

FEDERAL DEPOSIT INSURANCE CORPORATION  
Washington, D.C. 20429

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to § 240.14a-12

CARTER BANK & TRUST

---

(Name of Registrant as Specified in its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

- Fee paid previously by preliminary materials.

---

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

---

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

IMPORTANT ANNUAL MEETING INFORMATION

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.



## Annual Meeting Proxy Card

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

**A Proposals — The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 and 3.**

1. To elect the 13 persons listed below to serve as Directors of the Bank until the 2019 Annual Meeting of Shareholders:

	For	Withhold		For	Withhold		For	Withhold
01 - Michael R. Bird	<input type="checkbox"/>	<input type="checkbox"/>	02 - Robert W. Conner	<input type="checkbox"/>	<input type="checkbox"/>	03 - Gregory W. Feldmann	<input type="checkbox"/>	<input type="checkbox"/>
04 - Chester A. Gallimore	<input type="checkbox"/>	<input type="checkbox"/>	05 - Charles E. Hall	<input type="checkbox"/>	<input type="checkbox"/>	06 - James W. Haskins	<input type="checkbox"/>	<input type="checkbox"/>
07 - Phyllis Q. Karavatakis	<input type="checkbox"/>	<input type="checkbox"/>	08 - Lanny A. Kyle, O.D.	<input type="checkbox"/>	<input type="checkbox"/>	09 - George W. Lester, II	<input type="checkbox"/>	<input type="checkbox"/>
10 - E. Warren Matthews	<input type="checkbox"/>	<input type="checkbox"/>	11 - Catharine L. Midkiff	<input type="checkbox"/>	<input type="checkbox"/>	12 - Joseph E. Pigg	<input type="checkbox"/>	<input type="checkbox"/>
13 - Litz H. Van Dyke	<input type="checkbox"/>	<input type="checkbox"/>						

2. Ratification of the appointment of the independent registered public accounting firm of Yount, Hyde & Barbour, P. C. as the independent auditors of the Bank for the fiscal year ending December 31, 2018.

For  Against  Abstain

3. To approve the Carter Bank & Trust 2018 Omnibus Equity Incentive Plan.

For  Against  Abstain

4. To transact such other business as may be properly brought before the meeting or any adjournment thereof. The Board of Directors at present knows of no other business to be presented at the Annual Meeting.

**B Authorized Signatures — This section must be completed for your vote to be counted. — Date and Sign Below**

All joint owners must sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title. If more than one trustee, all should sign and provide full title as such.

Date (mm/dd/yyyy) — Please print date below.

Signature 1 — Please keep signature within the box.

Signature 2 — Please keep signature within the box.

/ /

**IF VOTING BY MAIL, YOU MUST COMPLETE SECTIONS A - C ON BOTH SIDES OF THIS CARD.**

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.



**Proxy — Carter Bank & Trust**

**ANNUAL MEETING OF SHAREHOLDERS OF CARTER BANK & TRUST**

**Proxy Solicited by Board of Directors for Annual Meeting — June 27, 2018**

KNOW ALL MEN BY THESE PRESENT THAT I, the undersigned Shareholder of CARTER BANK & TRUST, MARTINSVILLE, VIRGINIA (the "Bank"), do hereby nominate and appoint Charles E. Hall, James W. Haskins, and E. Warren Matthews, or \_\_\_\_\_, or any of them (with full power to act alone), my true and lawful attorney(s) with full power of substitution for me, and in my name, place and stead to vote all of the Common Stock of the Bank, standing in my name on its stock transfer books on April 30, 2018, at the Annual Meeting of its Shareholders to be held at the **Frith Center at Patrick Henry Community College, 645 Patriot Ave, Martinsville, Virginia 24112, June 27, 2018 at Ten O'clock A.M.**, or at any adjournment thereof with all the powers the undersigned would possess if personally present.

The undersigned hereby acknowledges receipt of the Bank's Proxy Statement dated May 24, 2018 and hereby revokes all proxies previously given. **THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS AND MAY BE REVOKED PRIOR TO ITS EXERCISE.** The Board of Directors recommends a vote "FOR" all director nominees in Proposal 1, "FOR" Proposal 2 and "FOR" Proposal 3. The Proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder. **If no direction is made, this Proxy will be voted "FOR" all director nominees in Proposal 1, "FOR" Proposal 2, "FOR" Proposal 3, and according to the recommendations of the Board of Directors on any other matters that may properly come before the meeting or any adjournment thereof.**

In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.  
(Items to be voted appear on reverse side.)

**C Non-Voting Items**

**Change of Address** — Please print your new address below.

**Comments** — Please print your comments below.

**Meeting Attendance**

Mark the box to the right if you plan to attend the Annual Meeting

**IF VOTING BY MAIL, YOU MUST COMPLETE SECTIONS A - C ON BOTH SIDES OF THIS CARD.**

**NOTICE TO HOLDERS OF SHARES OF COMMON STOCK OF**



**Carter Bank & Trust**

1300 KINGS MOUNTAIN ROAD  
MARTINSVILLE, VIRGINIA 24112

NOTICE IS HEREBY GIVEN that pursuant to its Bylaws and call of its Directors, the 2018 Annual Meeting of Shareholders of CARTER BANK & TRUST, Martinsville, Virginia will be held at the **Frith Center at Patrick Henry Community College, 645 Patriot Ave., Martinsville, Virginia 24112, Wednesday, June 27, 2018 at 10:00 a.m.**, for the purposes of considering and voting upon the following matters:

1. To elect the 13 persons listed in the proxy statement dated May 24, 2018 to serve as Directors of the Bank until the 2019 Annual Meeting of Shareholders.
2. To ratify the appointment of the independent registered public accounting firm of Yount, Hyde & Barbour, P.C. as the independent auditors of the Bank for the fiscal year ending December 31, 2018.
3. To approve the Carter Bank & Trust 2018 Omnibus Equity Incentive Plan.
4. To transact such other business as may be properly brought before the meeting or any adjournment thereof. The Board of Directors at the present knows of no other business to be presented at the Annual Meeting.

Only those shareholders of record at the close of business on April 30, 2018 shall be entitled to notice of the meeting and to vote at the meeting or any adjournment thereof.

**Important Notice Regarding the Availability of Proxy Materials for the Shareholders' Meeting to be held June 27, 2018.** The 2018 Proxy Statement, Proxy Card, and Annual Report to Shareholders for the year ended December 31, 2017, are also available at [www.carterbankandtrust.com](http://www.carterbankandtrust.com).

By Order of the Board of Directors

/s/ James W. Haskins

**James W. Haskins**  
**Chairman of the Board**

May 24, 2018

**CARTER BANK & TRUST  
1300 Kings Mountain Road  
Martinsville, Virginia 24112  
PROXY STATEMENT**

**FIRST MAILED ON OR ABOUT MAY 24, 2018  
FOR THE 2018 ANNUAL MEETING OF SHAREHOLDERS**

This proxy statement is furnished in connection with the solicitation of the proxies to be used at the 2018 Annual Meeting of Shareholders (the "Annual Meeting") of Carter Bank & Trust, Martinsville, Virginia (the "Bank") to be held June 27, 2018. The Bank is a banking institution, incorporated under Virginia law.

Proxies in the form enclosed herewith are solicited by the Board of Directors (or the "Board") of the Bank. In addition to the solicitation of proxies by this proxy statement, officers and regular employees of the Bank may solicit proxies from shareholders in person, by telephone, or by mail, acting without any compensation other than their regular compensation. The cost of soliciting proxies will be borne by the Bank. To obtain directions to attend the Annual Meeting and vote in person, please contact Tammy C. Ingram, Vice President & Accounting Operations Manager of the Bank, at 276-226-2097.

If the enclosed proxy is properly signed and returned to the Bank, the shares represented thereby will be voted at the Annual Meeting in accordance with the specifications made on the proxy. When no choice is indicated, the proxy will be voted "FOR" all Director nominees in Proposal 1, "FOR" Proposal 2, "FOR" Proposal 3 and according to the recommendations of the Board of Directors on any other matter that may properly come before the meeting or any adjournment thereof. Any proxy given pursuant to this solicitation may be revoked at any time prior to the voting by submitting a subsequently dated proxy or by delivering a notification of revocation in writing to the Board, or by attending the meeting and requesting to vote the shares in person.

The number of shares of common stock outstanding and entitled to vote at the 2018 Annual Meeting of Shareholders is 26,257,761 as of the record date. Only those shareholders of record at the close of business April 30, 2018 shall be entitled to vote at the meeting.

A majority of the shares entitled to be voted, represented in person or by proxy, will constitute a quorum for the transaction of business at the meeting. Each share is entitled to one vote upon each matter to be presented at the meeting.

With regard to the election of Directors, votes may be cast in favor of any given Director or withheld. If a quorum is present, the nominees receiving the greatest number of the votes cast (even if less than a majority) will be elected Directors; therefore, votes withheld will have no effect.

For the ratification of the selection of independent registered public accounting firm Yount, Hyde & Barbour, P.C. as the independent auditors of the Bank for the 2018 fiscal year and the approval of the Carter Bank & Trust 2018 Omnibus Equity Incentive Plan (the "Plan"), votes may be cast in favor or against, or you may abstain from voting. If a quorum is present, the proposal to ratify the selection of Yount, Hyde & Barbour, P.C. as the Bank's independent registered public accounting firm will be approved if the votes cast in favor of the proposal exceed the votes cast against the proposal. If a quorum is present, the proposal to approve the Plan will be approved if a majority of the shares entitled to vote on the proposal vote in favor of the proposal.

An abstention does not constitute a vote "for" or "against." "Broker non-votes" (i.e., shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owner or the persons entitled to vote the shares, and (ii) the broker does not have discretionary voting power on a particular matter) will be treated in the same manner as abstentions. The election of directors and the approval of the Plan are not considered routine

matters and, therefore, brokers do not have discretionary voting power with respect to these proposals. The ratification of the selection of Yount, Hyde & Barbour, P.C. as the Bank's independent registered public accounting firm for the 2018 fiscal year is considered a routine matter and, therefore, brokers do have discretionary voting power with respect to this proposal. Although abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business, they will have no effect on the outcome of any of the proposals, except that abstentions and broker non-votes will have the effect of votes against the proposal to approve the Plan.

## **PROPOSAL 1**

### **ELECTION OF DIRECTORS**

The exact size of the Board of Directors shall be fixed by the Board of Directors prior to each annual meeting. As established in the Bylaws, the number of Directors shall at no time be less than 5 nor more than 30. The Board of Directors set the size of the Board at 13 Directors. The Board of Directors, in its capacity as the Nominating Committee, has nominated the 13 persons named below to the Board of Directors to serve until the 2019 Annual Meeting of Shareholders or until their successors have been elected and qualified. Each of the nominees is a current member of the Board of Directors. Mr. Michael R. Bird and Ms. Catharine L. Midkiff, the two new Directors, were initially recommended to the Board of Directors, in its capacity as the Nominating Committee, by Mr. Mason and Ms. Karavatakis respectively. Mr. Sidney D. Mason announced his resignation from the Board of Directors, effective January 1, 2018. The Bank's Board of Directors believes that the nominees will be available and able to serve as Directors if elected, but if any of these nominees becomes unavailable or unable to serve, the persons named in the proxy may exercise discretionary authority to vote for a substitute proposed by the Bank's Board of Directors. In no event will a proxy be voted for more than 13 Directors.

It is the intent of the persons named in the proxy, unless otherwise directed therein, to vote "FOR" the election of the following nominees:

<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Principal Occupation</b>
Michael R. Bird	63	2018	Chief Financial Officer, Virginia Lutheran Homes, Inc. (operator of retirement community and nursing and rehabilitation center)
Robert W. Conner	78	1985*	Retired, Clerk of Circuit Court of Halifax County, Virginia
Gregory W. Feldmann	61	2017	President, Skyline Capital Strategies, LLC (management consultancy group)
Chester A. Gallimore	81	1978*	President, Wills Ridge Supply (building supply products)
Charles E. Hall	76	1978*	Farmer
James W. Haskins	77	1982*	Chairman of the Board of Directors, Carter Bank & Trust; Attorney and Principal, Young, Haskins, Mann, Gregory, McGarry, and Wall, P.C.
Phyllis Q. Karavatakis	62	2017	Vice Chairman of the Board of Directors, Carter Bank & Trust; President and Chief Banking Officer, Carter Bank & Trust
Lanny A. Kyle, O.D.	64	2003*	Retired, Optometrist

<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Principal Occupation</b>
George W. Lester, II	79	1976*	Chairman and Chief Executive Officer, Lester Group, Inc. (forest products company)
E. Warren Matthews	77	1998*	Attorney, Harris, Matthews & Crowder, P.C.
Catharine L. Midkiff	58	2018	Retired, Executive from General Electric Capital Corporation
Joseph E. Pigg	82	1976*	President, Millard's Machinery, Inc. (industrial and logging equipment sales and service business)
Litz H. Van Dyke	54	2017	Chief Executive Officer, Carter Bank & Trust

\*Indicates year first served as a director of one of the 10 banking institutions that were merged into and created. Carter Bank & Trust in 2006 (each a "Merged Bank" and collectively, the "Merged Bank"). The Merged Banks were Blue Ridge Bank, N.A., Central National Bank, Community National Bank, First National Bank, First National Exchange Bank, Mountain National Bank, Patrick Henry National Bank, Patriot Bank, N.A., Peoples National Bank and Shenandoah National Bank.

The Board of Directors is not aware of any family relationship between any Director, executive officer or person nominated by the Bank to become a Director; nor is the Board of Directors aware of any involvement in legal proceedings that would be material to an evaluation of the ability or integrity of any Director, executive officer or person nominated to become a Director.

The following paragraphs provide information regarding each nominee's specific experience, qualifications, attributes and skills that led to the conclusion that he or she should serve as a Director. We also believe that all of our Director nominees have a reputation for honesty and adherence to high ethical standards.

**Michael R. Bird** has more than 30 years of experience in the long-term care industry. He is the Chief Financial Officer of Virginia Lutheran Homes Inc., which owns and operates a continuing care retirement community and nursing and rehabilitation center in Roanoke, Virginia and two rent subsidized apartments with supportive services in Virginia Beach, Virginia and New Market, Virginia. Prior to this, he served as Chief Financial Officer of Waveny Care Network, a provider of long-term care, assisted living, independent living and home healthcare in New Canaan, Connecticut. He earned his Bachelor's Degree in Accounting from Central Connecticut State University in New Britain and MBA from Sacred Heart University in Fairfield, Connecticut. Mr. Bird will serve on the Board's Audit and Bank Secrecy Act (BSA) Committees. Mr. Bird was appointed to the Board of Directors of the Bank in January 2018. Mr. Bird is qualified to serve as a Director due to his broad experience in finance and accounting.

**Robert W. Conner** is retired Clerk of Circuit Court of Halifax County. Mr. Conner is a long-time farmer in Halifax County. He also served as an organizing director of Community National Bank from 1985 until the merger into Carter Bank & Trust and as a director of Bank Building Corporation from 1995 until its merger with Carter Bank & Trust. He served as a director of CB&T Real Estate Holdings, Inc. from 2008 to 2016. Mr. Conner is a qualified candidate as a Director, as well as a member of the Loan and Governance and Compensation Committees, due to his skills and knowledge of the business community.

**Gregory W. Feldmann** is President of Skyline Capital Strategies, LLC, a management consultancy providing advisory services in the areas of corporate finance, private equity, business and financial strategy, mergers and acquisitions, and performance related studies. He is former President and Director of StellarOne Bank. Mr. Feldmann was appointed to the Board of Directors of the Bank in February 2017. Mr. Feldmann is qualified to serve as a Director and member of the Investment, BSA, and Governance and Compensation Committees due to his business and banking background in commercial banking, investment banking and brokerage and private equity and



experience in other executive and leadership roles, both in private and public companies.

**Chester A. Gallimore** is President of Wills Ridge Supply. He also served as an organizing director of Blue Ridge Bank, N. A. from 1978 until the merger into Carter Bank & Trust. Mr. Gallimore is a qualified candidate to serve on the Board, as well as the Audit Committee, due to his strong business background, knowledge and service as a Director of the Bank and its predecessors for over 39 years.

**Charles E. Hall** is a farmer. He also served as an organizing director of Blue Ridge Bank, N.A. from 1978 until the merger into Carter Bank & Trust and of Bank Building Corporation since 1995 until its merger with Carter Bank & Trust. He served as a director of CB&T Real Estate Holdings, Inc. from 2008 to 2016. Mr. Hall is qualified to serve as a Director and member of the Loan Committee due to his knowledge of the banking industry and the business community.

**James W. Haskins** is an attorney and principal in the law firm of Young, Haskins, Mann, Gregory, McGarry, and Wall, P. C., Martinsville, Virginia. He also served as a director of Mountain National Bank from 1996 until the merger into Carter Bank & Trust and of Patrick Henry National Bank from 1982 until the merger into Carter Bank & Trust. Mr. Haskins was appointed as Chairman of the Board of Directors in April 2017; prior to that he served as Vice Chairman. Mr. Haskins is qualified to serve on the Board as well as the Governance and Compensation Committee, due to his legal expertise and his prominence in the Bank's market area.

**Phyllis Q. Karavatakis** is President and Chief Banking Officer of Carter Bank & Trust. Prior to serving in this role, she served as Executive Vice President and Chief Lending Officer and various other roles in her over 40 years employed with the Bank. Ms. Karavatakis was appointed to the Board of Directors of the Bank in February 2017 and appointed Vice Chairman in April 2017. Ms. Karavatakis is qualified to serve as a Director and member of the Loan Committee due to her business experience along with in-depth knowledge of the banking industry.

**Lanny A. Kyle, O. D.** is a retired Optometrist. He formerly was Owner and President of Piedmont Optometric Association. He also served as a director of Mountain National Bank from 2003 until the merger into Carter Bank & Trust. Dr. Kyle is qualified to serve as a Director and member of the Governance and Compensation and BSA Committees due to his management and financial skills.

**George W. Lester, II** is Chairman and Chief Executive Officer of the Lester Group, Inc., a forest products company in Martinsville, Virginia. He also served as an organizing director of Patrick Henry National Bank from 1976 until the merger into Carter Bank & Trust and Shenandoah National Bank from 1996 until the merger into Carter Bank & Trust. He served as a director of CB&T Real Estate Holdings Inc. from 2008 to 2016. Mr. Lester is considered to be a qualified candidate to serve on the Board, as well as the Audit Committee, due to his strong business background and knowledge, broad community development, and service as a Director of the Bank and its predecessors for over 41 years.

**E. Warren Matthews** is an attorney in the firm of Harris, Matthews & Crowder, P.C. He also served as a director of Community National Bank from 1998 until the merger into Carter Bank & Trust. Mr. Matthews is considered to be a qualified candidate for service on the Board, as well as the Audit and BSA Committees, due to his legal expertise and his prominence in the Bank's market area.

**Catharine L. Midkiff** worked for more than 20 years as an Executive with General Electric Capital Corporation in risk management, operations, and finance in its Asia, Europe, and United States markets. Prior to this, she served as Vice President and Director in other General Electric entities located in the United States, Japan, Korea, Thailand and Hong Kong. A Certified Public Accountant, Ms. Midkiff has a Bachelor's Degree in Commerce with a specialization in Finance and Accounting from the University of Virginia. She is certified in Six Sigma as a master black belt, the highest level credential in management techniques to improve business processes, primarily by reducing risks, and has completed numerous specialty programs, such as an asset-based finance program from the

University of Pennsylvania’s Wharton School and the Commercial Finance Association. Ms. Midkiff will serve on the Board’s Loan and Investment Committees. Ms. Midkiff was appointed to the Board of Directors of the Bank in January 2018. Ms. Midkiff is qualified to serve as a Director due to her broad based experience in accounting, risk management and finance with executive roles in public companies.

**Joseph E. Pigg** is President of Millard’s Machinery, Inc., an industrial and logging equipment sales and service business. He also served as an organizing director of Patrick Henry National Bank from 1976 until the merger into Carter Bank & Trust and Shenandoah National Bank from 1996 until the merger into Carter Bank & Trust. His financial experience and prior service of over 41 years as a bank board member qualifies him to be a Director and member of the Investment Committee.

**Litz H. Van Dyke** is Chief Executive Officer of Carter Bank & Trust and previously served as Executive Vice President. Prior to joining Carter Bank & Trust in 2016, Mr. Van Dyke was a Practice Manager for CCG Catalyst Consulting Group based in Phoenix, Arizona, assisting banks with strategic advisory services. He served as Chief Operating Officer for Stellar One Corporation from 2008 to 2012. Mr. Van Dyke is a qualified candidate as a Director and member of the Investment, Loan, and BSA Committee due to his prior experience in senior executive roles with a number of Virginia-based banking institutions with responsibilities including credit administration, regulatory risk management, information technology, operations, marketing, and facilities as well as extensive work with commercial, retail, and mortgage lines of business.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE DIRECTOR NOMINEES LISTED ABOVE.**

**Executive Officers of the Registrant**

The following individuals are executive officers of Carter Bank & Trust. Ages are given as of May 24, 2018:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Business Experience During Past Five Years</b>
Wendy S. Bell	54	Executive Vice President and Chief Financial Officer since 2017	Senior Vice President and Senior Finance Officer, First Commonwealth Financial Corporation since 2010.
Jane Ann Davis	55	Executive Vice President and Chief Administrative Officer since 2017	Prior to 2017, Executive Vice President and Chief Financial Officer and Chief Operating Officer
Tony E. Kallsen	50	Executive Vice President and Chief Credit Officer since January 2018	Senior Vice President and Senior Credit Officer, First Commonwealth Financial Corporation since 2010.
Phyllis Q. Karavatakis	62	President and Chief Banking Officer since 2017	Prior to 2017, President and Chief Administrative Officer since 2016, Executive Vice President and Chief Lending Officer since 2014, prior to 2014 Senior Vice President and Cashier.
Bradford N. Langs	52	Executive Vice President and Chief Strategy Officer since 2017	Chief Risk Officer, Chief Credit Officer and Treasurer, Coastal States Bank since 2009.
Matthew M. Speare	51	Executive Vice President and Chief Information Officer since 2017	Executive Vice President and Chief Information Officer, Regions Bank since 2013.
Litz H. Van Dyke	54	Chief Executive Officer since 2017	Prior to 2017, Executive Vice President since July 2016. Prior to joining Carter Bank & Trust, Practice Manager, CCG Catalyst Group from 2012 to 2016 and Chief Operating Officer Stellar One Corporation from 2008 to 2012.

