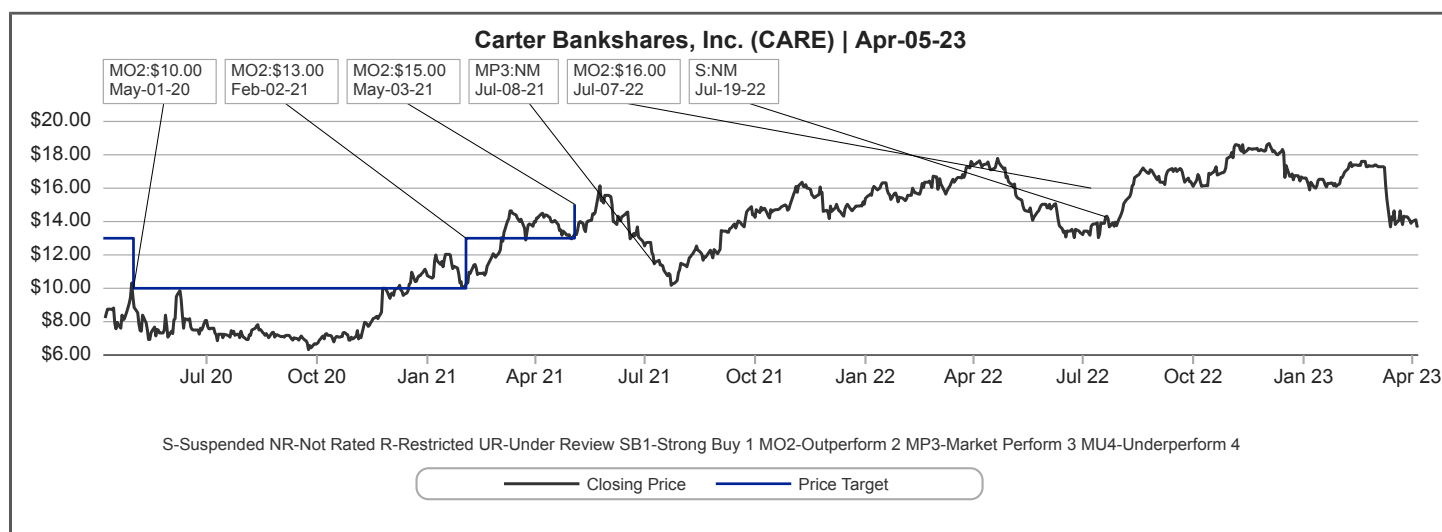
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## Valuation Methodology

### Carter Bankshares, Inc.

For Carter, our valuation methodology utilizes a 12-month estimate of intrinsic value and also takes into consideration the company's price/tangible book value and P/E ratio in comparison to its return on tangible equity and its peer group.

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## Company Specific Risk Factors

### Carter Bankshares, Inc.

**Interest Rate Risk:** As a bank holding company, Carter's revenue stream is inherently sensitive to changes in interest rates, and earnings estimates could vary based on the direction and degree of said changes.

**Competition:** Substantial competition exists in many of Carter's primary markets from domestic banks and thrifts, foreign banks, and specialty finance companies. The level and aggressiveness of competition could lead to adverse pressures on both asset yields and funding costs, which could negatively impact the company's margins and pressure its profitability.

**Regulatory Reform:** With myriad regulatory and legislative changes facing the industry, these amendments may negatively impact fee income across the industry. Carter's asset size excludes it from the debit interchange provision in the Durbin Amendment under the Dodd-Frank Act; however, competitive industry pressures may force the company to charge similar fees to remain competitive, which could ultimately impact profitability.

**Macroeconomic Risk:** Most of Carter's customers are individuals or small and medium-sized businesses, which are dependent upon the regional economies in which the company operates (Virginia and North Carolina). If unemployment levels rise or the housing market weakens in these markets, credit losses could accelerate more rapidly than anticipated, causing downside to our earnings expectations. Conversely, if unemployment levels decline and the housing market strengthens meaningfully, or if losses in weak markets are less than expected, there could be upside to our estimates.

**Acquisition Risk:** Since 2008, Carter has completed one whole bank acquisition and a branch transaction. Acquiring a financial services company involves a number of risks, including those related to asset quality issues, loss of customers, entering new and unfamiliar markets, and integration of the acquired bank. In particular, integration poses a number of challenges, as the company must expend substantial resources to integrate acquired entities. Such failure to integrate acquired entities may adversely affect the company's results of operations and financial condition.



**Credit Risk:** Carter Originates residential, commercial, and consumer loans, which may enter default, especially during times of economic stress. Depending on the health of the economy and the creditworthiness of its borrowers, loans could default more rapidly than anticipated, which could translate into higher losses at the bank.

**Aggressive Risk Suitability:** Our Aggressive Risk/Wealth Accumulation (A/ACC) suitability rating reflects the large loan to the Governor, which represents 7% of assets and 64% of risk-based capital.

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<b>Total Number of Companies</b>	956	100%	245	100%	111		42	

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