## PRINCIPAL BENEFICIAL OWNERS OF CARTER BANK & TRUST COMMON STOCK

The following table sets forth certain information concerning the persons know by us to be the beneficial owners of more than 5% of the outstanding shares of the Bank's common stock.

<b>Name and Address</b>	<b>Number of Shares Beneficially Owned</b>	<b>Percentage of Class (1)</b>
First Citizens BancShares, Inc. 4300 Six Forks Road Raleigh, NC 27609	2,055,994 (2)	7.8%

(1) Percentage is based on 26,257,761 shares of common stock issued and outstanding.

(2) Based on the information provided pursuant to a statement on Schedule 13G filed with the SEC on February 12, 2018 by First Citizens BancShares, Inc. reporting the holdings of First Citizens BancShares, Inc. and its subsidiaries as of December 31, 2017. According to the Schedule 13G, First Citizens BancShares, Inc. or its subsidiaries held sole voting power with respect to all reported shares and sole dispositive power over all of the reported shares.

## BENEFICIAL OWNERSHIP OF CARTER BANK & TRUST COMMON STOCK BY DIRECTORS AND OFFICERS

The following table sets forth, as of April 29, 2018, the beneficial ownership of the Bank's common stock of each Director, the executive officers identified in the Summary Compensation Table (referred to as our "named executive officers") and the Bank's current Directors and executive officers as a group. Unless otherwise indicated, all persons listed below have sole voting and investment power over all the shares of common stock.

Name	Amount and Nature of Beneficial Ownership (1)	Ownership as a Percentage of Common Stock Outstanding (2)
Bell, Wendy S.	3,200	*
Bird, Michael R.	500	*
Conner, Robert W.	66,865	*
Davis, Jane Ann	1,021	*
Feldmann, Gregory W.	1,000	*
Gallimore, Chester A.	114,725	*
Hall, Charles E.	30,841	*
Haskins, James W.	58,847	*
Kallsen, Tony	—	*
Karavatakis, Phyllis Q.	13,310	*
Kyle, Lanny A., O.D.	63,387	*
Langs, Bradford N.	1,000	*
Lester, George W., II	1,185,850	4.52%
Matthews, E. Warren	3,657	*
Midkiff, Catharine L.	286	*
Pigg, Joseph E.	225,188	*
Speare, Matthew M.	—	*
Van Dyke, Litz H.	1,300	*
All Directors and Executive Officers as a Group (18 Persons)	1,770,977	6.74%

(1) May include shares held by spouse, other family members, as trustee or through a corporation.

(2) Percentages are based on 26,257,761 shares of common stock issued and outstanding.

\* Less than 1% of the outstanding common stock.

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires that Directors and executive officers, and persons who beneficially own more than 10% of the Bank's equity securities, file reports of ownership and reports of changes in ownership of the Bank's outstanding equity securities. Based on a review of these reports filed by the Bank's officers and Directors, the Bank believes that its officers and Directors complied with all filing requirements under Section 16(a) of the Exchange Act during 2017, except that Ms. Bell and Mr. Matthews each filed one late Form 4 and a late Form 3 was filed for Mr. Kallsen. The late filings were inadvertent.

### EXECUTIVE COMPENSATION Compensation Discussion & Analysis

The Bank's compensation program is designed to offer competitive compensation to employees based on each individual's contribution to the Bank's overall success. As such, the program provides a competitive compensation package to attract and retain capable employees.

The compensation and benefits program consists of salary, a profit sharing plan, and life, health and disability insurance. The Bank currently offers no stock options or other forms of equity compensation, bonuses, country club memberships or other perquisites to officers or employees. However, if the Plan is approved by shareholders, the Bank may begin offering equity-based compensation to its officers and employees. In 2017, the Bank entered into employee agreements with its named executive officers, which are further described under “Employment Agreements,” and in connection therewith granted phantom stock incentive awards to the named executive officers.

The Governance and Compensation Committee consists of four Directors. The current members of the Committee are Chairman James W. Haskins, Messrs. Robert W. Conner, Gregory W. Feldmann, and Lanny A. Kyle, O.D. Each Director satisfies the independence requirements of the NASDAQ listing standards. The Committee has the responsibility for administering the Bank’s overall compensation program and for setting the salaries for the Bank’s senior officers. In setting the compensation of the Bank’s senior officers, the Committee has generally relied on the recommendations of the Chairman and Chief Executive Officer and the Board members’ own significant personal knowledge of the compensation provided to other, similarly situated, executives in banking and other industries in the local area. The Committee establishes the compensation for the Chairman of the Board. In 2017, the Compensation Committee engaged Matthews, Young & Associates, Inc. as an independent compensation consultant to assist in the development of our executive compensation program and to provide information on executive compensation at banks similar to Carter Bank & Trust including market trends and developments in executive compensation. The Committee also will review each individual’s performance and contribution to the overall Bank goals in determining the level of salary for the coming year. The Board of Directors adopted a charter relating to its consideration of compensation matters in its capacity as a Compensation and Governance Committee on January 25, 2017. A copy of this charter can be found on the Bank’s website at [Carterbankandtrust.com](http://Carterbankandtrust.com) under “Investor Relations”. The Governance and Compensation Committee met six times during 2017.

When setting compensation for fiscal 2017 and in determining compensation policies, the Committee took into account the results of the shareholder advisory vote on executive compensation that took place in June 2017. In that vote, which is advisory and non-binding, shareholders approved the compensation of our named executive officers as disclosed in the proxy statement for the 2017 Annual Meeting of Shareholders. A substantial majority (96%) of votes cast approved the compensation program described in the Bank’s proxy statement for the 2017 Annual Meeting of Shareholders. The vote results were taken into consideration when setting the compensation for 2017 and the new say-on-pay vote results will be taken into consideration by the Board when setting the compensation for 2018. The next advisory vote to approve executive compensation will occur at our 2020 Annual Meeting of Shareholders.

### **Employment Agreements**

On September 29, 2017, the Bank entered into employment agreements with Mr. Van Dyke, Ms. Karavatakis and Ms. Davis. The Bank also entered into an employment agreement with Mr. Langs on May 31, 2017, with Mr. Speare on June 15, 2017, and with Ms. Bell on June 19, 2017. Prior to entering into these agreements, the Bank did not have any employment agreements with any Bank officers or employees. The terms of the agreements are substantially similar to each other as described below.

#### *Van Dyke Employment Agreement*

Mr. Van Dyke and the Bank entered into an employment agreement, dated as of September 29, 2017 (the “Van Dyke Agreement”), pursuant to which Mr. Van Dyke continues to serve as Chief Executive Officer of the Bank for an initial term of two years, beginning October 1, 2017. The employment term automatically renews on October 1, 2019 and on each subsequent two-year anniversary for an additional two-year term unless either party provides at least 60 days’ advance notice of non-renewal.

Pursuant to the Van Dyke Agreement, Mr. Van Dyke's initial annual base salary is \$500,000, subject to increase by the Bank's Board of Directors at its discretion. Mr. Van Dyke received a phantom stock award with an initial value of \$150,000 to be settled in cash, which vests on the third anniversary of the grant date, subject to continued employment by Mr. Van Dyke. He also receives \$700 per month as an automobile allowance. Mr. Van Dyke is eligible to participate in the Bank's annual bonus plan, employee benefit plans and programs on terms offered to similarly situated employees.

The Bank may terminate Mr. Van Dyke's employment with or without cause (as defined in the Van Dyke Agreement), with or without notice. Mr. Van Dyke also may voluntarily terminate his employment with the Bank at any time for Good Reason (as defined in the Van Dyke Agreement). In the event the Bank terminates Mr. Van Dyke's employment without cause or Mr. Van Dyke terminates his employment for Good Reason, Mr. Van Dyke will receive any unpaid base salary, any annual bonus compensation earned and awarded but not yet paid, and any vested benefits (collectively, the "Accrued Obligations"). He will also receive a monthly severance payment equal to one-twelfth of his annual base salary for 18 months and continued employee health insurance coverage for 18 months. Payment of these severance benefits is subject to receipt by the Bank of a signed release and waiver of claims and satisfaction of other requirements, conditions, and limitations set forth in the Van Dyke Agreement, including covenants regarding confidentiality, non-competition, non-piracy and non-solicitation.

In the event the Bank terminates Mr. Van Dyke's employment without cause or Mr. Van Dyke terminates his employment for Good Reason within two years after a Change of Control (as defined in the Van Dyke Agreement), Mr. Van Dyke will receive the Accrued Obligations, plus a lump sum severance payment equal to 2.99 times his annual base salary, continued employee health insurance coverage for 18 months and a lump sum payment equal to Mr. Van Dyke's highest annual bonus earned from the Bank for the three years prior to termination. Payment of these severance benefits is subject to receipt by the Bank of a signed release and waiver of claims and satisfaction of other requirements, conditions, and limitations set forth in the Van Dyke Agreement, including covenants regarding confidentiality, non-competition, non-piracy and non-solicitation.

In the event of a termination for Cause, Mr. Van Dyke will be entitled to receive his Accrued Obligations. If he dies while employed by the Bank, the Bank will pay Mr. Van Dyke's spouse, if his spouse survives him, or, if not, his estate, his Accrued Obligations and an amount equal to his base salary from the date of his death through the end of the month in which his death occurs.

#### *Bell Employment Agreement*

On June 19, 2017, the Bank and Ms. Bell entered into an employment agreement pursuant to which Ms. Bell serves as Executive Vice President and Chief Financial Officer of the Bank (the "Bell Agreement"). The terms of the Bell Agreement are substantially the same as the Van Dyke Agreement, except as follows. The initial term of the Bell Agreement is two years, beginning on July 27, 2017. The employment term automatically renews on July 24, 2019 and on each subsequent anniversary for an additional one-year term unless either party provides at least 60 days' advance notice of non-renewal.

Pursuant to the Bell Agreement, Ms. Bell's initial annual base salary is \$330,000, subject to increase by the Bank's Board of Directors in its discretion. She also received a signing bonus in the amount of \$80,000, which is payable \$50,000 in 2017 and \$30,000 in 2018 and is subject to repayment to the Bank if Ms. Bell is terminated for Cause (as defined in the Bell Agreement) or resigns without Good Reason (as defined in the Bell Agreement) within 12 months of receipt. Ms. Bell also received a phantom stock award with an initial value of \$99,000 to be settled in cash, which vests on the third anniversary of the grant date, subject to continued employment by Ms. Bell. Ms. Bell was entitled to up to \$20,000 in relocation expenses and up to \$1,500 per month for up to six months in temporary

housing expenses. She was also entitled to a real estate commission reimbursement of up to \$35,000 in connection with the sale of her existing current residence and reimbursement of legal expenses of up to \$3,500 in connection with the review and negotiation of the Bell Agreement. She will also receive \$500 per month as an automobile allowance.

In the event the Bank terminates Ms. Bell's employment without cause or Ms. Bell terminates her employment for Good Reason, in addition to the Accrued Obligations, she will also receive a monthly severance payment equal to one-twelfth of her annual base salary for 12 months and continued employee health insurance coverage for 12 months. In the event the Bank terminates Ms. Bell's employment without cause or Ms. Bell terminates her employment for Good Reason within two years after a Change of Control (as defined in the Bell Agreement), Ms. Bell will receive the Accrued Obligations, plus a lump sum severance payment equal to 24 months of her annual base salary, continued employee health insurance coverage for 18 months and a lump sum payment equal to Ms. Bell's highest annual bonus earned from the Bank for the three years prior to termination.

#### *Davis Employment Agreement*

On September 29, 2017, the Bank and Ms. Davis entered into an employment agreement pursuant to which Ms. Davis continues to serve as Executive Vice President of the Bank (the "Davis Agreement"). The terms of the Davis Agreement are substantially the same as the Van Dyke Agreement, except as follows. The initial term of the Davis Agreement is one year, beginning on October 1, 2017. The employment term automatically renews on October 1, 2018 and on each subsequent anniversary for an additional one-year term unless either party provides at least 60 days' advance notice of non-renewal.

Pursuant to the Davis Agreement, Ms. Davis's initial annual base salary is \$230,000, subject to increase by the Bank's Board of Directors in its discretion. She also received a signing bonus in the amount of \$80,000, which is payable in two equal installments in 2017 and 2018 and is subject to repayment to the Bank if Ms. Davis is terminated for Cause (as defined in the Davis Agreement) or resigns without Good Reason (as defined in the Davis Agreement) within 12 months of receipt. Ms. Davis also received a phantom stock award with an initial value of \$69,000 to be settled in cash, which vests on the third anniversary of the grant date, subject to continued employment by Ms. Davis. She also receives \$500 per month as an automobile allowance.

In the event the Bank terminates Ms. Davis's employment without cause or Ms. Davis terminates her employment for Good Reason, in addition to the Accrued Obligations, she will receive a monthly severance payment equal to one-twelfth of her annual base salary for 12 months and continued employee health insurance coverage for 12 months. In the event the Bank terminates Ms. Davis's employment without cause or she terminates her employment for Good Reason within two years after a Change of Control (as defined in the Davis Agreement), Ms. Davis will receive the Accrued Obligations, plus a lump sum severance payment equal to two times her annual base salary, continued employee health insurance coverage for 18 months and a lump sum payment equal to Ms. Davis's highest annual bonus earned from the Bank for the three years prior to termination.

#### *Karavatakis Employment Agreement*

On September 29, 2017, the Bank and Ms. Karavatakis entered into an employment agreement pursuant to which Ms. Karavatakis continues to serve as President of the Bank (the "Karavatakis Agreement"). The terms of the Karavatakis Agreement are substantially the same as the Van Dyke Agreement, except as follows. The initial term of the Karavatakis Agreement is one year, beginning on October 1, 2017. The employment term automatically renews on October 1, 2018 and on each subsequent anniversary for an additional one-year term unless either party provides at least 60 days' advance notice of non-renewal.



Pursuant to the Karavatakis Agreement, Ms. Karavatakis's initial annual base salary is \$325,000, subject to increase by the Bank's Board of Directors in its discretion. She also received a signing bonus in the amount of \$80,000, which is payable in two equal installments in 2017 and 2018 and is subject to repayment to the Bank if Ms. Karavatakis is terminated for Cause (as defined in the Karavatakis Agreement) or resigns without Good Reason (as defined in the Karavatakis Agreement) within 12 months of receipt. Ms. Karavatakis also received a phantom stock award with an initial value of \$97,500 to be settled in cash, which vests on the third anniversary of the grant date, subject to continued employment by Ms. Karavatakis. She also received \$500 per month as an automobile allowance.

In the event the Bank terminates Ms. Karavatakis's employment without cause or Ms. Karavatakis terminates her employment for Good Reason, in addition to the Accrued Obligations, she will receive a monthly severance payment equal to one-twelfth of her annual base salary for 12 months and continued employee health insurance coverage for 12 months. In the event the Bank terminates Ms. Karavatakis's employment without Cause or she terminates her employment for Good Reason within two years after a Change of Control (as defined in the Karavatakis Agreement), Ms. Karavatakis will receive the Accrued Obligations, plus a lump sum severance payment equal to two times her annual base salary, continued employee health insurance coverage for 18 months and a lump sum payment equal to Ms. Karavatakis's highest annual bonus earned from the Bank for the three years prior to termination.

#### *Speare Employment Agreement*

On June 15, 2017, the Bank and Mr. Speare entered into an employment agreement pursuant to which Mr. Speare serves as Executive Vice President and Chief Information Officer of the Bank (the "Speare Agreement"). The terms of the Speare Agreement are substantially the same as the Van Dyke Agreement, except as follows. The initial term of the Speare Agreement is one year, beginning on July 3, 2017. The employment term automatically renews on July 3, 2018 and on each subsequent anniversary for an additional one-year term unless either party provides at least 60 days' advance notice of non-renewal.

Pursuant to the Speare Agreement, Mr. Speare's initial annual base salary is \$325,000, subject to increase by the Bank's Board of Directors in its discretion. He also received a signing bonus in the amount of \$50,000, which is payable \$25,000 in 2017 and \$25,000 in 2018 and is subject to repayment to the Bank if Mr. Speare is terminated for Cause (as defined in the Speare Agreement) or resigns without Good Reason (as defined in the Speare Agreement) within 12 months of receipt. Mr. Speare also received a phantom stock award with an initial value of \$97,500 to be settled in cash, which vests on the third anniversary of the grant date, subject to continued employment by Mr. Speare. Mr. Speare was entitled to up to \$20,000 in relocation expenses and up to \$1,500 per month for up to six months in temporary housing expenses. He was also entitled to a real estate commission reimbursement of up to \$35,000 in connection with the sale of his existing current residence and reimbursement of legal expenses of up to \$2,500 in connection with the review and negotiation of the Speare Agreement. He also receives \$500 per month as an automobile allowance.

In the event the Bank terminates Mr. Speare's employment without Cause or Mr. Speare terminates his employment for Good Reason, in addition to the Accrued Obligations, he will also receive a monthly severance payment equal to one-twelfth of his annual base salary for 12 months and continued employee health insurance coverage for 12 months. In the event the Bank terminates Mr. Speare's employment without Cause or Mr. Speare terminates his employment for Good Reason within two years after a Change of Control (as defined in the Speare Agreement), Mr. Speare will receive the Accrued Obligations, plus a lump sum severance payment equal to 24 months of his annual base salary, continued employee health insurance coverage for 18 months and a lump sum payment equal to Mr. Speare's highest annual bonus earned from the Bank for the three years prior to termination.



### *Langs Employment Agreement*

On May 31, 2017, the Bank and Mr. Langs entered into an employment agreement pursuant to which Mr. Langs serves as Chief Strategy Officer of the Bank (the “Langs Agreement”). The terms of the Langs Agreement are substantially the same as the Van Dyke Agreement, except as follows. The initial term of the Langs Agreement is one year, beginning on June 19, 2017. The employment term automatically renews on June 19, 2018 and on each subsequent anniversary for an additional one-year term unless either party provides at least 60 days’ advance notice of non-renewal.

Pursuant to the Langs Agreement, Mr. Langs’s initial annual base salary is \$297,500, subject to increase by the Bank’s Board of Directors in its discretion. He also received a signing bonus in the amount of \$125,000, which is payable \$50,000 in 2017 and \$75,000 in 2018 and is subject to repayment to the Bank if Mr. Langs is terminated for Cause (as defined in the Langs Agreement) or resigns without Good Reason (as defined in the Langs Agreement) within 12 months of receipt. Mr. Langs also received a phantom stock award with an initial value of \$85,500 to be settled in cash, which vests on the third anniversary of the grant date, subject to continued employment by Mr. Langs. Mr. Langs was entitled to up to \$20,000 in relocation expenses and up to \$1,500 per month for up to six months in temporary housing expenses. He also receives \$500 per month as an automobile allowance.

In the event the Bank terminates Mr. Langs’s employment without cause or Mr. Langs terminates his employment for Good Reason, in addition to the Accrued Obligations, he will also receive a monthly severance payment equal to one-twelfth of his annual base salary for 12 months and continued employee health insurance coverage for 12 months. In the event the Bank terminates Mr. Langs’s employment without Cause or Mr. Langs terminates his employment for Good Reason within two years after a Change of Control (as defined in the Langs Agreement), Mr. Langs will receive the Accrued Obligations, plus a lump sum severance payment equal to 24 months of his annual base salary, continued employee health insurance coverage for 18 months and a lump sum payment equal to Mr. Langs’s highest annual bonus earned from the Bank for the three years prior to termination.

### **CEO Pay Ratio**

The Bank determined that the 2017 annual total compensation of the median compensated employee of all its employees, other than the CEO, as of December 31, 2017 was \$23,407; the CEO’s 2017 annual total compensation was \$631,353; and the ratio of these amounts was 27:1.

As of December 31, 2017, the Bank’s total population consisted of 995 employees, all of whom work in the United States. This population consisted of all of its full-time and part-time employees. To identify the median compensated employee, we used a Consistently Applied Compensation Measure defined as gross wages as reported on each employee’s 2017 IRS Form W-2. We further annualized pay for those individuals not employed for a full year in 2017, but who were employed as of December 31, 2017.

Once we identified our median compensated employee, we calculated the median compensated employee’s and our CEO’s 2017 annual total compensation in accordance with the requirements of the Summary Compensation Table.

This pay ratio is a reasonable estimate calculated in a manner consistent with Securities Exchange Commission (“SEC”) rules based on our payroll and employment records and the methodology described above. The SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee’s annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their compensation practices. As such, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies may have different

employment and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

## SUMMARY COMPENSATION TABLE

Fiscal 2015 - 2017

The table below reflects compensation received by each named executive officer.

Name and Principal Position with Carter Bank & Trust	Year	Salary (\$)	Bonus (3) (\$)	Stock Awards (3) (\$)	Option Awards (3) (\$)	Non-equity Incentive Plan Compensation (4) (\$)	Change in Pension Value and Non- Qualified Deferred Comp. Earn. (\$)	All Other Comp.(5) (\$)	Total (\$)
Worth Harris Carter, Jr.	2017	\$472,115	—	—	—	—	—	\$2,713	\$474,828
<i>Chairman of the Board and Chief Executive Officer(1)(2)</i>	2016	\$575,000	—	—	—	—	—	\$88,109	\$663,109
	2015	\$575,000	—	—	—	—	—	\$80,043	\$655,043
Litz H. Van Dyke	2017	\$440,000	\$25,000	—	—	\$150,000	—	\$16,353	\$631,353
<i>Chief Executive Officer (6)</i>	2016	\$133,974	—	—	—	—	—	\$207	\$134,181
Wendy S. Bell	2017	\$145,962	\$50,000	—	—	\$99,000	—	\$18,709	\$313,671
<i>Executive Vice President and Chief Financial Officer(7)</i>									
Jane Ann Davis	2017	\$203,750	\$40,000	—	—	\$69,000	—	\$8,709	\$321,459
<i>Executive Vice President and Chief Administrative Officer (8)</i>	2016	\$175,000	—	—	—	—	—	\$20,761	\$195,761
	2015	\$150,000	—	—	—	—	—	\$14,766	\$164,766
Phyllis Q. Karavatakis	2017	\$280,000	\$40,000	—	—	\$97,500	—	\$9,734	\$427,234
<i>President and Chief Banking Officer</i>	2016	\$250,000	—	—	—	—	—	\$34,619	\$284,619
	2015	\$213,600	—	—	—	—	—	\$24,819	\$238,419
Matthew M. Speare	2017	\$162,500	\$25,000	—	—	\$97,500	—	\$58,649	\$343,649
<i>Executive Vice President and Chief Information Officer(9)</i>									
Bradford N. Langs	2017	\$162,099	\$50,000	—	—	\$85,500	—	\$20,878	\$317,977
<i>Executive Vice President and Chief Strategy Officer (10)</i>									

- (1) Mr. Carter passed away on April 7, 2017. Mr. Carter's 2017 salary includes a retroactive raise to an annual salary of \$825,000 effective January 1, 2016, which was paid in 2017.
- (2) The Compensation and Governance Committee of the Board of Directors set Mr. Carter's annual salary for 2017. Mr. Carter also served as Chairman of the Board and Chief Executive Officer of Mortgage Company of Virginia, Inc. ("MCOV"), Bank Services of Virginia, Inc., and Bank Services Insurance, Inc., which are direct or indirect wholly-owned subsidiaries of the Bank. Mr. Carter did not receive compensation for his services to any such entities in 2017.
- (3) The amounts in the "Bonus" column represent the first installment of the sign-on bonuses granted to the named executive officer in connection with entering into an employment agreement with the Bank. Other than the phantom stock awards granted to each named executive officer who entered into an employment agreement, the Bank currently does not have any stock award plans, stock option plans, or other equity compensation plans or arrangements, or any non-equity incentive compensation plan or arrangement or any defined benefit or actuarial pension plans.
- (4) The amounts in this column reflect the starting value of the phantom stock awarded to the named executive officers in connection with the entering into of employment agreements with the Bank.
- (5) The amount of compensation properly categorized in this column, including perquisites and other personal benefits that are greater than \$10,000, is listed in the chart below for 2017. The following perquisites represent gross ups: car allowance, COBRA and temporary housing.

The following table shows information on all other compensation to the named executive officers during 2017:

Name	Medical	Disability Insurance	Life Insurance	Car Allowance	COBRA	Temporary Housing	Moving Expenses	Real Estate Commission	Total
Worth Harris Carter, Jr.	\$228	\$4	\$2,481	—	—	—	—	—	\$2,713
Litz H. Van Dyke	\$4,340	\$277	\$3,336	\$8,400	—	—	—	—	\$16,353
Wendy S. Bell	\$2,903	\$268	\$611	\$3,000	\$2,927	\$9,000	—	—	\$18,709
Jane Ann Davis	\$4,340	\$277	\$2,592	\$1,500	—	—	—	—	\$8,709
Phyllis Q. Karavatakis	\$2,987	\$277	\$4,970	\$1,500	—	—	—	—	\$9,734
Matthew M. Speare	\$2,258	\$268	\$744	\$3,000	\$2,386	\$9,000	\$15,293	\$25,700	\$58,649
Bradford N. Langs	\$2,903	\$269	\$706	\$3,500	\$4,500	\$9,000	—	—	\$20,878

- (6) Mr. Van Dyke transitioned from Executive Vice President to Chief Executive Officer on April 18, 2017.  
(7) Ms. Bell did not become Chief Financial Officer until July 24, 2017.  
(8) Ms. Davis transitioned from Chief Financial Officer to Chief Administrative Officer on July 24, 2017.  
(9) Mr. Speare did not become Chief Information Officer until July 3, 2017.  
(10) Mr. Langs did not become Chief Strategy Officer until June 19, 2017.

The table below reflects information regarding the phantom stock awards granted to the named executive officers during the year ended December 31, 2017 pursuant to each named executive officer's employment agreement.

### Grants of Plan-Based Awards Fiscal 2017

The following table shows information on plan-based awards to the named executive officers during 2017:

Name	Board Approval Date (1)	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards (2)			Grant Date Fair Value of Stock and Option Awards (\$)
			Threshold (\$)	Target (\$)	Maximum (\$)	
Worth Harris Carter, Jr.	—	—	—	—	—	—
Litz H. Van Dyke	09/20/17	10/1/17	—	150,000	—	N/A
Wendy S. Bell	06/19/17	7/24/17	—	99,000	—	N/A
Jane Ann Davis	09/20/17	10/1/17	—	69,000	—	N/A
Phyllis Q. Karavatakis	09/20/17	10/1/17	—	97,500	—	N/A
Matthew M. Speare	06/15/17	7/3/17	—	97,500	—	N/A
Bradford N. Langs	05/31/17	6/19/17	—	85,500	—	N/A

- (1) Date of Board approval of the named executive officer's employment agreement pursuant to which the phantom stock award was granted.

- (2) The phantom stock awards do not have a threshold, target or maximum goal. Each phantom stock award will be settled in cash in an amount equal to the product of the following: (A) the total number of shares of the Bank's common stock that could be purchased for the target amount stated on the grant date, based on the average of the closing price for the Bank's common stock during the 30-day period preceding the grant date, multiplied by (B) the average of the closing price for the Bank's common stock during the 30-day period immediately preceding the third anniversary of the grant date.

### Outstanding Equity Awards at Fiscal 2017 Year-End

The table below reflects certain information regarding the phantom stock awards held by each named executive officer as of December 31, 2017. None of the named executive officers held any other equity awards as of December 31, 2017.

		Stock Awards (1)	
		Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Name	Grant Date		
Worth Harris Carter, Jr.	—	—	—
Litz H. Van Dyke	10/1/17	—	152,626
Wendy S. Bell	7/24/17	—	111,722
Jane Ann Davis	10/1/17	—	70,208
Phyllis Q. Karavatakis	10/1/17	—	99,207
Matthew M. Speare	7/3/17	—	111,101
Bradford N. Langs	6/19/17	—	97,627

- (1) The amounts in this column reflect the value of each phantom stock award as of December 31, 2017, based on the closing price of the Bank's common stock on December 29, 2017, the last business day of 2017. The phantom stock awards vest on the third anniversary of the grant date, subject to the named executive officer's continued employment on such date and will be settled in cash.

None of our named executive officers exercised any stock options or stock appreciation rights or held any restricted stock or phantom stock that vested during 2017.

## Qualified Profit Sharing Plan

The Qualified Profit Sharing Plan covers all full-time employees that have been employed for six (6) months and have reached the age of 20-1/2 as of the first day of the plan year. Persons who have reached the age of 62 are fully vested regardless of length of service. For eligibility and vesting purposes, employees receive credit for previous employment with any of the Merged Banks, the MCOV, Bank Services of Virginia, Inc. and Bank Services Insurance, Inc. Vesting is based on the number of Years of Service.

The vesting schedule is as follows:

Years of Service	Vested Percentage	Forfeitable Percentage
1	0	100%
2	20%	80%
3	40%	60%
4	60%	40%
5	100%	0%

Each year the Board of Directors determines what amount, if any, is to be allocated to the plan out of accumulated or current earnings of the Bank. The contributions to the plan were none in 2017, \$2.4 million in 2016, and \$2.0 million in 2015.

Prior to his passing on April 7, 2017, Mr. Carter participated in the Qualified Profit Sharing Plan of the Bank. Mr. Carter also participated in the nonqualified plan for highly paid executives whose contribution to the qualified plan is limited due to IRS regulations. The contribution to the nonqualified plan is the difference between the amount that would have been allocated to him, in the qualified plan, if there was no IRS limitation and the actual amount allocated in the plan after applying the IRS limitation. There were no contributions to these plans on Mr. Carter's behalf for 2017 prior to his passing.

## Non-qualified Deferred Compensation Fiscal 2017

Mr. Carter also participated in a nonqualified profit sharing plan for highly paid executives. Information regarding Mr. Carter's participation in the plan during 2017 is reflected in the following table.

Name	Executive Contributions In Last Fiscal Year (\$)	Registrant Contributions In Last Fiscal Year \$(1)	Aggregate Earnings in Last FY \$(2)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance Last FYE (\$)
Worth Harris Carter, Jr.	N/A	N/A	\$6,640	\$ --	\$1,362,068

(1) There were no contributions to the nonqualified plan for 2017.

(2) Earnings are based on the performance of investments available under the plan including any interest paid thereon.

Carter Bank & Trust has a single health insurance plan for all officers and full-time employees who meet the eligibility requirements. There is also a group life insurance plan and short-term disability plan for officers and full-time employees.

## Potential Payments upon Termination or Change of Control

Except for Mr. Carter, the following table shows the estimated payments to or benefits that would have been received by each of the named executive officers upon the following termination events or upon a change of control of the Bank, in each case assuming that each termination event or the change of control occurred on December 31, 2017, and assuming a stock price of \$17.55 which was the closing stock price of the Bank's common stock on December 29, 2017 (the last business day of 2017). Except for Mr. Carter, the amounts reflected in the following table are estimates, as the actual amounts that would have been paid to or received by a named executive officer can only be determined at the time of termination or change of control.

The following table reports only amounts that are increased, accelerated or otherwise paid or payable as a result of the applicable termination or change of control event and, as a result, excludes amounts accrued through December 31, 2017, such as accrued but unpaid salary and annual bonus compensation amounts for completed performance periods and vested account balances under the 401(k) Plan and other plans. The table also excludes any amounts that are available generally to all salaried employees and in a manner that does not discriminate in favor of the Bank's executive officers.

Payments and Benefits	Death	Termination Due to Incapacity	Termination Without Cause or for Good Reason Not in Connection with Change of Control (2)(3)	Termination Without Cause or for Good Reason within 2 Years Following a Change of Control (4)(5)(6)	Termination For Cause or Without Good Reason	Change of Control with no Related Termination of Employment
<b>Worth Harris Carter, Jr. (1)</b>						
Cash Severance	\$ —	N/A	N/A	N/A	N/A	N/A
Equity Vesting	—	N/A	N/A	N/A	N/A	N/A
Health Care Coverage	—	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>\$ —</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Litz H. Van Dyke</b>						
Cash Severance	\$ —	\$ —	\$750,000	\$1,495,000	\$ —	\$ —
Equity Vesting <sup>(7)</sup>	—	—	—	—	—	—
Health Care Coverage	—	—	\$13,064	\$13,064	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$763,064</b>	<b>\$1,508,064</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Wendy S. Bell</b>						
Cash Severance	\$ —	\$ —	\$330,000	\$660,000	\$ —	\$ —
Equity Vesting <sup>(7)</sup>	—	—	—	—	—	—
Health Care Coverage	—	—	\$8,710	\$13,064	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$338,710</b>	<b>\$673,064</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Jane Ann Davis</b>						
Cash Severance	\$ —	\$ —	\$230,000	\$460,000	\$ —	\$ —
Equity Vesting <sup>(7)</sup>	—	—	—	—	—	—

Payments and Benefits	Death	Termination Due to Incapacity	Termination Without Cause or for Good Reason Not in Connection with Change of Control (2)(3)	Termination Without Cause or for Good Reason within 2 Years Following a Change of Control (4)(5)(6)	Termination For Cause or Without Good Reason	Change of Control with no Related Termination of Employment
Health Care Coverage	—	—	\$8,710	\$13,064	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$238,710</b>	<b>\$473,064</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Phyllis Q. Karavatakis</b>						
Cash Severance	\$ —	\$ —	\$325,000	\$650,000	\$ —	\$ —
Equity Vesting <sup>(7)</sup>	—	—	—	—	—	—
Health Care Coverage	—	—	\$6,773	\$10,160	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$331,773</b>	<b>\$660,160</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Matthew M. Speare</b>						
Cash Severance	\$ —	\$ —	\$325,000	\$650,000	\$ —	\$ —
Equity Vesting <sup>(7)</sup>	—	—	—	—	—	—
Health Care Coverage	—	—	\$6,773	\$10,160	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$331,773</b>	<b>\$660,160</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Bradford N. Langs</b>						
Cash Severance	\$ —	\$ —	\$297,500	\$595,000	\$ —	\$ —
Equity Vesting <sup>(7)</sup>	—	—	—	—	—	—
Health Care Coverage	—	—	\$6,773	\$10,160	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$304,273</b>	<b>\$605,160</b>	<b>\$ —</b>	<b>\$ —</b>

- (1) Mr. Carter passed away on April 7, 2017. Mr. Carter's estate did not receive any severance or accelerated vesting of any benefits in connection with the termination of his employment upon his passing.
- (2) Under his employment agreement, if Mr. Van Dyke resigns for good reason or his employment is terminated without cause not in connection with a change of control, Mr. Van Dyke will be entitled to receive monthly severance payments equal to one-twelfth of his annual base salary for 18 months and continued employee health insurance coverage for 18 months. Payment of these severance benefits is subject to receipt by the Bank of a signed release and waiver of claims and satisfaction of other requirements, conditions, and limitations set forth in Mr. Van Dyke's employment agreement, including covenants regarding confidentiality, non-competition, non-piracy and non-solicitation.
- (3) For each named executive officer other than Mr. Van Dyke, under his or her employment agreement, if the named executive officer resigns for good reason or his or her employment is terminated without cause not in connection with a change of control, the named executive officer will be entitled to receive monthly severance payments equal to one-twelfth of his or her annual base salary for 12 months and continued employee health insurance coverage for 12 months. Payment of these severance benefits is subject to receipt by the Bank of a

signed release and waiver of claims and satisfaction of other requirements, conditions, and limitations set forth in the employment agreement, including covenants regarding confidentiality, non-competition, non-piracy and non-solicitation.

- (4) Under his employment agreement, if Mr. Van Dyke resigns for good reason or his employment is terminated without cause within two years after a change of control Mr. Van Dyke will be entitled to receive a lump sum severance payment equal to 2.99 times his annual base salary, continued employee health insurance coverage for 18 months and a lump sum payment equal to Mr. Van Dyke's highest annual bonus earned from the Bank for the three years prior to termination. Payment of these severance benefits is subject to receipt by the Bank of a signed release and waiver of claims and satisfaction of other requirements, conditions, and limitations set forth in Mr. Van Dyke's employment agreement, including covenants regarding confidentiality, non-competition, non-piracy and non-solicitation.
- (5) For each named executive officer other than Mr. Van Dyke, under his or her employment agreement, if the named executive officer resigns for good reason or his or her employment is terminated without cause within two years after a change of control, the named executive officer will be entitled to receive a lump sum severance payment equal to 2 times his or her annual base salary, continued employee health insurance coverage for 18 months and a lump sum payment equal to the named executive officer's highest annual bonus earned from the Bank for the three years prior to termination. Payment of these severance benefits is subject to receipt by the Bank of a signed release and waiver of claims and satisfaction of other requirements, conditions, and limitations set forth in the employment agreement, including covenants regarding confidentiality, non-competition, non-piracy and non-solicitation.
- (6) Each named executive officer's employment agreement provides for change of control benefits on a "best net" approach, under which the named executive officer's change of control benefits will be reduced to avoid the golden parachute excise tax under Section 280G of the Internal Revenue Code unless without such a reduction the named executive officer would receive more after-tax compensation than with a reduction. The amounts shown in this column do not reflect any reductions that might be made pursuant to these provisions.
- (7) None of the named executive officers held any equity awards as of December 31, 2017 that would have experienced accelerated vesting upon any of these termination events or upon a change of control of the Bank.

## **DIRECTOR COMPENSATION**

The Carter Bank & Trust Board of Directors determines the fees to be paid to non-employee directors based on the recommendation of the Chief Executive Officer, which is based on a review of Director fees paid by comparable community banks in Carter Bank & Trust's trade area. The Chairman of the Board receives \$3,000 for each Board meeting and \$750 for each committee meeting attended. The Board of Directors (who are not also an executive officer of the Bank) are paid \$2,000 for each Board meeting regardless of whether they attend or not, and are paid \$500 for each committee meeting attended. Carter Bank & Trust does not pay its Directors an annual retainer.



## DIRECTOR COMPENSATION TABLE FISCAL 2017

The following table provides compensation information for the year ended December 31, 2017 for each non-employee member of the Board of Directors.

Name (1)	Fees Earned or Paid in Cash (\$)	Stock Awards (\$ (2))	Option Awards (\$ (2))	Non-Equity Incentive Plan Compensation (\$ (2))	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$ (2))	All Other Compensation (\$)	Total (\$)
Robert W. Conner	\$ 33,550	—	—	—	—	—	\$ 33,550
Gregory W. Feldmann	\$ 30,100	—	—	—	—	—	\$ 30,100
Chester A. Gallimore	\$ 23,200	—	—	—	—	—	\$ 23,200
Charles E. Hall	\$ 28,000	—	—	—	—	—	\$ 28,000
James W. Haskins	\$ 47,400	—	—	—	—	—	\$ 47,400
Lanny A. Kyle, O.D.	\$ 31,400	—	—	—	—	—	\$ 31,400
George W. Lester, II	\$ 27,250	—	—	—	—	—	\$ 27,250
E. Warren Matthews	\$ 29,400	—	—	—	—	—	\$ 29,400
Sidney D. Mason (3)	\$ 28,050	—	—	—	—	—	\$ 28,050
Joseph E. Pigg	\$ 21,900	—	—	—	—	—	\$ 21,900

- (1) Litz Van Dyke, Chief Executive Officer, and Phyllis Karavatakis, Vice Chairman of the Board and President and Chief Banking Officer, are not included in this table because they are officers of the Bank and did not receive separate compensation for service as a Director. Prior to his passing on April 7, 2017, Worth Harris Carter, Jr., the Bank's former Chairman of the Board and Chief Executive Officer, was an officer of the Bank and did not receive separate compensation for service as a Director. The compensation received by Mr. Van Dyke and Ms. Karavatakis as officers of the Bank in 2017 is included in the Summary Compensation Table on page 12. Michael R. Bird and Catharine L. Midkiff did not become directors until 2018 and, therefore, are not included in this table.
- (2) Carter Bank & Trust has no bonus compensation plan or arrangement, or any stock award plans, stock option plans, or other equity compensation plans or arrangements, or any non-equity incentive compensation plan or arrangement or defined benefit or actuarial pension plans for non-employee directors. However, if the Plan is approved by shareholders, the Bank may begin offering equity-based compensation.
- (3) Sidney D. Mason resigned from the Board of Directors effective January 1, 2018.

## GOVERNANCE AND COMPENSATION COMMITTEE REPORT

The Governance and Compensation Committee of the Board of Directors has reviewed and discussed with management the Compensation Discussion & Analysis included above. Based upon such review, the related discussions and such other matters deemed relevant and appropriate by the Committee, the Committee has recommended to the Board of Directors the inclusion of the Compensation Discussion & Analysis in this proxy statement.

### MEMBERS OF THE GOVERNANCE AND COMPENSATION COMMITTEE

Robert W. Conner  
Gregory W. Feldmann  
James W. Haskins  
Lanny A. Kyle, O.D.

### Governance and Compensation Committee Interlocks and Insider Participation

All of the members of the Board of Directors, except Mr. Carter, Mr. Van Dyke and Ms. Karavatakis, are independent non-employee directors. During 2017, all Directors, except Mr. Van Dyke and Ms. Karavatakis, were independent non-employee directors. None of the members of the Board of Directors currently serve as an officer or employee of Carter Bank & Trust except Mr. Van Dyke and Ms. Karavatakis and none of the Directors served as an

officer or employee of Carter Bank & Trust during 2017 except Mr. Carter, Mr. Van Dyke and Ms. Karavatakis. None of the executive officers of Carter Bank & Trust have served as a member of a compensation committee of any other entity which has an executive officer serving as a member of the Bank's Board of Directors. A description of Mr. Carter's relationships with the Bank, prior to his passing, is described under "Related Person Transactions."

### **DIRECTOR INDEPENDENCE**

All of the Bank's current Directors, other than the Chief Executive Officer, Mr. Van Dyke, and Vice Chairman of the Board and President and Chief Banking Officer, Ms. Karavatakis, satisfy the director independence requirements of the NASDAQ listing standards. During 2017, Sidney D. Mason also satisfied the independence requirements of the NASDAQ listing standards. Prior to his passing, Chairman of the Board and Chief Executive Officer, Mr. Carter, was not independent pursuant to the NASDAQ listing standards.

### **MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS**

The Board of Directors held twelve regular meetings during 2017. During 2017, each member of the Board of Directors attended at least 75% of the aggregate of: (1) the Bank's Board meetings held during the period and (2) the number of meetings of all committees on which he or she served for the Bank.

The Board of Directors meets regularly once a month. Carter Bank & Trust has not adopted a formal policy on Board members' attendance at annual meetings of shareholders, although all Board members are encouraged to attend. Twelve Directors attended the 2017 Annual Meeting of Shareholders on June 21, 2017.

Carter Bank & Trust has created and designated a separate committee of its Board of Directors as the Audit Committee. Current members of the Bank's Audit Committee are Messrs. Chester A. Gallimore, George W. Lester, II (Chairman), E. Warren Matthews, and Michael R. Bird, each of whom is "independent" for this purpose according to NASDAQ listing standards and the regulations of the "SEC". The Audit Committee engages the Bank's independent registered public accounting firm, approves the scope of the independent registered public accounting firm's audit, reviews the reports of examination by the applicable Bank regulatory agencies and the independent registered public accountant, and the internal auditor, and reports to the Board of Directors periodically. The Audit Committee met five times during 2017. The Audit Committee operates pursuant to a written charter that has been adopted by the Board and is reviewed periodically by the Audit Committee for changes to recommend to the Board for approval. The charter is available on the Bank's website at [www.carterbankandtrust.com](http://www.carterbankandtrust.com) under "Investor Relations".

The Board of Directors has determined that Mr. George W. Lester II, Catharine L. Midkiff and Michael R. Bird qualify as an "audit committee financial expert" within the meaning of applicable regulations of the SEC, promulgated pursuant to the Sarbanes-Oxley Act of 2002.

As noted previously, the Governance and Compensation Committee currently consists of four board members. Additional information regarding the function of the Committee is provided on the prior page and in the "Compensation Discussion & Analysis" section.

The Bank's entire Board of Directors performs the functions of a Nominating Committee for the Bank. The Board has no prescribed minimum qualifications for nominees and will consider recommendations to the Board from shareholders as appropriate.

Generally, nominees for Director are identified and suggested by the members of the Board or management using their business networks. The Board has not retained any executive search firms or other third parties to identify or

evaluate Director candidates in the past and does not intend to in the near future. In selecting a nominee for Director, the Board considers the following criteria:

- whether the nominee has the personal attributes for successful service on the Board, such as demonstrated character and integrity; an ability to work effectively with others; and sufficient time to devote to the affairs of the Bank;
- whether the nominee has broad-based knowledge about, and is recognized and respected in, the Bank's local service areas;
- whether the nominee, by virtue of particular experience, technical expertise or specialized skills or contacts relevant to the Bank's current or future business, will add specific value as a Board member; and
- whether there are any other factors related to the ability and willingness of a new nominee to serve, or an existing Board member to continue his service.

The Board has not established any specific minimum qualifications that a candidate for Director must meet in order to be recommended for Board membership. Rather the Board will evaluate the mix of skills and experience that the candidate offers, consider how a given candidate meets the Board's current expectations with respect to each such criterion and make a determination regarding whether a candidate should be recommended to the shareholders for election as a Director.

Although the Bank has no policy regarding diversity, the Board of Directors, in its capacity as the Nominating Committee, also considers diversity in its evaluation of candidates for board membership. The board believes that diversity is an important component of a Board of Directors, including such factors as background, skills, experience and expertise.

In its capacity as the Nominating Committee, the Board of Directors will accept for consideration Director recommendations if made in writing. Director candidates referred by shareholders will be considered on the same basis as Director candidates referred from other sources. While there are no formal procedures for shareholders to submit director candidate recommendations, written recommendations of Director candidates should include the name, address and telephone number of the recommended candidate, along with a brief statement of the candidate's qualifications to serve as a Director. All such shareholder recommendations should be submitted to the Vice President/Accounting Operations Manager of the Bank at the address provided on the first page of this proxy statement, by January 31, 2019 in order to be considered by the Board of Directors, in its capacity as the Nominating Committee, for the next annual election of directors. In addition, in accordance with the Bank's Articles of Incorporation and/or Bylaws, nominations for election to the Board of Directors may be made by any shareholder of any outstanding class of capital stock of the Bank entitled to vote for the election of Directors. Notices of nominations, other than those made by or on behalf of the existing Board of Directors of the Bank, must be made in writing and be delivered to the Vice President/Accounting Operations Manager of the Bank at the address provided on the first page of this proxy statement not less than 90 days or more than 120 days before the first anniversary of the prior year's annual meeting; provided that if the annual meeting is held more than 30 days before or more than 60 days after the first anniversary of the prior year's annual meeting, the notice must be delivered no earlier than 120 days before the annual meeting and no later than 90 days before the annual meeting or the tenth day after notice of the annual meeting was mailed.

Such notice shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each nominee; (b) the name and residence address of the notifying shareholder; (c) the number of shares of capital stock of the Bank owned by the notifying shareholder; (d) a description of all arrangements or

understandings between the notifying shareholder and any other person or persons (including their names) in connection with the nomination and any material interest of the notifying shareholder in the nomination; (e) a brief description of the background and credentials of the person being nominated for Director including name, age, business address and residence address, principal occupation or employment, number of shares of capital stock of the Bank owned by the nominee; and (f) any other information relating to such nominee required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act, including the nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected. Nominations not made in accordance with these requirements may, in his discretion, be disregarded by the chairman of the meeting, and upon his instructions, the judges of election may disregard all votes cast for each such nominee.

## **BOARD LEADERSHIP STRUCTURE AND RISK OVERSIGHT**

The Board of Directors believes that the Bank and its shareholders are best served by a leadership structure with separate positions for Chairman and Chief Executive Officer, with Mr. James W. Haskins serving as Chairman of the Board and Mr. Litz H. Van Dyke serving as Chief Executive Officer of Carter Bank & Trust. The Board believes that this leadership structure is the most efficient and effective leadership structure for the Bank at this time. The current leadership structure allows Mr. Van Dyke to focus on providing day-to-day leadership and management of the Bank, while Mr. Haskins, who has stepped into the role of Chairman from Vice Chairman, can maintain responsibility for leading the Board in its oversight function and consideration of broader corporate strategy. The Board will continue to evaluate the best leadership structure for the Bank in the future.

The Board of Directors is responsible for consideration and oversight of risk facing the Bank and is responsible for ensuring that material risks are identified and managed appropriately. The Audit Committee meets quarterly and reviews the Bank's major financial risk exposures and reviews the steps management is taking to monitor and control such exposures, including results of internal and external audits. Directors also serve on various committees that focus on major areas of risk in the Bank that include, but are not limited to, loans, investments, audit, and governance and compensation. Directors discuss risk and risk reduction strategies with management within those committees. All such discussions are included in committee reports to the full Board of Directors.

## **SHAREHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

The Bank does not have a formal process for shareholders to send communications to the Board of Directors. Shareholders who wish to contact the Board of Directors or any of its members may do so by addressing their written correspondence to Board of Directors, Carter Bank & Trust, c/o Vice President and Accounting Operations Manager, 1300 Kings Mountain Rd, Martinsville, Virginia 24112. Correspondence directed to an individual Board member will be referred, unopened, to that member. Correspondence not directed to a particular Board member will be referred, unopened, to the Chairman of the Board.

## **RELATED PERSON TRANSACTIONS**

Prior to the Merger, Mr. Carter, who served as Chairman of the Board and Chief Executive Officer of Carter Bank & Trust until his passing on April 7, 2017, served as Chairman of the Board and President of each of the Merged Banks.

Prior to the Merger, each of the Merged Banks owned 10% of the outstanding common stock of the Mortgage Company of Virginia, Inc. ("MCOV"). As a result of the merger that created the Bank, Carter Bank & Trust now owns 100% of the common stock of the MCOV. The MCOV owns 100% of Bank Services of Virginia, Inc. The MCOV also owns 100% of Bank Services Insurance, Inc. Bank Services Insurance, Inc. provided insurance products to the Merged Banks and customers in the service area of the ten Merged Banks, and now provides these products to

Carter Bank & Trust in its two-state service area. The aggregate premiums paid to Bank Services Insurance, Inc. by Carter Bank & Trust during 2017 were \$370,000.

The Bank holds a variable interest in a joint venture. Coresoft, Inc. (the “Corporation”) is a software company formed to develop and market a core system to be utilized by Carter Bank & Trust. Carter Bank & Trust and Murthy Veeraghanta (head of Vsoft Group), individually, each own 50% in the Corporation. At December 31, 2017, the Bank’s investment in the venture was \$1,000.

Prior to his passing, the Chairman of the Board and Chief Executive Officer of the Bank also served as Chairman of the Board and President of Bank Building Corporation prior to its merger into Carter Bank & Trust, and as the manager of Blackstone Properties, LLC, its wholly owned subsidiary. Messrs. Robert W. Conner and Charles E. Hall, who are Directors of Carter Bank & Trust, and Haller G. Prillaman, who was a Director of Carter Bank & Trust, also served as directors of Bank Building Corporation.

The Bank leases offices from non-related parties under various terms. Aggregate rental expense for those leases was \$142 thousand in 2017 and \$141 thousand in 2016 and \$137 thousand in 2015. Future minimum lease payments to non-related parties, from Carter Bank & Trust, will be approximately \$125 thousand per year through 2018 and thereafter totaling \$338 thousand.

In the ordinary course of business, executive officers and their related interests were customers of, and had transactions with the Bank. Loan transactions with Directors and officers, principal security holders and associates were made on substantially the same terms as those prevailing at the time for comparable loans to other persons and did not involve more than normal risk of collectability or present other unfavorable features. These extensions of credit equaled \$15,375 million or 3.6% of the equity capital of Carter Bank & Trust as of December 31, 2017 and \$17,409 million or 4.0%, as of December 31, 2016.

### **Procedures for Approving Related Party Transactions**

The Bank has in place written procedures for the extension of credit to Directors and executive officers and their related interests, in accordance with applicable banking regulations. In addition, pursuant to the Bank’s Code of Ethics, all Directors and executive officers are expected to make reasoned and impartial decisions in the workplace. The Bank does not currently have a formal procedure for reviewing and approving related party transactions that do not relate to extensions of credit. However, approval of any related party transaction other than extensions of credit would be denied by the Board of Directors if the Board of Directors believed that the Director’s or executive officer’s interest in such transaction could influence decisions relative to the Bank’s business, or have the potential to adversely affect the Bank’s business or the objective performance of the Director’s function or executive officer’s work.

## PROPOSAL 2

### RATIFICATION OF INDEPENDENT AUDITORS

The Audit Committee of Carter Bank & Trust's Board of Directors has appointed Yount, Hyde & Barbour, P.C. to serve as the Bank's independent registered public accounting firm for 2018 and recommends that the Bank's shareholders vote for the ratification of that appointment. Yount, Hyde & Barbour, P.C. audited Carter Bank & Trust's financial statements as of and for the fiscal year ended December 31, 2017 and the effectiveness of Carter Bank & Trust's internal control over financial reporting as of December 31, 2017. In the event the shareholders fail to ratify the appointment, the Audit Committee will reconsider this appointment and make such determination as it would be in the Bank's and its shareholders' best interests. Representatives of Yount, Hyde & Barbour, P.C. are expected to be present at the Annual Meeting and will be given the opportunity to make a statement if they so desire and to respond to appropriate questions.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE  
FOR RATIFICATION OF THE SELECTION OF YOUNT, HYDE & BARBOUR, P.C. AS  
INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR THE FISCAL YEAR ENDING  
DECEMBER 31, 2018.**

### REPORT OF THE AUDIT COMMITTEE

In fulfilling its oversight responsibilities for the financial statements for fiscal year 2017, the Audit Committee:

- Monitored the preparation of the annual financial report by the Bank's management;
- Reviewed and discussed the annual audit process and the audited financial statements for the fiscal year ended December 31, 2017 with management and Yount, Hyde & Barbour, P.C. the Bank's independent registered public accountant;
- Discussed with management, Yount, Hyde & Barbour, P.C. and the Bank's internal auditor the adequacy of the system of internal controls;
- Discussed with Yount, Hyde & Barbour, P.C. the matters required to be discussed by Statement on Auditing Standards No. 1301, Communications with Audit Committees, relating to the conduct of the audit; and
- Received written disclosures and a letter from Yount, Hyde & Barbour, P.C. regarding its independence as required by the Public Company Accounting Oversight Board (PCAOB) Rule 3526. The Audit Committee discussed with Yount, Hyde & Barbour, P.C. its independence.

The Audit Committee also considered the status of pending litigation, taxation matters and other areas of oversight relating to the financial reporting and audit process that the Audit Committee determined appropriate.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. In its oversight role, the Audit Committee relies on the work and assurances of the Bank's management, which has the primary responsibility for the financial statements and reports, and of the independent registered public accountant, who, in their report, express an opinion on the conformity of the Bank's annual financial statements to accounting principles generally accepted in the United States of America. Based on the reviews and discussions described above, the Audit Committee recommended to the Board that the audited financial statements be included in the Bank's Annual Report on Form 10-K for fiscal year 2017 for filing with the FDIC.

## MEMBERS OF THE AUDIT COMMITTEE

Michael R. Bird  
Chester A. Gallimore  
George W. Lester, II, Chairman  
E. Warren Matthews

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Yount, Hyde & Barbour, P.C. served as the independent registered public auditors for Carter Bank & Trust for the year ended December 31, 2017. Yount, Hyde & Barbour, P.C. has been selected by the Board to act as the independent registered public accounting firm for Carter Bank & Trust in 2018.

The following table presents the aggregate fees for Carter Bank & Trust and its wholly-owned subsidiaries, for professional audit services rendered by Young, Hyde & Barbour, P.C. for the audit of the annual financial statements for the years ended December 31, 2017 and 2016 and fees billed for other services rendered by Yount, Hyde & Barbour, P.C. during those periods.

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Audit fees <sup>1</sup>	\$176,900	\$171,775
Tax fees <sup>2</sup>	16,300	15,825
Total Fees	<u>\$193,200</u>	<u>\$187,600</u>

<sup>1</sup>Audit fees consist of audit and review services, consents and review of documents filed with the FDIC for 2017 and 2016.

<sup>2</sup>Tax fees consist of preparation of federal and state income tax returns for the Bank and Coresoft.

In their capacity as the Audit Committee, the Board of Directors considered the compatibility of the non-audit related services performed by and fees paid to Yount, Hyde & Barbour, P.C. in 2017 and the ones proposed for 2018 to Yount, Hyde & Barbour, P.C. and determined that such services and fees are compatible with the independence of Yount, Hyde & Barbour, P.C. as the Bank's independent auditors.

Also, the Audit Committee of the Board of Directors of the Bank pre-approves all audits (including audit-related) and permitted non-audit services to be performed by the independent auditors. With respect to other permitted services, the Audit Committee pre-approves specific engagements, projects and categories of services on a fiscal year basis.

### **PROPOSAL 3**

#### **APPROVAL OF THE CARTER BANK & TRUST 2018 OMNIBUS EQUITY INCENTIVE PLAN**

The Bank is asking shareholders to approve the Carter Bank & Trust 2018 Omnibus Equity Incentive Plan (also referred to in this proxy statement as the "Plan"), which was adopted by the Board of Directors on March 29, 2018, subject to shareholder approval, based on the recommendation of the Governance and Compensation Committee (for purposes of this discussion, the "Committee") of the Board of Directors. If approved by shareholders, the Plan, which reserves 2,000,000 shares of common stock for issuance, will become effective as of June 27, 2018. As of April 27, 2018, the per share market value of the Bank's common stock quoted on the OTCQX was 17.40.



The more significant features of the Plan are described below. The summary below is not complete and is subject to, and qualified in its entirety by, the provisions of the Plan. To aid your understanding, the full text of the Plan, as proposed for approval by shareholders, is provided in Appendix A to this proxy statement.

### **Plan Highlights**

The Plan provides for the grant to key employees and non-employee directors of awards that may include one or more of the following: stock options, restricted stock, restricted stock units, stock appreciation rights (“SARs”), stock awards, performance units and performance cash awards (collectively, the “awards”).

The Bank historically has not maintained an equity compensation plan. The Board of Directors considered the matter extensively before developing and adopting the Plan, subject to shareholder approval, and evaluated recommendations from management, equity compensation practices at similar banks, and information from Matthews, Young and Associates, Incorporated, a management consulting firm. The Board of Directors has determined that an equity incentive program is an essential part of a competitive compensation package to attract and retain capable employees. The Board of Directors also believes that receiving equity awards under the Plan will align the interests of employees and non-employee directors with the long-term financial success of the Bank and with growth in shareholder value. While the Board of Directors has determined that this is the appropriate time to ask shareholders to approve the Plan for the reasons described above, the Committee has not yet determined when it may begin granting awards under the Plan if shareholders approve this proposal. The Committee anticipates that it would carefully consider the performance of the Bank and of each potential participant in determining whether and, if so, when to grant awards under the Plan. The Board of Directors believes that the ability to grant equity awards under the Plan will enhance Carter Bank & Trust’s ability to attract and retain qualified employees.

Some of the key features of the Plan that enable the Bank to maintain sound governance practices in granting awards include:

- **No “Evergreen” Provision:** Shares authorized for issuance under the Plan are not automatically replenished.
- **Annual Limits:** The Plan imposes an annual limit on equity and cash awards to participants.
- **No Discounted Stock Options or SARs:** The Plan prohibits the grant of stock options or SARs with an exercise price less than the fair market value of the Bank’s common stock on the grant date.
- **No Repricing of Stock Options or SARs:** The Plan generally prohibits the repricing of stock options or SARs without shareholder approval.
- **No Liberal Share Recycling:** Under the Plan, shares of the Bank’s common stock used to pay the exercise price of a stock option or SAR or to satisfy tax withholding obligations in connection with an award will not be added back (recycled) to the aggregate plan limit. In addition, the gross number of shares associated with a stock option or SAR exercise, and not just the net shares issued upon exercise, will count against the aggregate plan limit.
- **Minimum Vesting Periods:** Subject to accelerated vesting under certain circumstances, the Plan requires a minimum vesting period of one year for awards subject to time-based conditions and a minimum performance period of one year for awards subject to achievement or satisfaction of



performance goals. These minimums are applicable to awards other than those granted as part of a retainer for the service of non-employee directors.

- **Protective Provisions and Clawback:** The Plan provides for the forfeiture of outstanding awards upon a participant's termination for cause and subjects all awards under the Plan to recovery as required by the terms of any repayment or clawback policy in effect at the Bank from time to time or as required by applicable law or regulation.
- **Independent Committee Administration:** Awards under the Plan are granted by the Committee, which is composed entirely of independent directors.
- **Term of the Plan:** No awards may be granted under the Plan more than ten years from the date of shareholder approval.

The Committee anticipates that the shares of common stock that will be available for awards under the Plan if shareholders approve this proposal will provide the Bank with flexibility to grant awards under the Plan for approximately eight years, based on the Bank's current evaluation of expected future needs. The total number of shares awarded in any one year or from year to year may change based on any number of variables, such as the value of the Bank's common stock (because higher stock prices generally require that fewer shares be issued to produce awards with the same grant date fair market value), changes in the number of Bank employees and/or non-employee directors, whether and to what extent vesting conditions are satisfied, any acquisition activity, the number of shares that become available for new awards pursuant to the terms of the Plan (for example, as a result of forfeitures) and changes in how the Bank elects to balance total compensation between cash and equity-based awards.

### **Purpose of the Plan**

The purpose of the Plan is to promote the success of the Bank, including its subsidiaries, by providing greater incentive to key employees and non-employee directors to associate their personal interests with the long-term financial success of the Bank and with growth in shareholder value, consistent with the Bank's risk management practices. The Plan is designed to provide flexibility to the Bank in its ability to attract, retain the services of and motivate key employees and non-employee directors upon whose judgment, interest and special effort the successful conduct of the Bank's operations largely depends.

### **Administration**

The Plan will be administered by the Committee, which will be the Governance and Compensation Committee (or an appropriate sub-committee thereof) unless the Board of Directors determines otherwise. The Committee has the power to select plan participants and to grant awards on terms the Committee considers appropriate. In addition, subject to the terms of the Plan, the Committee has the authority, among other things, to construe and interpret the plan, to establish, amend or waive rules or regulations for the plan's administration, to accelerate the exercisability of any award or the termination of any restrictions applicable to any award, and to make all other determinations for administration of the Plan. The Committee may delegate authority under the Plan to the Bank's Chief Executive Officer, except in the case of awards to the Bank's executive officers or any individual who is subject to Section 16 of the Exchange Act.

## **Eligibility**

The Plan provides that awards may be granted to key employees and non-employee directors of the Bank and certain of its subsidiaries. Key employees include officers or other employees of the Bank and certain of its subsidiaries who, in the opinion of the Committee, can contribute significantly to the growth and profitability of, or perform services of major importance to, the Bank and its subsidiaries. If shareholders approve this proposal, 997 employees and 11 non-employee directors would be eligible to receive awards under the Plan, as of April 29, 2018.

## **No Repricing**

The Plan prohibits stock option and SAR repricing, including by way of exchange for another award (except in connection with a corporate transaction such as a change of control or an event referred to in the “Changes in Capitalization and Similar Changes” section below) unless the repricing is submitted to and approved by shareholders.

## **Shares Subject to the Plan**

Subject to approval by shareholders, the aggregate number of shares reserved for issuance under the Plan is 2,000,000.

In general, if any award granted under the Plan terminates, expires or lapses for any reason other than as a result of exercise or settlement, or if shares issued pursuant to an award are forfeited, the shares associated with such award will be available for future awards under the Plan. In contrast, any shares withheld by the Bank, delivered by the participant, or otherwise used to pay the exercise price of an option or SAR or to satisfy withholding taxes associated with an award will not be available for future awards under the Plan. Further, in the event shares are withheld or delivered in connection with an option or SAR exercise, the number of shares available for future awards will be reduced by the gross number of shares to which the exercise relates, rather than the net number of new shares issued upon the exercise.

## **Annual Limits on Awards**

Under the Plan, the maximum aggregate number of shares with respect to which equity awards may be granted in any calendar year to a key employee will be 60,000 and the maximum aggregate number of shares with respect to which equity awards may be granted in any calendar year to a non-employee director will be 5,000. The maximum aggregate dollar amount of cash awards granted in any calendar year to a participant will be \$500,000.

## **Minimum Vesting**

Subject to accelerated vesting under certain circumstances approved by the Committee, the Plan requires a minimum vesting period of one year for awards subject to time-based conditions and a minimum performance period of one year for awards subject to achievement or satisfaction of performance goals. These minimums are applicable to awards other than those granted as part of a retainer for the service of non-employee directors.

## **Performance Goals**

For any award granted under the Plan subject to performance-based vesting, exercisability or other conditions, the Committee will determine the performance period during which a performance goal must be met. The performance

period will generally be at least one year, subject to applicable provisions of the Plan regarding accelerated vesting events. Attainment of any performance goal is subject to certification by the Committee. Performance goals may include a threshold level of performance below which no payment or vesting will occur, levels of performance at which specified payments or specified vesting will occur, and a maximum level of performance above which no additional payment or vesting will occur.

If shareholders approve this proposal, then under the Plan, at the Committee's discretion, the performance goals for any performance period may include, but are not limited to, one or more of the following: (i) stock value or increases therein, (ii) total shareholder return, (iii) operating revenue, (iv) commodity revenue, (v) tangible book value or tangible book value growth, tangible book value per share or growth in tangible book value per share, (vi) earnings per share or earnings per share growth (before or after one or more of taxes, interest, depreciation and/or amortization), (vii) diluted earnings per share or earnings per share growth (before or after one or more of taxes, interest, depreciation and/or amortization), including fully diluted earnings per share after extraordinary events, (viii) net earnings, (ix) earnings and/or earnings growth (before or after one or more of taxes, interest, depreciation and/or amortization), operating earnings and/or operating earnings growth, (x) profits or profit growth (net profit, gross profit, operating profit, net operating profit, economic profit, profit margins or other corporate profit measures), (xi) cash flow, operating cash flow or free cash flow (either before or after dividends), (xii) cash from operations, (xiii) operating or other expenses or growth thereof, (xiv) operating efficiency, (xv) return on equity, (xvi) return on tangible equity or return on tangible common equity, (xvii) return on assets, net assets, capital or investment (including return on total capital or return on invested capital), (xviii) return on operating revenue, (xix) sales or revenues or growth thereof, (xx) deposits, loan and/or equity levels or growth thereof, (xxi) working capital targets, (xxii) assets under management or growth thereof, (xxiii) cost control measures, (xxiv) regulatory compliance, (xxv) gross, operating or other margins, (xxvi) efficiency ratio (as generally recognized and used for bank financial reporting and analysis), (xxvii) operating ratio, (xxviii) income or net income, (xxix) operating income, (xxx) interest income, (xxxii) net interest income, (xxxiii) net interest margin, (xxxiiii) non-interest income, (xxxiv) non-interest expense, (xxxv) credit quality, net charge-offs and/or non-performing assets (excluding such loans or classes of loans as may be designated for exclusion), (xxxvi) percentage of non-accrual loans to total loans or net charge-off ratio, (xxxvii) provision expense, (xxxviii) productivity, (xxxix) customer satisfaction, (xl) satisfactory internal or external audits, (xli) improvement of financial ratings, (xlii) achievement of balance sheet or income statement objectives, (xliii) quality measures, (xliv) regulatory exam results, (xlv) achievement of risk management objectives, (xlvi) achievement of strategic performance objectives, (xlvii) achievement of merger or acquisition objectives, (xlviii) implementation, management or completion of critical projects or processes, (xlix) market capitalization, (l) total enterprise value (market capitalization plus debt), (li) economic value added, (lii) debt leverage (debt to capital), (lii) market share, or (liv) any component or components of the foregoing (including, without limitation, determination thereof, in the Committee's sole discretion, with or without the effect of discontinued operations and dispositions of business units or segments, non-recurring items, material extraordinary items that are both unusual and infrequent, non-budgeted items, special charges, accruals for acquisitions, reorganization and restructuring programs and/or changes in tax law, accounting principles or other such laws or provisions affecting the Bank's reported results). In the Committee's discretion, the performance goals may be particular to a participant and applied either individually, alternatively, or in any combination, subset or component, to the performance of the Bank as a whole or to the performance of a subsidiary, division, strategic business unit, line of business or business segment, measured either quarterly, annually or cumulatively over a period of years or partial years, in each case as specified by the Committee in the award. In addition, the performance goals may be absolute in their terms or measured against or in relationship to a pre-established target, the Bank's budget or budgeted results, previous period results, a market index, a designated comparison group of other companies comparably, similarly or otherwise situated, or any combination thereof.

## **Types of Awards under the Plan**

**Stock Options.** A stock option entitles the participant to purchase shares of the Bank's common stock at the exercise price. Stock options granted under the Plan may be incentive stock options or non-qualified stock options, although non-employee directors are not eligible to receive incentive stock options. The Committee will fix the exercise price at the time the stock option is granted, but the exercise price cannot be less than 100% of the shares' fair market value on the grant date (or, in the case of an incentive stock option granted to a 10% shareholder of the Bank, 110% of the shares' fair market value on the grant date). The value in incentive stock options, based on the shares' fair market value on the grant date, that can be exercisable for the first time in any calendar year under the Plan or any other similar plan maintained by the Bank is limited to \$100,000 per participant. To the extent approved by the Committee, the exercise price may be paid in cash, by delivery of shares of common stock having a fair market value at the time of exercise equal to the exercise price, by the Bank withholding shares otherwise issuable upon the exercise having a fair market value at the time of exercise equal to the exercise price, through a "cashless exercise" involving a broker, or by a combination of the foregoing. Stock options may be exercised at such times and subject to such conditions as may be prescribed by the Committee, including the requirement that stock options will not be exercisable after ten years from the grant date (or, in the case of an incentive stock option granted to a 10% shareholder of the Bank, five years from the grant date).

**Restricted Stock Awards.** Restricted stock is stock that is subject to forfeiture and may not be transferred by a participant until the restrictions established by the Committee lapse. The restrictions may take the form of a period of restriction during which the participant must remain employed or serving on the applicable board or may require the achievement of one or more pre-established performance criteria. Holders of restricted stock will have voting and, unless otherwise provided by the Committee, dividend rights.

**Restricted Stock Unit Awards.** A restricted stock unit is an award that is valued by reference to a share of common stock. Payment of the value of restricted stock units will not be made until the restrictions established by the Committee lapse. The restrictions may take the form of a period of restriction during which the participant must remain employed or serving on the applicable board or may require the achievement of one or more pre-established performance criteria.

Holders of restricted stock units have no right to vote the shares represented by the units unless and until the underlying shares are issued. While holders of restricted stock units are not eligible to receive dividend payments on the units (because dividend payments are only available for shares that have been issued and are outstanding), the Committee may provide for payment of deemed dividends or similar distributions with respect to a restricted stock unit award under such terms and subject to such limitations as the Committee deems appropriate, provided, however, that any deemed dividends or similar distributions for a restricted stock unit that is subject to performance goals may be accumulated but not paid unless and until the applicable period of restriction has ended and the performance goals have been met.

Payment for vested restricted stock units may be made, as determined by the Committee, in cash or shares of common stock or a combination thereof at the time of vesting or, if provided for in the award agreement, on a delayed basis either electively or mandatorily. If paid on a delayed basis, the payment amount may be adjusted for deemed interest or earnings or on such other basis as the Committee may provide.

**Stock Appreciation Right Awards.** A SAR is the right to the equivalent of the increase in the value of a specified number of shares over a specified period of time. The Committee will fix the exercise price at the time the

SAR is granted, but the exercise price of a SAR cannot be less than 100% of the fair market value of the common stock on the award date.

Each SAR award will entitle the holder, upon exercise, to receive the excess of the fair market value of the common stock subject to the award over the exercise price of the SAR. SARs may be exercised at such times and subject to such conditions as may be prescribed by the Committee, including the requirement that SARs will not be exercisable after ten years from the grant date. Payment of value shall be made at the time of exercise in cash or shares of common stock or a combination thereof as determined by the Committee.

**Stock Awards.** Unless otherwise provided by the Committee, a stock award is fully vested and freely transferable as of the date the award is granted, subject to restrictions under applicable federal or state securities laws. The Plan provides that key employees are not eligible to receive stock awards.

**Performance Unit Awards.** A performance unit is a fixed dollar award or an award that is valued by reference to a share of common stock based on performance goals established and certified by the Committee. The Committee will determine the terms and conditions of each performance unit award, including the performance goals and performance period. Performance units may be paid in cash or shares of common stock or a combination thereof as determined by the Committee.

Holders of performance units have no right to vote the shares represented by the units unless and until the underlying shares are issued. While holders of performance units are not eligible to receive dividend payments on the units (because dividend payments are only available for shares that have been issued and are outstanding), the Committee may provide for payment of dividend equivalents with respect to a performance unit award under such terms and subject to such limitations as the Committee deems appropriate, provided, however, that any such dividend equivalents may be accumulated but not paid unless and until the applicable performance goals have been met.

**Performance Cash Awards.** A performance cash award is a cash award based on performance goals established and certified by the Committee.

### **Transferability**

In general, stock options, restricted stock, restricted stock units, SARs, and performance units granted under the Plan may not be sold, transferred, pledged, assigned, or otherwise encumbered by a participant, other than upon the death of the participant or, if permitted by the Committee, pursuant to a domestic relations order. A participant may designate a beneficiary to receive any award that may be paid or exercised after his or her death. The Plan does permit the Committee to provide for non-qualified stock options that are transferable to certain family members (or certain related trusts, partnerships or entities), to the extent permitted by applicable securities laws and banking regulations.

### **Termination of Employment or Service**

Unless otherwise provided by the Committee, in the event a participant terminates employment or service due to retirement (as defined in the applicable policy of the Bank in effect at that time or as otherwise defined in the award agreement), then, provided that no cause exists to terminate such participant's employment or service, and provided further that the participant is subject to a non-competition agreement on the date of retirement, all options or SARs that are not already vested or exercisable will be vested and exercisable, any remaining period of restriction

applicable to the unvested portion of each time-based award of restricted stock or restricted stock units will lapse and such award will be vested, and the Committee will determine the extent, if any, to which awards subject to performance goals may vest.

Unless otherwise provided by the Committee, in the event a participant's employment or service is terminated due to death or disability, all options or SARs that are not already vested or exercisable will be vested and exercisable, any remaining period of restriction applicable to the unvested portion of each time-based award of restricted stock or restricted stock units will lapse and such award will be vested, and the Committee will determine the extent, if any, to which awards subject to performance goals may vest.

Unless otherwise provided by the Committee, in the event a participant's employment or service is terminated involuntarily not for cause, or a participant terminates his or her employment or service for "good reason" (as defined in the Plan), then, provided that the termination did not occur in connection with a "change of control" (as defined in the Plan), the Committee may, in its sole discretion, waive the automatic forfeiture of some or all of the unvested portion of each award held by the participant and provide for such vesting as it deems appropriate.

Unless otherwise provided by the Committee, in the event a participant's employment or service is terminated for cause, the unvested portion and the vested portion not yet paid or exercised of each award held by the participant will be automatically forfeited to the Bank and no further exercise of an option or SAR will be allowed.

Unless otherwise provided by the Committee, in the event a participant's employment or service terminates for any reason not described above, the unvested portion of each award held by the participant will be automatically forfeited to the Bank.

### **Change of Control**

In the event of a "change of control" (as defined in the Plan), the Committee may, as to any outstanding award, either at the time an award is made or any time thereafter, take any one or more of the following actions in its discretion and without the consent of the participant: (i) provide for acceleration of the vesting, delivery, and exercisability of, and the lapse of time-based and/or performance-based vesting restrictions with respect to, any award so that such award may be exercised or realized in full on or before a date initially fixed by the Committee; (ii) provide for the purchase, settlement, or cancellation of any award by the Bank, for an amount of cash equal to the amount that could have been obtained upon the exercise of such award or realization of a participant's rights had such award been currently exercisable or payable; (iii) provide for the replacement of any stock-settled award with a cash-settled award; (iv) make such adjustment to any such award then outstanding as the Committee deems appropriate to reflect such change of control and to retain the economic value of the award; or (v) cause any award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation in such change of control.

### **Changes in Capitalization and Similar Changes**

As is customary in equity incentive plans of this nature, in the event of any change in the outstanding shares of the Bank's common stock by reason of any stock dividend, stock split or combination, spin-off, recapitalization, merger, or similar transaction or change in the Bank's capital stock, the aggregate number and kind of shares reserved under the Plan, the exercise price of options and/or SARs, annual limits, and other relevant provisions will be proportionately, equitably and appropriately adjusted by the Committee in its discretion. For instance, a two-for-one stock split would generally double the number of shares reserved under the Plan. Similarly, a two-for-one stock split

would generally double the number of shares covered by each outstanding stock option and reduce the corresponding exercise price by one-half.

### **Termination of or Changes to the Plan**

The Board of Directors may terminate, amend, or modify the Plan in any respect without shareholder approval, unless the particular amendment or modification requires shareholder approval under state law, under the Internal Revenue Code, under the rules and regulations under Section 16 of the Exchange Act, under the rules and regulations of the applicable exchange if the Bank's common stock is then so listed, by any regulatory body having jurisdiction with respect thereto, or pursuant to any other applicable laws, rules, or regulations. No termination, amendment, or modification of the Plan, other than in connection with a change of control or capital adjustment pursuant to the Plan or as required by applicable law, may adversely affect any awards previously granted under the Plan without the participant's written consent.

### **Duration**

Unless terminated sooner by the Board of Directors as described above, the Plan will be of unlimited duration to facilitate administration of awards issued under the plan, but no award will be granted under the Plan after June 26, 2028.

### **Clawback**

All awards granted under the Plan (whether vested or unvested) will be subject to such recovery (i.e., clawback) as may be required by the terms of any repayment or clawback policy in effect at the Bank from time to time or pursuant to any applicable federal or other law or regulation, which could in certain circumstances require repayment or forfeiture of awards or any shares or other cash or property received with respect to the awards, including any value received from a disposition of the shares acquired upon payment of the awards.

### **Certain Federal Income Tax Consequences**

The following is a brief summary of the general U.S. federal income tax consequences of awards under the 2018 Plan. This summary is based on U.S. federal income tax laws and regulations in effect on the date of this Proxy Statement and is not a complete description of the U.S. federal income tax laws. In addition, this summary is not intended to be exhaustive, does not constitute legal advice or tax advice and does not describe municipal, state or foreign income tax consequences of awards, federal employment taxes or the tax consequences of any participant's death.

**Stock Options.** A participant who exercises a non-qualified stock option will realize ordinary income in an amount measured by the excess of the fair market value of the shares on the date of exercise over the exercise price. The Bank generally will be entitled to a corresponding deduction for federal income tax purposes.

A participant who exercises an incentive stock option will not be subject to taxation at the time of exercise, nor will the Bank be entitled to a deduction for federal income tax purposes. The difference between the exercise price and the fair market value of shares on the date of exercise is a tax preference item for purposes of determining a participant's alternative minimum tax. A disposition of the purchased shares after the expiration of the required holding period (*i.e.*, the later of two years from the grant date or one year from the exercise date) will generate long-term capital gain in the year of disposition, and the Bank will not be entitled to a deduction for federal income tax purposes. A disposition of the purchased shares prior to the expiration of the required holding period will result in a



“disqualifying disposition” and will subject the participant to taxation at ordinary income rates in the year of disposition, and the Bank generally will be entitled to a corresponding deduction.

**Restricted Stock.** A participant receiving restricted stock generally will recognize ordinary income in the amount of the fair market value of the restricted stock at the time the stock is no longer subject to forfeiture (i.e., has vested), less the consideration paid for the restricted stock (if any).

However, a participant may elect, under Section 83(b) of the Internal Revenue Code within 30 days of the grant of the restricted stock, to recognize taxable ordinary income on the grant date equal to the excess of the fair market value of the shares of restricted stock on the grant date (determined without regard to the restrictions) over the amount of the purchase price of the restricted stock (if any). Thereafter, if the shares are forfeited before they have vested, the participant will be entitled to a deduction, refund or loss, for tax purposes only, in an amount equal to any purchase price of the forfeited shares regardless of whether the participant made a Section 83(b) election. With respect to the sale of shares after the forfeiture period has expired, the holding period to determine whether any gain or loss is long-term or short-term begins when the forfeiture period expires, and the tax basis for such shares generally will be based on the fair market value of such shares on such date. However, if the participant makes an election under Section 83(b), the holding period will commence on the grant date, the tax basis will be equal to the fair market value of shares on such date (determined without regard to restrictions), and the Bank generally will be entitled to a federal income tax deduction equal to the amount that is taxable as ordinary income to the participant in the year that such income is taxable. Dividends paid on restricted stock generally will be treated as compensation that is taxable as ordinary income to the participant and will be deductible by the Bank. If, however, the participant makes a Section 83(b) election, the dividends will be taxable as ordinary income to the participant but will not be deductible by the Bank.

**Stock Awards.** A participant receiving an unrestricted stock award is required to include the fair market value of the shares received as ordinary compensation income upon receipt in an amount equal to the fair market value of the shares received. The Bank will be entitled to a federal income tax deduction in the corresponding amount at that time. For each share of common stock received, the taxation of the post-receipt appreciation or depreciation is treated as either a short-term or long-term capital gain or loss, depending upon the length of time the participant held the shares of common stock.

**Restricted Stock Units and Performance Units.** A participant will not realize income in connection with the grant of a restricted stock unit or a performance unit or the credit of any related deemed dividends or dividend equivalents to his or her account. Upon settlement of the restricted stock unit or performance unit and delivery of shares of common stock and/or cash to the participant, the participant generally will be required to include as taxable ordinary income in the year of receipt, an amount equal to the amount of cash and the fair market value of any shares received. The Bank will be entitled to a federal income tax deduction at the time and in the amount included in the participant’s income by reason of the receipt. For each share of common stock received in respect of a restricted stock unit or performance unit, the taxation of the post-settlement appreciation or depreciation is treated as either a short-term or long-term capital gain or loss, depending upon the length of time the participant held the shares of common stock.

**Stock Appreciation Rights.** A participant who exercises a SAR will realize ordinary income in an amount equal to the amount of cash and the fair market value of any shares received. The Bank generally will be entitled to a corresponding deduction for federal income tax purposes. If the participant receives common stock upon exercise of a SAR, the taxation of the post-exercise appreciation or depreciation is treated as either a short-term or long-term capital gain or loss, depending upon the length of time the participant held the shares of common stock.



**Performance Cash Awards.** A participant will not recognize any taxable income at the time a performance cash award is granted. When the terms and conditions to which a performance cash award is subject have been satisfied and the award is paid, the participant will recognize as ordinary income the amount of cash he or she receives. The Bank generally will be entitled to a federal income tax deduction equal to the amount of ordinary income the participant recognizes.

**Section 409A.** Section 409A of the Internal Revenue Code (“Section 409A”) imposes certain requirements on non-qualified deferred compensation arrangements, including requirements with respect to an individual’s election to defer compensation and the individual’s selection of the timing and form of distribution of the deferred compensation. Section 409A also generally provides that distributions must be made on or following the occurrence of certain events (*e.g.*, the individual’s separation from service, a predetermined date, or the individual’s death). Section 409A imposes restrictions on an individual’s ability to change his or her distribution timing or form after an election to defer compensation has been made or compensation has been deferred. For certain individuals who are “specified employees,” Section 409A requires that such individual’s distribution commence no earlier than six months after the individual’s separation from service.

Under current Internal Revenue Service guidance, certain awards under the 2018 Plan are excluded from non-qualified deferred compensation to which Section 409A applies. These excluded awards are stock options under which shares of the Bank’s common stock are issued, stock appreciation rights under which shares of the Bank’s common stock are issued, restricted stock, restricted stock units that are paid at or shortly after vesting and performance units that are paid at or shortly after vesting. Depending on their specific terms, other awards under the 2018 Plan may be treated as non-qualified deferred compensation to which Section 409A applies, and in such case it is generally the Bank’s intent that such awards be designed to comply with the election timing, payment timing, and other requirements of Section 409A.

If an award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that award will recognize ordinary income on the amounts deferred under the award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with the provisions of Section 409A, Section 409A imposes an additional twenty percent (20%) federal income tax on compensation recognized as ordinary income, as well as possible interest requirements with respect to such amounts, and will have certain withholding requirements.

**The foregoing is only a summary of the effect of federal income taxation upon the Bank and upon participants, is not complete and does not discuss the federal employment taxes, tax consequences of any participant’s death or the income tax laws of any municipality, state, or foreign country in which a participant may reside. The foregoing is not legal advice or tax advice.**

### **New Plan Benefits**

No determination has yet been made as to the awards, if any, that any individuals who would be eligible to participate in the Plan will be granted in the future if shareholders approve the Plan at the Annual Meeting and, therefore, the benefits to be awarded under the Plan are not currently determinable.

## **Securities Authorized for Issuance Under Equity Compensation Plans**

The Bank has not issued any equity securities under a compensation plan and currently has no compensation plan under which equity securities are authorized for issuance.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR APPROVAL OF THE CARTER BANK & TRUST 2018 OMNIBUS EQUITY INCENTIVE PLAN.**

## **OTHER BUSINESS**

As of the date of this proxy statement, management of the Bank has no knowledge of any matters to be presented for consideration at the Annual Meeting other than the proposals referred to above. If any other matters properly come before the Annual Meeting, the persons named in the accompanying proxy intend to vote such proxy, to the extent entitled, according to the recommendations of the Board of Directors.

## **SHAREHOLDER PROPOSALS FOR 2019 ANNUAL MEETING**

If any shareholder intends to present a proposal at the 2019 Annual Meeting of Shareholders or have a proposal considered for inclusion in the Bank's proxy materials for the 2019 Annual Meeting of Shareholders, including nominations of directors, the proposal must be in proper form in accordance with the federal proxy rules and must be received by the Vice President/Accounting Operations Manager, at the Bank's main office in Martinsville, Virginia no later than March 29, 2019 and no earlier than February 27, 2019; provided however, if the 2019 Annual Meeting of Shareholders is held more than 30 days before or more than 60 days after the first anniversary date of the 2018 Annual Meeting of Shareholders (June 27, 2018), notice must be delivered no earlier than 120 days before the 2019 Annual Meeting of Shareholders and no later than 90 days before the 2019 Annual Meeting of Shareholders or the tenth day following the day on which notice of the 2019 Annual Meeting of Shareholders is mailed.

The proxy solicited by the Board of Directors for the 2019 Annual Meeting of Shareholders will confer discretionary authority on the persons named in the accompanying proxy to vote on any shareholder proposal presented at the meeting if the Bank has not received proper notice of such proposal.

By Direction of the Board of  
Directors

/s/ James W. Haskins

James W. Haskins  
Chairman of the Board

May 24, 2018

**A copy of the Bank's Annual Report on Form 10-K (including exhibits) as filed with the FDIC for the year ended December 31, 2017, will be furnished without charge to shareholders upon written request to Chief Financial Officer, Carter Bank & Trust, 1300 Kings Mountain Road, Martinsville, Virginia 24112.**

**CARTER BANK & TRUST  
2018 OMNIBUS EQUITY INCENTIVE PLAN**

**ARTICLE I  
Establishment, Purpose and Duration**

1.1 Establishment of the Plan.

(a) Carter Bank & Trust, a Virginia banking corporation (the “Company”), hereby establishes the Carter Bank & Trust 2018 Omnibus Equity Incentive Plan (the “Plan”). Unless otherwise defined herein, all capitalized terms shall have the meanings set forth in Section 2.1. The Plan permits the grant of Incentive Stock Options, Nonqualified Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Cash Awards to Key Employees of the Company or its Subsidiaries and the grant of Nonqualified Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Stock Awards, Performance Units and Performance Cash Awards to Non-Employee Directors of the Company or its Subsidiaries.

(b) The Plan was adopted by the Board of Directors of the Company on March 29, 2018 and shall become effective on June 27, 2018 (the “Effective Date”), subject to the approval of the Plan by the Company’s shareholders.

1.2 Purpose of the Plan. The purpose of the Plan is to promote the success of the Company and its subsidiaries by providing incentives to Key Employees and Non-Employee Directors that will promote the identification of their personal interests with the long-term financial success of the Company and with growth in shareholder value, consistent with the Company’s risk management practices. The Plan is designed to provide flexibility to the Company, including its subsidiaries, in its ability to attract, retain the services of, and motivate Key Employees and Non-Employee Directors upon whose judgment, interest, and special effort the successful conduct of its operation is largely dependent.

1.3 Duration of the Plan. The terms of this Plan shall become effective on the Effective Date, as described in Section 1.1(b). No Award may be granted under the Plan after June 26, 2028. Awards outstanding on such date shall remain valid in accordance with their terms. The Board shall have the right to terminate the Plan at any time pursuant to Article XVII.

**ARTICLE II  
Definitions**

2.1 Definitions. The following terms shall have the meanings set forth below:

(a) “Affiliate” has the meaning ascribed to such term in Rule 12b-2 under the Exchange Act.

(b) “Agreement” means a written agreement or other instrument or document, which may be in electronic format, implementing the grant of an Award and setting forth the specific terms of an Award, and which is signed or acknowledged (including a signature or acknowledgment in electronic format) by an authorized officer of the Company and the Participant, except that no signature will be required from the Participant in the case of a Stock Award with no vesting conditions. The Company’s Chief Executive Officer, Chief Financial Officer, Chairman of the Committee, Chairman of the

Board, and such other directors or officers of the Company as shall be designated by the Committee are hereby authorized to execute or acknowledge Agreements on behalf of the Company (including a signature or acknowledgment in electronic format) and to cause Agreements to be delivered to each Participant (including delivery in electronic format).

(c) “Award” means a grant under this Plan of an Incentive Stock Option, Nonqualified Stock Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Stock Award, Performance Unit and/or Performance Cash Award.

(d) “Award Date” means the date on which an Award is made (also referred to as “granted”) by the Committee under this Plan.

(e) “Beneficiary” means the person designated by a Participant pursuant to Section 18.11.

(f) “Board” means the Board of Directors of the Company, unless otherwise indicated.

(g) “Cause” has the meaning set forth in any employment agreement, or, if none, in any severance or change of control agreement, then in effect between the Participant and the Company or a subsidiary, if applicable, and, if the Participant has no such agreement or if such agreement does not define the term, “Cause” means the Participant’s (i) willful misconduct in connection with the performance of the Participant’s duties, (ii) misappropriation or embezzlement of funds or material property of the Company or any Affiliate, (iii) fraud or dishonesty with respect to the Company or any Affiliate, (iv) failure to perform any of the material duties and responsibilities of the Participant’s position (other than by reason of Disability) or failure to follow reasonable instructions or policies of the Company, in either case after being advised in writing of such failure and being given a reasonable opportunity and period (as determined by the Company in its reasonable business judgment) to remedy such failure (if such failure is capable of being remedied), which period shall not be less than 30 days, (v) 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) material violation of any policy, code or standard of behavior or ethics generally applicable to employees of the Company, after being advised in writing of such breach or violation and being given a reasonable opportunity and period (as determined by the Company 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 30 days, (vii) willful violation of any final cease and desist order, (viii) breach of any fiduciary duty owed to the Company or its Affiliates, or (ix) engaging in conduct that, if it became known by any regulatory or governmental agency or the public, would result or is reasonably likely to result, in the good faith judgment of the Company, in material injury to the Company, monetarily or otherwise.

(h) “Change of Control” shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied at any time after the Effective Date:

(i) 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 Company securities having more than fifty percent (50%) of the combined voting power of the then outstanding Company securities that may be cast for the election of the Company’s directors other than as a result of an issuance of securities initiated by the Company, or open market purchases approved by the Board, as long as the majority of the Board approving the purchases constitutes a majority of the Board at the time the purchases are made; or

(ii) 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, a majority of the members of the Company's Board is replaced by directors whose appointment or election is not endorsed by a majority of the members of the Company's Board before the date of the appointment or election.

For purposes of this definition, a Change of Control occurs on the date on which an event described in (i) or (ii) occurs, provided that 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.

For purposes of this definition only, the term "person" means any individual, entity or group (within the meaning of Treasury Regulation § 1.409A-3(i)(5)), other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company, and "beneficial ownership" has the meaning given the term in Rule 13d-3 under the Exchange Act.

For purposes of any Award subject to Section 409A of the Code, this definition is intended to, and shall be interpreted and applied in a manner as to, comply with the requirements of Section 409A of the Code.

(j) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(k) "Committee" means the committee of the Board appointed by the Company to administer the Plan pursuant to Article III, which shall be the Governance and Compensation Committee of the Board of Directors of the Company unless a subcommittee is required as provided below or unless the Board of Directors of the Company determines otherwise. All members of the Committee shall be "independent directors" under applicable listing standards of any national securities exchange or system on which the Stock is then listed or reported, or, if the Stock is not then listed or reported on a national securities exchange or system, under the applicable independence standard selected by the Company's Board. For actions which require that all of the members of the Committee constitute "non-employee directors" as defined in Rule 16b-3, or any similar or successor rule, the Committee shall consist of a subcommittee of at least two members of the Governance and Compensation Committee meeting such qualifications. In the event the Board of Directors of the Company exercises the authority of the Committee in connection with the Plan or an Award as contemplated by Section 3.1(a), the term "Committee" shall refer to the Board of Directors of the Company in connection with the Plan or with regard to that Award.

(l) "Company" means Carter Bank & Trust or any successor thereto.

(m) "Disability" or "Disabled" means with respect to an Incentive Stock Option, a Disability within the meaning of Code Section 22(e)(3). As to all other Awards, the Committee shall determine whether a Disability exists and such determination shall be conclusive.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

(o) "Fair Market Value" of a Share means (i) the per Share price at the close of business on the applicable principal U.S. market or applicable broker-dealer quotation service on the relevant date if it is a trading date, or, if not, on the most recent date on which the Stock was traded prior to such date, as reported by the national securities exchange or system for the applicable principal U.S. market or the applicable broker-dealer quotation service or such other source as the

Committee deems reliable, provided, however, the Committee may elect to use, subject to applicable requirements of the Code, the average closing price over a designated number of up to thirty (30) consecutive days to determine the Fair Market Value if the daily volume of trading in the Stock is not, in the sole discretion of the Committee, sufficient to be a reliable indicator of Fair Market Value, or (ii) if the Stock is not then traded or quoted on an established U.S. market or broker-dealer quotation service or listed or reported on a national securities exchange or system or if, in the opinion of the Committee, the method set forth in (i) is otherwise inapplicable or inappropriate for any reason, the fair market value as determined pursuant to a reasonable method adopted by the Committee in good faith for such purpose, which shall be conclusive and binding on all persons, provided, however, that the Fair Market Value of Stock subject to an Incentive Stock Option shall be determined in good faith within the meaning of Treasury Regulation § 1.422-2(e)(2) and the Fair Market Value of Stock subject to a Nonqualified Stock Option shall be determined in accordance with Treasury Regulation § 1.409A-1(b)(5)(iv).

(p) “Good Reason” has the meaning set forth in any employment agreement, or, if none, in any severance or change of control agreement, then in effect between the Participant and the Company or a subsidiary, if applicable, and, if the Participant has no such agreement or if such agreement does not define the term, “Good Reason” means (i) a material diminution in the Participant’s duties, authority, or responsibilities without the Participant’s consent; (ii) a relocation of the primary location at which the Participant must perform services to a location that is more than fifty (50) miles away unless the Company moves its principal executive offices to the place to which the Participant is required to move, or (iii) a material reduction in the Participant’s base compensation. The Participant is required to provide notice to the Company of the existence of a condition described in this Section 2.1(p) within a sixty (60) day period of the initial existence of the condition, upon the notice of which the Company shall have thirty (30) days to remedy the condition. If the condition is remedied within thirty (30) days, then “Good Reason” does not exist. If the condition is not remedied within thirty (30) days, then the Participant must resign within one hundred twenty (120) days of the expiration of the remedy period for “Good Reason” to exist.

(q) “Incentive Stock Option” or “ISO” means an option to purchase Stock, granted under Article VI, which is designated as an incentive stock option and is intended to meet the requirements of, and qualify for favorable federal income tax treatment under, Code Section 422.

(r) “Key Employee” means an officer or other key employee of the Company or its Subsidiaries, who, in the opinion of the Committee, can contribute significantly to the growth and profitability of, or perform services of major importance to, the Company and its Subsidiaries.

(s) “Non-Employee Director” means an individual who is a member of the board of directors of the Company or any Subsidiary thereof or a member of an advisory board of the Company or any Subsidiary thereof and, in either case, who is not an employee of the Company or any Subsidiary thereof.

(t) “Nonqualified Stock Option” means an option to purchase Stock, granted under Article VI, which is not intended to be an Incentive Stock Option and is so designated.

(u) “Option” means an Incentive Stock Option or a Nonqualified Stock Option.

(v) “Participant” means a Key Employee or Non-Employee Director who has been granted an Award under the Plan and whose Award remains outstanding.

(w) “Performance-Based Compensation Award” means any Award for which exercise, full enjoyment or receipt thereof by the Participant is contingent on satisfaction or achievement of the Performance Goal(s) applicable thereto. The terms and conditions of each Performance-Based Compensation Award, including the Performance Goal(s) and Performance Period, shall be set forth in an Agreement or in a subplan of the Plan that is incorporated by reference into an Agreement.

(x) “Performance Cash Award” means an Award of cash granted to a Participant pursuant to Article XII.

(y) “Performance Goal” means one or more performance measures or goals set by the Committee in its discretion for each grant of a Performance-Based Compensation Award. The extent to which such performance measures or goals are met will determine the amount or value of the Performance-Based Compensation Award that a Participant is entitled to exercise, receive or retain. For purposes of the Plan, a Performance Goal may be particular to a Participant, and may include, but is not limited to, any one or more of the following performance criteria, either individually, alternatively or in any combination, subset or component, applied to the performance of the Company as a whole or to the performance of a Subsidiary, division, strategic business unit, line of business or business segment, measured either quarterly, annually or cumulatively over a period of years or partial years, in each case as specified by the Committee in the Award: (i) Stock value or increases therein, (ii) total shareholder return, (iii) operating revenue, (iv) commodity revenue, (v) tangible book value or tangible book value growth, tangible book value per share or growth in tangible book value per share, (vi) earnings per share or earnings per share growth (before or after one or more of taxes, interest, depreciation and/or amortization), (vii) diluted earnings per share or earnings per share growth (before or after one or more of taxes, interest, depreciation and/or amortization), including fully diluted earnings per share after extraordinary events, (viii) net earnings, (ix) earnings and/or earnings growth (before or after one or more of taxes, interest, depreciation and/or amortization), operating earnings and/or operating earnings growth, (x) profits or profit growth (net profit, gross profit, operating profit, net operating profit, economic profit, profit margins or other corporate profit measures), (xi) cash flow, operating cash flow or free cash flow (either before or after dividends), (xii) cash from operations, (xiii) operating or other expenses or growth thereof, (xiv) operating efficiency, (xv) return on equity, (xvi) return on tangible equity or return on tangible common equity, (xvii) return on assets, net assets, capital or investment (including return on total capital or return on invested capital), (xviii) return on operating revenue, (xix) sales or revenues or growth thereof, (xx) deposits, loan and/or equity levels or growth thereof, (xxi) working capital targets, (xxii) assets under management or growth thereof, (xxiii) cost control measures, (xxiv) regulatory compliance, (xxv) gross, operating or other margins, (xxvi) efficiency ratio (as generally recognized and used for bank financial reporting and analysis), (xxvii) operating ratio, (xxviii) income or net income, (xxix) operating income, (xxx) interest income, (xxxi) net interest income, (xxxii) net interest margin, (xxxiii) non-interest income, (xxxiv) non-interest expense, (xxxv) credit quality, net charge-offs and/or non-performing assets (excluding such loans or classes of loans as may be designated for exclusion), (xxxvi) percentage of non-accrual loans to total loans or net charge-off ratio, (xxxvii) provision expense, (xxxviii) productivity, (xxxix) customer satisfaction, (xl) satisfactory internal or external audits, (xli) improvement of financial ratings, (xlii) achievement of balance sheet or income statement objectives, (xliii) quality measures, (xliv) regulatory exam results, (xlv) achievement of risk management objectives, (xlvi) achievement of strategic performance objectives, (xlvii) achievement of merger or acquisition objectives, (xlviii) implementation, management or completion of critical projects or processes, (xlix) market capitalization, (l) total enterprise value (market capitalization plus debt), (li) economic value added, (lii) debt leverage (debt to capital), (lii) market share, or (liv) any component or components of the foregoing (including, without limitation, determination thereof, in the Committee’s sole discretion, with or without the effect of discontinued operations and dispositions of business units or segments, non-recurring items, material extraordinary items that are both unusual and infrequent, non-budgeted items, special



charges, accruals for acquisitions, reorganization and restructuring programs and/or changes in tax law, accounting principles or other such laws or provisions affecting the Company's reported results). Performance Goals may include a threshold level of performance below which no payment or vesting may occur, levels of performance at which specified payments or specified vesting will occur, and a maximum level of performance above which no additional payment or vesting will occur. Performance Goals may be absolute in their terms or measured against or in relationship to a pre-established target, the Company's budget or budgeted results, previous period results, a market index, a designated comparison group of other companies comparably, similarly or otherwise situated, or any combination thereof. The Committee shall determine the Performance Period during which a Performance Goal must be met, and attainment of Performance Goals shall be subject to certification by the Committee. Except to the extent limited by the Award Agreement, the Committee may, in its sole discretion, adjust the compensation or economic benefit due upon attainment of Performance Goals and adjust the Performance Goals themselves.

(z) "Performance Period" means the time period during which a Performance Goal must be met in connection with a Performance-Based Compensation Award. Such time period shall be set by the Committee, provided, however, that the Performance Period shall not be less than one year, subject to applicable provisions regarding accelerated vesting events.

(aa) "Performance Unit" means an Award, designated as a Performance Unit, granted to a Participant pursuant to Article XI, valued by reference to the Fair Market Value of Stock or valued as a fixed dollar amount, and subject to achievement or satisfaction of one or more Performance Goals. Performance Units are payable in cash, Stock or a combination thereof. Even to the extent a Performance Unit is denoted by reference to Shares of Stock and is payable in Stock, the receipt of a Performance Unit Award does not constitute receipt of the underlying Shares.

(bb) "Period of Restriction" means the period during which Shares of Restricted Stock are subject to a substantial risk of forfeiture and/or subject to limitations on transfer, pursuant to Article VII, or the period during which Restricted Stock Units are subject to vesting requirements, pursuant to Article VIII. The relevant restriction may lapse based on a period of time or after meeting performance criteria specified by the Committee, or both. The Period of Restriction shall be set by the Committee, provided, however, that, except for Awards of Restricted Stock or Restricted Stock Units granted to Non-Employee Directors as part of a retainer for service, including annual or other grants made pursuant to a director compensation policy or arrangement, when a Period of Restriction lapses solely based on a period of time, the length of such period of time shall not be less than one year, subject to applicable provisions regarding accelerated vesting events.

(cc) "Restricted Stock" means an Award of Stock granted to a Participant pursuant to Article VII, which is subject to a substantial risk of forfeiture and/or subject to limitations on transferability until the designated conditions for the lapse of such restrictions are satisfied.

(dd) "Restricted Stock Unit" or "RSU" means an Award designated as a Restricted Stock Unit, which is a bookkeeping entry granted to a Participant pursuant to Article VIII, valued by reference to the Fair Market Value of Stock, and subject to vesting requirements. Restricted Stock Units are payable in cash, Stock or a combination thereof. Even to the extent a Restricted Stock Unit is denoted by reference to Shares of Stock and is payable in Stock, the receipt of a Restricted Stock Unit Award does not constitute receipt of the underlying Shares.



(ee) “Rule 16b-3” means Rule 16b-3 promulgated under the Exchange Act, including any corresponding subsequent rule or any amendments enacted after the Effective Date.

(ff) “Stock” or “Shares” means the common stock of the Company.

(gg) “Stock Appreciation Right” or “SAR” means an Award, designated as a stock appreciation right, granted to a Participant pursuant to Article IX, and payable in cash, Stock or a combination thereof.

(hh) “Stock Award” means an Award of Stock granted to a Participant pursuant to Article X.

(ii) “10% Shareholder” means a person who owns, directly or indirectly, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary of the Company. Indirect ownership of stock shall be determined in accordance with Code Section 424(d).

(jj) For purposes of Incentive Stock Options, “Subsidiary” shall mean a corporation at least fifty percent (50%) of the total combined voting power of all classes of stock of which is owned by the Company, either directly or through one or more of its Subsidiaries. For purposes of all Awards other than Incentive Stock Options, “Subsidiary” shall mean any entity that would be considered a single employer with the Company within the meaning of Code Section 414(b) or Code Section 414(c), except to the extent a different definition is required under Code Section 409A.

### **ARTICLE III Administration**

#### **3.1 The Committee.**

(a) The Plan shall be administered by the Committee which shall have all powers necessary or desirable for such administration. To the extent required by Rule 16b-3, all Awards shall be made by members of the Committee who are “non-employee directors” as that term is defined in Rule 16b-3, or by the Board. In the event the Board determines that a member of the Committee (or any applicable subcommittee) was not an “independent director” under applicable listing standards of any national securities exchange or system on which the Stock is then listed or reported or other independence standard selected by the Company’s Board if the Stock is not then listed or reported and/or was not a “non-employee director” as defined in Rule 16b-3, as applicable, on the Award Date, such determination shall not invalidate the Award and the Award shall remain valid in accordance with its terms. Any authority granted to the Committee may also be exercised by the full Board.

(b) The express grant in this Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. In addition to any other powers and, subject to the provisions of the Plan, the Committee shall have the following specific powers: (i) to determine the terms and conditions upon which the Awards may be made and exercised; (ii) to determine all terms and provisions of each Agreement, which need not be identical; (iii) to construe and interpret the Agreements and the Plan, including the ability to resolve any ambiguities and define any terms; (iv) to establish, amend or waive rules or regulations for the Plan’s administration; (v) to accelerate the exercisability of any Award or the termination of any Period of Restriction or other restrictions imposed under the Plan to the extent permitted by Code Section 409A; and (vi) to make all other determinations and take all other actions necessary or advisable for the administration of the Plan. The interpretation and construction of any provisions of the Plan or an Agreement by the Committee shall be final

and conclusive. In the event of a conflict or inconsistency between the Plan and any Agreement, the Plan shall govern, and the Agreement shall be interpreted to minimize or eliminate any such conflict or inconsistency.

(c) The Committee may consult with counsel, who may be counsel to the Company, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel.

(d) The Committee, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Committee's authority and duties with respect to Awards to individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act. The Committee may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Committee's delegee or delegees that were consistent with the terms of the Plan.

3.2 Selection of Participants. The Committee shall have the authority to grant Awards under the Plan, from time to time, to such Key Employees and Non-Employee Directors as may be selected by the Committee. Each Award shall be evidenced by an Agreement.

3.3 Decisions Binding. All determinations and decisions made by the Board or the Committee pursuant to the provisions of the Plan shall be final, conclusive and binding.

3.4 Rule 16b-3 Requirements. Notwithstanding any provision of the Plan to the contrary, the Board or the Committee may impose such conditions on any Award, and amend the Plan in any such respects, as may be required to satisfy the requirements of Rule 16b-3.

3.5 Indemnification of Committee. In addition to such other rights of indemnification as they may have as directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against reasonable expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted or made hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if such members acted in good faith and in a manner which they believed to be in, and not opposed to, the best interests of the Company and its Subsidiaries.

#### **ARTICLE IV Stock Subject to the Plan**

##### 4.1 Number of Shares.

(a) Subject to adjustment as provided in Article XIV, the maximum aggregate number of Shares that may be issued pursuant to Awards made under the Plan shall not exceed 2,000,000. Except as provided in Section 4.2, the issuance of Shares in connection with the exercise of, or as other payment for, Awards under the Plan shall reduce the number of Shares available for future Awards under the Plan.

(b) Subject to adjustment as provided in Article XIV, no more than an aggregate of 2,000,000 Shares may be issued pursuant to the exercise of Incentive Stock Options granted under the Plan (including shares issued pursuant to

the exercise of Incentive Stock Options that are the subject of disqualifying dispositions within the meaning of Code Sections 421 and 422).

4.2 Lapsed Awards or Forfeited Shares. If any Award granted under this Plan terminates, expires, or lapses for any reason other than by virtue of exercise or settlement of the Award, or if Shares issued pursuant to Awards are forfeited, any Stock subject to such Award again shall be available for the grant of an Award under the Plan.

4.3 Use of Shares as Payment of Exercise Price or Taxes. Shares withheld by the Company, delivered by the Participant, or otherwise used to pay the Option Price pursuant to the exercise of an Option or the SAR Exercise Price pursuant to the exercise of a SAR shall not be available for future Awards under the Plan. Shares withheld by the Company, delivered by the Participant, or otherwise used to satisfy payment of withholding taxes associated with an Award shall not be available for future Awards under the Plan. To the extent Shares are delivered or withheld pursuant to the exercise of an Option or a SAR, the number of underlying Shares as to which the exercise related shall be counted against the number of Shares available for future Awards under the Plan, as opposed to counting only those Shares issued upon exercise.

4.4 Per-Participant Annual Limit. The maximum number of Shares with respect to which Awards may be granted in any calendar year to any Key Employee during such calendar year shall be 60,000 in the aggregate and the maximum number of Shares with respect to which Awards may be granted in any calendar year to any Non-Employee Director during such calendar year shall be 5,000 in the aggregate. The maximum dollar amount of cash Awards granted in any calendar year to any Participant shall be \$500,000 in the aggregate.

4.5 No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award thereunder. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

## **ARTICLE V**

### **Eligibility**

Persons eligible to participate in the Plan include (i) all employees of the Company and its Subsidiaries (including any entity that becomes a Subsidiary after the Effective Date) who, in the opinion of the Committee, are Key Employees and (ii) all Non-Employee Directors. The grant of an Award shall not obligate the Company to pay a Key Employee or Non-Employee Director any particular amount of remuneration, to continue the employment of a Key Employee or the service of a Non-Employee Director, or to make further grants to a Key Employee or Non-Employee Director at any time thereafter.

## **ARTICLE VI**

### **Stock Options**

6.1 Grants of Options. Subject to the terms and provisions of the Plan, Options may be granted to such Key Employees and Non-Employee Directors at any time and from time to time as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Shares subject to Options granted to each Participant, provided, however, that only Nonqualified Stock Options may be granted to Non-Employee Directors.

6.2 Option Agreement. Each Option grant shall be evidenced by an Agreement that shall specify the type of Option granted, the Option Price (as hereinafter defined), the duration of the Option, the number of Shares to which the Option pertains, any conditions imposed upon the exercisability of the Option, and such other provisions as the Committee shall

determine, provided, however, that, except for Options granted to Non-Employee Directors as part of a retainer for service, including annual or other grants made pursuant to a director compensation policy or arrangement, when the exercisability of an Option is subject solely to time-based conditions, the length of such period of time shall not be less than one year, subject to applicable provisions regarding accelerated vesting events. The Agreement shall specify whether the Option is intended to be an Incentive Stock Option or Nonqualified Stock Option, provided, however, that if an Option is intended to be an Incentive Stock Option but fails to be such for any reason, it shall continue in full force and effect as a Nonqualified Stock Option. No Option may be exercised after the expiration of its term or, except as set forth in the Participant's Agreement, after the termination of the Participant's employment or service. The Committee shall set forth in the Participant's Agreement when, and under what circumstances, an Option may be exercised after termination of the Participant's employment or period of service, provided that no Incentive Stock Option may be exercised after (a) three months from the Participant's termination of employment with the Company for reasons other than Disability or death, or (b) one year from the Participant's termination of employment on account of Disability or death. The Committee may, in its sole discretion, amend a previously granted Incentive Stock Option to provide for more liberal exercise provisions, provided, however, that if the Incentive Stock Option as amended no longer meets the requirements of Code Section 422, and, as a result the Option no longer qualifies for favorable federal income tax treatment under Code Section 422, the amendment shall not become effective without the written consent of the Participant.

6.3 Option Price. The exercise price per share of Stock covered by an Option ("Option Price") shall be determined by the Committee subject to the limitations described in this Section 6.3 and the Plan. The Option Price shall not be less than 100% of the Fair Market Value of such Stock on the Award Date. In addition, an ISO granted to a Key Employee who, at the time of grant, is a 10% Shareholder, shall have an Option Price which is at least equal to 110% of the Fair Market Value of the Stock on the Award Date.

6.4 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant, provided, however, that no Option shall be exercisable later than the tenth (10<sup>th</sup>) anniversary date of its Award Date. In addition, an ISO granted to a Key Employee who, at the time of grant, is a 10% Shareholder, shall not be exercisable later than the fifth (5<sup>th</sup>) anniversary date of its Award Date.

6.5 Exercisability.

(a) Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall determine, which need not be the same for all Participants.

(b) An Incentive Stock Option, by its terms, shall be exercisable in any calendar year only to the extent that the aggregate Fair Market Value (determined at the Award Date) of the Stock with respect to which Incentive Stock Options are exercisable by the Participant for the first time during the calendar year does not exceed \$100,000 (the "Limitation Amount"). Incentive Stock Options granted under the Plan and all other plans of the Company and any Subsidiary shall be aggregated for purposes of determining whether the Limitation Amount has been exceeded. The Committee may impose such conditions as it deems appropriate on an Incentive Stock Option to ensure that the foregoing requirement is met. If Incentive Stock Options that first become exercisable in a calendar year exceed the Limitation Amount, the excess Options will be treated as Nonqualified Stock Options to the extent permitted by law.

6.6 Method of Exercise. Options shall be exercised by the delivery of a written notice to the Company in the form (which may be electronic) prescribed by the Committee (or its delegee) setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares and payment of (or an arrangement satisfactory to the Company for the Participant to pay) any tax withholding required in connection with the Option exercise. To the extent approved by the Committee from time to time, the Option Price shall be payable to the Company in full either (a) in cash, (b) by delivery of Shares of Stock that the Participant has previously acquired and owned valued at Fair Market Value at the time of exercise, provided that such method of payment is then permitted under applicable law or regulation, (c) by delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company, from the sale proceeds with respect to the sale of Stock, the amount necessary to pay the Option Price and, if necessary, applicable withholding taxes, (d) by the Company withholding Shares otherwise issuable upon the exercise valued at Fair Market Value at the time of exercise, or (e) by a combination of the foregoing. As soon as practicable, after receipt of written notice and payment of the Option Price and completion of payment of (or an arrangement satisfactory to the Company for the Participant to pay) any tax withholding required in connection with the Option exercise, the Company shall, in the Committee's discretion, either deliver to the Participant stock certificates in an appropriate amount based upon the number of Options exercised, issued in the Participant's name, or deliver the appropriate number of Shares in book-entry or electronic form.

6.7 Restrictions on Stock Transferability. The Committee shall impose such restrictions on any Shares acquired pursuant to the exercise of an Option under the Plan as it may deem advisable, including, without limitation, restrictions under the applicable federal securities law, under the requirements of any national securities exchange or system on which the Stock is then listed or reported, and under any blue sky or state securities laws applicable to such Shares. The Committee may specify in an Agreement that Stock delivered on exercise of an Option is Restricted Stock or Stock subject to a buyback right by the Company in the amount of, or based on, the Option Price therefor in the event the Participant does not complete a specified service period after exercise.

6.8 Nontransferability of Options.

(a) In general, no Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, otherwise than upon the death of the Participant in accordance with Section 18.11. Further, Options granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

(b) Notwithstanding the provisions of Section 6.8(a) and subject to federal and state securities laws, including Rule 16b-3, and applicable banking regulations, the Committee may grant or amend Nonqualified Stock Options that permit a Participant to transfer the Options to his spouse, lineal ascendants and/or lineal descendants, to a trust for the benefit of such persons, to a partnership, limited liability company, or other entity the only partners, members, or interest-holders of which are such persons, or pursuant to a domestic relations order, provided that the Nonqualified Stock Option may not again be transferred other than to the Participant originally receiving the Option or to an individual, trust, partnership, limited liability company or other entity to which such Participant could have transferred the Option pursuant to this Section 6.8(b). Consideration may not be paid for the transfer of Options. The transferee of an Option shall be subject to all conditions applicable to the Option prior to its transfer. The Agreement granting the Option shall set forth the transfer conditions and restrictions. The Committee may impose on any transferable Option and on Stock issued upon the exercise of an Option such

limitations and conditions as the Committee deems appropriate. Any such transfer supersedes any Beneficiary designation made under Section 18.11 with respect to the transferred Nonqualified Stock Options.

6.9 Disqualifying Disposition of Shares Issued on Exercise of an ISO. If a Participant makes a “disposition” (within the meaning of Code Section 424(c)) of Shares issued upon exercise of an ISO within two (2) years from the Award Date or within one (1) year from the date the Shares are transferred to the Participant, the Participant shall, within ten (10) days of disposition, notify the Committee (or its delegatee) in order that any income realized as a result of such disposition can be properly reported by the Company on IRS forms W-2 or 1099.

6.10 Shareholder Rights. A Participant holding Options shall have no right to vote the underlying Shares, no right to receive dividends on the underlying Shares, and no other rights as a shareholder until after the exercise of the Options and the issuance of the underlying Shares. In no event shall any Option granted under the Plan include any right to dividend equivalents with respect to such Option or the underlying Shares.

## **ARTICLE VII Restricted Stock**

7.1 Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant shares of Restricted Stock under the Plan to such Key Employees and Non-Employee Directors and in such amounts as it shall determine. Participants receiving Restricted Stock Awards are not required to pay the Company therefor (except for applicable tax withholding) other than the rendering of services. If determined by the Committee, custody of Shares of Restricted Stock may be retained by the Company until the termination of the Period of Restriction pertaining thereto.

7.2 Restricted Stock Agreement. Each Restricted Stock Award shall be evidenced by an Agreement that shall specify the Period of Restriction, the number of Restricted Stock Shares granted, and, if applicable, any Performance Period and Performance Goal(s), and such other provisions as the Committee shall determine.

7.3 Transferability. Except as provided in this Article VII and subject to the limitation in the next sentence, the Shares of Restricted Stock granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the termination of the applicable Period of Restriction or upon earlier satisfaction of other conditions as specified by the Committee in its sole discretion and set forth in the Agreement. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative, provided that the Committee may permit, in its sole discretion, transfers of Shares of Restricted Stock during the lifetime of the Participant pursuant to a domestic relations order. Consideration may not be paid for the transfer of Shares of Restricted Stock.

7.4 Other Restrictions. The Committee shall impose such other restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, restrictions under applicable federal or state securities laws, and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions or otherwise denote the Restricted Stock as restricted, if issued in book-entry or electronic form.

7.5 Certificate Legend. In addition to any other legends placed on certificates, or to which Shares of Restricted Stock issued in book-entry or electronic form are made subject, pursuant to Section 7.4, any Award of Restricted Stock issued

in book-entry or electronic form shall be subject to the following legend, and any certificates representing shares of Restricted Stock granted pursuant to the Plan shall bear the following legend:

The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer set forth in the Carter Bank & Trust 2018 Omnibus Equity Incentive Plan, in the rules and administrative procedures adopted pursuant to such Plan, and in a restricted stock agreement dated <<date of grant>>. A copy of the Plan, such rules and procedures, and such restricted stock agreement may be obtained from the Chief Financial Officer of Carter Bank & Trust.

7.6 Removal of Restrictions. Except as otherwise provided in this Article VII, the Agreement, or applicable law or regulation, Shares of Restricted Stock covered by each Restricted Stock Award made under the Plan shall become freely transferable by the Participant after the last day of the Period of Restriction, and, where applicable, after a determination of the satisfaction or achievement of any applicable Performance Goal(s). Once the Shares are released from the restrictions, the Participant shall be entitled to have the legend required by Section 7.5 removed from his Stock certificate or similar notation removed from such Shares if issued in book-entry or electronic form.

7.7 Voting Rights. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares.

7.8 Dividends and Other Distributions. During the Period of Restriction, unless otherwise provided in the applicable Agreement, recipients of Shares of Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to those Shares. If any such dividends or distributions are paid in Shares, such Shares shall be subject to the same restrictions on transferability as the Shares of Restricted Stock with respect to which they were paid.

## **ARTICLE VIII Restricted Stock Units**

8.1 Grant of Restricted Stock Units. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Restricted Stock Units under the Plan (with one Unit representing one Share) to such Key Employees and Non-Employee Directors and in such amounts as it shall determine. Participants receiving Restricted Stock Unit Awards are not required to pay the Company therefor (except for applicable tax withholding) other than the rendering of services. The Committee is expressly authorized to grant Restricted Stock Units that are deferred compensation covered by Code Section 409A, as well as Restricted Stock Units that are not deferred compensation covered by Code Section 409A.

8.2 Restricted Stock Unit Agreement. Each Restricted Stock Unit Award shall be evidenced by an Agreement that shall specify the Period of Restriction, the number of Restricted Stock Units granted, and if applicable, any Performance Period and Performance Goal(s), and such other provisions as the Committee shall determine.

A participant holding Restricted Stock Units shall have no rights to deemed dividends or other distributions with respect to such Restricted Stock Units unless the Committee provides otherwise in the Agreement. The Committee may provide in the Agreement for deemed dividends or distributions with respect to Restricted Stock Units, provided that any such deemed dividends or distributions with respect to Restricted Stock Units subject to Performance Goal(s) may be accumulated but not paid unless and until the Period of Restriction applicable to the Restricted Stock Units has ended and the applicable Performance Goal(s) have been met (subject to any delay in payment required by Code Section 409A, if applicable). A



Participant holding Restricted Stock Units shall have no right to vote the Shares represented by such Restricted Stock Units unless and until the underlying Shares are issued to the Participant.

8.3 Payment after Lapse of Restrictions. Subject to the provisions of the Agreement, upon the lapse of restrictions with respect to a Restricted Stock Unit, the Participant is entitled to receive, without any payment to the Company (other than required tax withholding), an amount (the “RSU Value”) equal to the product of multiplying (a) the number of Shares equal to the number of Restricted Stock Units with respect to which the restrictions lapse by (b) the Fair Market Value per Share on the date the restrictions lapse.

The Agreement may provide for payment of the RSU Value at the time of the lapse of restrictions or, in accordance with Code Section 409A, if applicable, on an elective or non-elective basis, for payment of the RSU Value at a later date, adjusted (if so provided in the Agreement) from the date of the lapse of restrictions based on an interest, dividend equivalent, earnings, or other basis (including deemed investment of the RSU Value in Shares) set out in the Agreement (the “adjusted RSU Value”).

Payment of the RSU Value or adjusted RSU Value to the Participant shall be made in Shares, in cash or a combination thereof as determined by the Committee, either at the time of the Award or thereafter, and as provided in the Agreement. To the extent payment of the RSU Value or adjusted RSU Value to the Participant is made in Shares, such Shares shall be valued at the Fair Market Value on the date the restrictions therefor lapse in the case of an immediate payment or at the Fair Market Value on the date of settlement in the event of an elective or non-elective delayed payment. The Committee may specify in a Restricted Stock Unit Agreement that the Shares which are delivered upon payment of the RSU Value or adjusted RSU Value may be Restricted Stock pursuant to Article VII and subject to such further restrictions and vesting as provided in the Restricted Stock Unit Agreement.

8.4 Nontransferability of Restricted Stock Units. No Restricted Stock Unit granted under the Plan, and no right to receive payment in connection therewith, may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than upon the death of the Participant in accordance with Section 18.11 or, if permitted by the Committee in its sole discretion, pursuant to a domestic relations order. Further, all rights with respect to the Restricted Stock Units granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative except to the extent such Restricted Stock Units have been disposed of pursuant to a domestic relations order. Consideration may not be paid for the transfer of Restricted Stock Units.

## **ARTICLE IX Stock Appreciation Rights**

9.1 Grant of Stock Appreciation Rights. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Stock Appreciation Rights under the Plan to such Key Employees and Non-Employee Directors and in such amounts as it shall determine.

9.2 SAR Agreement. Each SAR grant shall be evidenced by an Agreement that shall specify its terms and conditions, which terms and conditions shall be determined by the Committee, subject to the limitations set forth in this Article IX. The per Share exercise price of a SAR (the “SAR Exercise Price”) shall not be less than 100% of the Fair Market Value of a Share on the Award Date.



9.3 Exercisability of SARs. SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon such SARs, subject to the limitations set forth in this Article IX. Except for SARs granted to Non-Employee Directors as part of a retainer for service, including annual or other grants made pursuant to a director compensation policy or arrangement, when the exercisability of a SAR is subject solely to time-based conditions, the length of such period of time shall not be less than one year, subject to applicable provisions regarding accelerated vesting events.

9.4 Other Conditions Applicable to SARs. In no event shall the term of any SAR granted under the Plan exceed ten (10) years from the Award Date. A SAR may be exercised only when the Fair Market Value of a Share exceeds the SAR Exercise Price. A SAR shall be exercised by delivery to the Committee (or its delegate) of a written notice of exercise in the form (which may be electronic) prescribed by the Committee (or its delegate).

9.5 Payment after Exercise of SARs. Subject to the provisions of the Agreement, upon the exercise of a SAR, the Participant is entitled to receive, without any payment to the Company therefor (except for required tax withholding), an amount (the "SAR Value") equal to the product of multiplying (i) the number of Shares with respect to which the SAR is exercised by (ii) an amount equal to the excess of (A) the Fair Market Value per Share on the date of exercise of the SAR over (B) the SAR Exercise Price.

Payment of the SAR Value to the Participant shall be made at the time of exercise in Shares, in cash or in a combination thereof as determined by the Committee. To the extent payment of the SAR Value to the Participant is made in Shares, such Shares shall be valued at the Fair Market Value on the date of exercise. The Committee may specify in a SAR Agreement that the Shares which are delivered upon payment of the SAR Value may be Restricted Stock pursuant to Article VII and subject to such further restrictions and vesting as provided in the SAR Agreement.

9.6 Nontransferability of SARs. No SAR granted under the Plan, and no right to receive payment in connection therewith, may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than upon the death of the Participant in accordance with Section 18.11 or, if permitted by the Committee in its sole discretion, pursuant to a domestic relations order. Further, all SARs, and rights in connection therewith, granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative except to the extent such SARs have been disposed of pursuant to a domestic relations order. Consideration may not be paid for the transfer of SARs.

9.7 Shareholder Rights. A Participant holding SARs shall have no right to vote the underlying Shares, no right to receive dividends on the underlying Shares, and no other rights as a shareholder until after the exercise of the SARs and the issuance of the underlying Shares. In no event shall any SAR granted under the Plan include any right to dividend equivalents with respect to such SAR or the underlying Shares.

## **ARTICLE X Stock Awards**

Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant unrestricted Stock Awards under the Plan to such Non-Employee Directors and in such amounts as it shall determine. Participants receiving Stock Awards are not required to pay the Company therefor (except for applicable tax withholding) other than the rendering of services. Unless otherwise provided in the applicable Agreement, Stock Awards shall be fully vested and freely transferable as of the Award Date, subject to restrictions under applicable federal or state securities laws.

**ARTICLE XI**  
**Performance Units**

11.1 Grant of Performance Units. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Performance Units under the Plan to such Key Employees and Non-Employee Directors and in such amounts as it shall determine. Participants receiving such Awards are not required to pay the Company therefor (except for applicable tax withholding) other than the rendering of services. The Committee is expressly authorized to grant Performance Units that are deferred compensation covered by Code Section 409A, as well as Performance Units that are not deferred compensation covered by Code Section 409A.

11.2 Performance Unit Agreement. Each Performance Unit is intended to be a Performance-Based Compensation Award, and the terms and conditions of each such Award, including the Performance Goal(s) and Performance Period, shall be set forth in an Agreement or in a subplan of the Plan that is incorporated by reference into an Agreement. The Committee shall set the Performance Goal(s) in its discretion for each Participant who is granted a Performance Unit.

The Committee may provide in the Agreement for payment of dividend equivalents with respect to each Performance Unit, provided that any such dividend equivalents may be accumulated but not paid unless and until the applicable Performance Goal(s) have been met (subject to any delay in payment required by Code Section 409A, if applicable). A Participant holding Performance Units shall have no right to vote the Shares represented by such Performance Units unless and until the underlying Shares are issued to the Participant.

11.3 Settlement of Performance Units. After a Performance Period has ended, the holder of a Performance Unit shall be entitled to receive the value thereof based on the degree to which the Performance Goal(s) and other conditions established by the Committee and set forth in the Agreement (or in a subplan of the Plan that is incorporated by reference into an Agreement) have been satisfied. Payment of the amount to which a Participant shall be entitled upon the settlement of a Performance Unit shall be made in cash, Stock or a combination thereof as determined by the Committee.

11.4 Nontransferability of Performance Units. No Performance Unit granted under the Plan, and no right to receive payment in connection therewith, may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than upon the death of the Participant in accordance with Section 18.11 or, if permitted by the Committee in its sole discretion, pursuant to a domestic relations order. All rights with respect to Performance Units granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative except to the extent such Performance Units have been disposed of pursuant to a domestic relations order. Consideration may not be paid for the transfer of Performance Units.

**ARTICLE XII**  
**Performance Cash Awards**

A Performance Cash Award may be granted upon the attainment during a Performance Period of one or more Performance Goals. Subject to the terms and conditions of the Plan, Performance Cash Awards may be granted to such Key Employees and Non-Employee Directors at any time and from time to time as shall be determined by the Committee. The terms and conditions of any Performance Cash Award, including the Performance Goal(s) and Performance Period, shall be determined by the Committee in its discretion and shall be set forth in an Agreement or in a subplan of the Plan that is incorporated by reference into an Agreement. The Committee is expressly authorized to grant Performance Cash Awards that

are deferred compensation covered by Code Section 409A, as well as Performance Cash Awards that are not deferred compensation covered by Code Section 409A.

### **ARTICLE XIII**

#### **Termination of Employment or Service**

13.1 Termination Due to Retirement. Unless otherwise provided in the Agreement, in the event that a Participant terminates his employment or service with the Company or one of its Subsidiaries due to retirement (as defined in such applicable rules or policy of the Company in effect at the time or as otherwise defined in the Agreement), then, provided no Cause exists to terminate such Participant's employment or service and provided further either (i) upon such retirement the Participant will be subject to a non-competition covenant pursuant to an existing agreement with the Company or a subsidiary or (ii) the Participant executes and delivers to the Company, no later than the date of such retirement, a non-competition agreement in a form acceptable to the Company, (a) all Options or Stock Appreciation Rights held by the Participant that are not already vested or exercisable shall be automatically vested and exercisable, (b) any remaining Period of Restriction applicable to the unvested portion of each Award of Restricted Stock or Restricted Stock Units held by the Participant that is solely based on a period of time shall automatically lapse, and (c) the achievement or satisfaction of any Performance Goal(s) applicable to the unvested portion of an Award held by the Participant during any Performance Period shall be adjusted through the date of termination as determined by the Committee and the Committee shall provide for such vesting, if any, as it deems appropriate.

13.2 Termination Due to Death or Disability. Unless otherwise provided in the Agreement, in the event a Participant's employment or service is terminated because of death or Disability, (a) all Options or Stock Appreciation Rights held by the Participant that are not already vested or exercisable shall be automatically vested and exercisable, (b) any remaining Period of Restriction applicable to the unvested portion of each Award of Restricted Stock or Restricted Stock Units held by the Participant that is solely based on a period of time shall automatically lapse, and (c) the achievement or satisfaction of any Performance Goal(s) applicable to the unvested portion of an Award held by the Participant during any Performance Period shall be adjusted through the date of termination as determined by the Committee and the Committee shall provide for such vesting, if any, as it deems appropriate.

13.3 Involuntary Termination or Termination for Good Reason. Unless otherwise provided in the Agreement, upon an involuntary separation from employment or service of a Participant (excluding a termination for Cause but including a voluntary resignation for Good Reason) not occurring in connection with a Change of Control, the Committee may, in its sole discretion, waive the automatic forfeiture of any or all of the unvested portion of each Award held by the Participant and provide for such vesting as it deems appropriate.

13.4 Termination for Cause. Unless otherwise provided in the Agreement, in the event a Participant's employment or service is terminated for Cause, the unvested portion and the vested portion not yet paid or exercised of each Award held by the Participant shall be automatically forfeited to the Company and no further exercise of an Option or a SAR shall be allowed.

13.5 Termination for Other Reasons. Unless otherwise provided in the Agreement, upon a voluntary or involuntary separation from employment or service of a Participant where none of Sections 13.1, 13.2, 13.3, or 13.4 applies, the unvested portion of each Award held by the Participant shall be automatically forfeited to the Company.

**Article XIV**  
**Change in Capital Structure**

14.1 Effect of Change in Capital Structure. In the event of a stock dividend, stock split or combination of shares, spin-off, recapitalization or merger in which the Company is the surviving corporation, or other change in the Company's capital stock (including, but not limited to, the creation or issuance to shareholders generally of rights, options or warrants for the purchase of common stock or preferred stock of the Company), the number and kind of Shares or securities of the Company to be issued under the Plan (under outstanding Awards and Awards to be granted in the future), the Option Price of Options and/or SAR Exercise Price of SARs, the annual limits on and the aggregate number and kind of Shares for which Awards thereafter may be made, and other relevant provisions shall be proportionately, equitably and appropriately adjusted by the Committee, whose determination shall be binding on all persons. If the adjustment would produce fractional shares with respect to any Award, the Committee may adjust appropriately the number of shares covered by the Award so as to eliminate the fractional shares. Where an Award being adjusted is an ISO or is subject to or falls under an exemption from Code Section 409A, the adjustment of any Option and/or SAR shall also be effected so as to comply with Code Section 424(a) and not to constitute a modification within the meaning of Code Section 424(h) or Code Section 409A, as applicable.

14.2 Authority. Notwithstanding any provision of the Plan to the contrary, the Committee may take the foregoing actions without the consent of any Participant, and the Committee's determination shall be conclusive and binding on all persons for all purposes.

14.3 Manner of Adjustment. Adjustments made by the Committee pursuant to this Article XIV to outstanding Awards shall be made as appropriate to maintain favorable tax and/or accounting treatment.

**ARTICLE XV**  
**Change of Control**

In the event of a Change of Control of the Company, the Committee, as constituted before such Change of Control, in its sole discretion and without the consent of the Participant, may, as to any outstanding Award, either at the time the Award is made or any time thereafter, take any one or more of the following actions: (i) provide for acceleration of the vesting, delivery and exercisability of, and the lapse of time-based and/or performance-based vesting restrictions with respect to, any such Award so that such Award may be exercised or realized in full on or before a date initially fixed by the Committee; (ii) provide for the purchase, settlement or cancellation of any such Award by the Company, for an amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of such Participant's rights had such Award been currently exercisable or payable; (iii) provide for the replacement of any such Stock-settled Award with a cash-settled Award; (iv) make such adjustment to any such Award then outstanding as the Committee deems appropriate to reflect such Change of Control and to retain the economic value of the Award; or (v) cause any such Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation in such Change of Control. Where an Award is subject to or falls under an exemption from Code Section 409A, this Article XV will be applied in a manner so as to comply with Code Section 409A or to maintain the exemption from Code Section 409A, as applicable.

**ARTICLE XVI**  
**Amendment, Modification, and Substitution of Awards**

16.1 Amendment, Modification and Substitution. Subject to the terms and provisions and within the limitations of the Plan, the Committee may amend or modify the terms of any outstanding Award or accelerate the vesting thereof. In

addition, the Committee may cancel or accept the surrender of outstanding Awards (to the extent not yet exercised) granted under the Plan or outstanding awards granted under any other equity compensation plan of the Company and authorize the granting of new Awards pursuant to the Plan in substitution therefor so long as the new or substituted awards do not specify a lower exercise price than the cancelled or surrendered Awards or awards, and otherwise the new Awards may be of a different type than the cancelled or surrendered Awards or awards, may specify a longer term than the cancelled or surrendered Awards or awards, may provide for more rapid vesting and exercisability than the cancelled or surrendered Awards or awards, and may contain any other provisions that are authorized by the Plan. The Committee shall continue to have the authority to amend or modify the terms of any outstanding Award after June 26, 2028, provided that no amendment or modification will extend the original term of the Award beyond that set forth in the applicable Award Agreement. Notwithstanding the foregoing, however, but subject to Article XIV and Article XV, no amendment or modification of an Award, shall, without the consent of the Participant, adversely affect the rights or obligations of the Participant. Notwithstanding any provision of the Plan to the contrary, the Committee shall not amend, modify, or substitute an Award in a manner that violates Code Section 409A, or causes an Award that previously qualified for an exemption from Section 409A to become subject to Code Section 409A, and the Committee shall not amend, modify, or substitute an Award that satisfies the requirements of Rule 16b-3 in a manner that causes any exemption pursuant to Rule 16b-3 to become no longer available.

16.2 Option and SAR Repricing. Notwithstanding any provision of the Plan to the contrary, neither the Committee nor the Board shall have the right or authority, without obtaining shareholder approval, to amend or modify the Option Price of any outstanding Option or the SAR Exercise Price of any outstanding SAR, or to cancel an outstanding Option or SAR, at a time when the Option Price or SAR Exercise Price, as applicable, is greater than the Fair Market Value of a Share in exchange for cash, another Award, or other securities, except in connection with a corporate transaction involving the Company in accordance with Article XIV or Article XV.

## **ARTICLE XVII**

### **Termination, Amendment and Modification of the Plan**

17.1 Termination, Amendment and Modification. At any time and from time to time, the Board may terminate, amend, or modify the Plan. Such amendment or modification may be without shareholder approval except to the extent that such approval is required under state law, by the Code, pursuant to the rules under Section 16 of the Exchange Act, by any national securities exchange or system on which the Stock is then listed or reported, by any regulatory body having jurisdiction with respect thereto or under any other applicable laws, rules or regulations.

17.2 Awards Previously Granted. No termination, amendment or modification of the Plan other than pursuant to Article XIV or Article XV shall in any manner adversely affect any Award theretofore granted under the Plan, without the written consent of the Participant.

## **ARTICLE XVIII**

### **General**

18.1 Applicable Withholding Taxes. Each Participant shall agree, as a condition of receiving an Award, to pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, all applicable federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any grant, exercise, or payment made under or as a result of the Plan. The Company shall withhold only the minimum amount necessary to satisfy applicable statutory withholding requirements, provided that the Committee may permit a Participant to elect to have an additional amount (up to the maximum allowed by law) withheld. Until the applicable withholding taxes have been paid or

arrangements satisfactory to the Company have been made, no stock certificates (or, in the case of Restricted Stock, no stock certificates free of a restrictive legend) shall be issued to the Participant and no issuance in book-entry or electronic form (or, in the case of Restricted Stock, no issuance in book-entry or electronic form free of a restrictive legend or notation) shall be made for the Participant. As an alternative to making a cash payment to the Company to satisfy applicable withholding tax obligations, the Committee may permit Participants to elect or the Committee may require Participants to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares of Stock having a Fair Market Value equal to the amount required to be withheld, or by delivering to the Company Shares of Stock that the Participant has previously acquired and owned having a Fair Market Value equal to the amount required to be withheld. The value of any Shares so withheld or delivered shall be based on the Fair Market Value of the Shares on the date that the amount of tax to be withheld is to be determined. All elections by Participants shall be irrevocable and be made in writing and in such manner as determined by the Committee (or its delegate) in advance of the day that the transaction becomes taxable.

18.2 Requirements of Law. The granting of Awards and the issuance of Shares of Stock under this Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or self regulatory organizations as may be required.

18.3 Effect of Plan. The establishment of the Plan shall not confer upon any Key Employee or Non-Employee Director any legal or equitable right against the Company, a Subsidiary or the Committee, except as expressly provided in the Plan. The Plan does not constitute an inducement or consideration for the employment or service of any Key Employee or Non-Employee Director, nor is it a contract between the Company or any of its Subsidiaries and any Key Employee or Non-Employee Director. Participation in the Plan shall not give any Key Employee or Non-Employee Director any right to be engaged or retained in the service of the Company or any of its Subsidiaries. No Key Employee or Non-Employee Director shall have rights as a shareholder of the Company prior to the date Shares are issued to him pursuant to the Plan.

18.4 Creditors. The interests of any Participant under the Plan or any Agreement are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered.

18.5 Successors. All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

18.6 Securities Law Restrictions. The Committee may require each Participant purchasing or acquiring Shares pursuant to an Option or other Award to represent to and agree with the Company in writing that such Participant is acquiring the Shares for investment and not with a view to the distribution thereof and that he will make no transfer of the same except in compliance with any rules and regulations in effect at the time of transfer under the Securities Act of 1933, as amended from time to time, or any other applicable securities law. All Shares delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under applicable rules, regulations, and other requirements of the Securities and Exchange Commission, any national securities exchange or system on which the Stock is then listed or reported, and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions or otherwise denote the Shares as being subject to such restrictions, if issued in book-entry or electronic form. No Shares shall be issued hereunder unless the Company shall have determined that such issuance is in compliance with, or pursuant to an exemption from, all applicable federal and state securities laws.

18.7 Governing Law. The Plan, and all Agreements hereunder, shall be construed and administered in accordance with and governed by the laws of the Commonwealth of Virginia and the intention of the Company is that ISOs granted under the Plan qualify as such under Code Section 422. The Plan and Awards are subject to all present and future applicable provisions of the Code. If any provision of the Plan or an Award conflicts with any such Code provision, the Committee shall cause the Plan to be amended, and shall modify the Award, so as to comply, or if for any reason amendments cannot be made, that provision of the Plan or the Award shall be void and of no effect.

18.8 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

18.9 Unfunded Status of Plan. The Plan is intended to constitute an “unfunded” plan for incentive and deferred compensation. With respect to any payments as to which a Participant has a fixed and vested interest but which are not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general unsecured creditor of the Company.

18.10 Share Certificates and Book Entry. To the extent that the Plan provides for issuance of stock certificates to represent shares of Stock, the issuance may be effected on a non-certificated basis to the extent permitted by applicable law and the applicable rules of any national securities exchange or system on which the Stock is then listed or reported. Notwithstanding any provision of the Plan to the contrary, in its discretion the Committee may satisfy any obligation to deliver Shares represented by stock certificates by delivering Shares in book-entry or electronic form. If the Company issues any Shares in book-entry or electronic form that are subject to terms, conditions and restrictions on transfer, a notation shall be made in the records of the transfer agent with respect to any such Shares describing all applicable terms, conditions and restrictions on transfer. In the case of Restricted Stock granted under the Plan, such notation shall be substantially in the form of the legend contained in Section 7.5.

18.11 Beneficiary Designations. A Participant may designate a Beneficiary to receive any Options or SARs that may be exercised after his death or to receive any other Award that may be paid after his death, as provided for in the Agreement. Such designation and any change or revocation of such designation shall be made in writing in the form and manner prescribed by the Committee (or its delegee). In the event that the designated Beneficiary dies prior to the Participant, or in the event that no Beneficiary has been designated, any Awards that may be exercised or paid following the Participant’s death shall be transferred or paid in accordance with the Participant’s will or the laws of descent and distribution. If the Participant and his Beneficiary shall die in circumstances that cause the Committee (or its delegee), in its discretion, to be uncertain which shall have been the first to die, the Participant shall be deemed to have survived the Beneficiary.

18.12 Electronic Transmissions and Records. Subject to limitations under applicable law, the Committee (and its delegee) is authorized in its discretion to issue Awards and/or to deliver and accept notices, elections, consents, designations and/or other forms or communications to or from Participants by electronic or similar means, including, without limitation, transmissions through e-mail or specialized software, recorded messages on electronic telephone systems, and other permissible methods, on such basis and for such purposes as it determines from time to time, and all such communications will be deemed to be “written” for purposes of the Plan.



18.13 Clawback. All Awards granted under the Plan (whether vested or unvested) shall be subject to such recovery or clawback as may be required pursuant to the terms of any repayment, clawback or similar policy as such may be in effect from time to time or any applicable federal or other law or regulation or any applicable listing standard of any national securities exchange or system on which the Stock is then listed or reported, which could in certain circumstances require repayment or forfeiture of Awards or any Shares or other cash or property received with respect to the Awards (including any value received from a disposition of the Shares acquired upon payment of the Awards).

18.14 Banking Regulatory Provision. All Awards shall be subject to any condition, limitation or prohibition under any financial institution regulatory policy or rule to which the Company or any subsidiary thereof is subject.

## **ARTICLE XIX**

### **Omnibus Code Section 409A Provision**

19.1 Intent of Awards. It is intended that Awards that are granted under the Plan shall be exempt from treatment as “deferred compensation” subject to Code Section 409A unless otherwise specified by the Committee. Towards that end, all Awards under the Plan are intended to contain such terms as will qualify the Awards for an exemption from Code Section 409A unless otherwise specified by the Committee. The terms of the Plan and all Awards granted hereunder shall be construed consistent with the foregoing intent. Notwithstanding any provision of the Plan to the contrary, the Committee may amend any outstanding Award without the Participant’s consent if, as determined by the Committee, in its sole discretion, such amendment is required either to (a) confirm exemption under Code Section 409A, (b) comply with Code Section 409A or (c) prevent the Participant from being subject to any tax or penalty under Code Section 409A. Notwithstanding the foregoing, however, neither the Company nor any of its Affiliates nor the Committee shall be liable to the Participant or any other person or entity if an Award that is subject to Code Section 409A or the Participant or any other person or entity is otherwise subject to any additional tax, interest or penalty under Code Section 409A. Each Participant is solely responsible for the payment of any tax liability (including any taxes, penalties and interest that may arise under Code Section 409A) that may result from an Award.

19.2 409A Awards. The Committee may grant an Award under the Plan that is subject to Code Section 409A and is intended to comply with Code Section 409A (a “409A Award”). The terms of such 409A Award, including any authority by the Company and the rights of the Participant with respect to such 409A Award, will be subject to such rules and limitations and shall be interpreted in a manner as to comply with Code Section 409A.

19.3 Time of Payment. The time and form of payment of a 409A Award, including application of a six-month delay for specified employees in certain circumstances, shall be as set forth in the applicable Agreement. A 409A Award may only be paid in connection with a separation from service, a fixed time, death, Disability, a Change of Control or an unforeseeable emergency within the meaning of Code Section 409A. The time of distribution of the 409A Award must be fixed by reference to the specified payment event. Notwithstanding the foregoing, if the time of distribution of the 409A Award is not set forth in the applicable Agreement, then the time of distribution of the 409A Award shall be within two and one-half (2½) months of the end of the later of the calendar year or the fiscal year of the Company or Affiliate that employs the Participant in which the 409A Award becomes vested and no longer subject to a substantial risk of forfeiture within the meaning of Code Section 409A. For purposes of Code Section 409A, each installment payment will be treated as the entitlement to a single payment.



19.4 Acceleration or Deferral. The Company shall have no authority to accelerate or delay or change the form of any distributions relating to 409A Awards except as permitted under Code Section 409A.

19.5 Distribution Requirements. Any distribution of a 409A Award triggered by a Participant's termination of employment shall be made only at the time that the Participant has had a separation from service within the meaning of Code Section 409A. A separation from service shall occur where it is reasonably anticipated that no further services will be performed after that date or that the level of bona fide services the Participant will perform after that date (whether as an employee or independent contractor of the Company or an Affiliate) will permanently decrease to less than twenty percent (20%) of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period. Continued services solely as a director of the Company or an Affiliate shall not prevent a separation from service from occurring by an employee as permitted by Code Section 409A.

19.6 Scope and Application of this Provision. For purposes of this Article XIX, references to a term or event (including any authority or right of the Company or a Participant) being "permitted" under Code Section 409A means that the term or event will not cause the Participant to be deemed to be in constructive receipt of compensation relating to the 409A Award prior to the distribution of cash, Shares or other property or to be liable for payment of interest or a tax penalty under Code Section 409A.

Approved by the Board of Directors on March 29, 2018 and by the shareholders on [June 27, 2018].