

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

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

For the fiscal year ended December 31, 2023

FDIC Insurance Certificate Number: 35095

TOWNE BANK

(Exact name of registrant as specified in its charter)

VIRGINIA

(State or other jurisdiction of incorporation or organization)

54-1910608

(I.R.S. Employer Identification Number)

5716 High Street, Portsmouth, VA

(Address of principal executive offices)

23703

(Zip Code)

(757) 638-7500

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$1.667 per share	TOWN	The Nasdaq Global Select Market

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

None

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

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

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

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

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

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$1.61 billion.

Number of shares of common stock outstanding at February 22, 2024: 74,901,241 shares

DOCUMENTS INCORPORATED BY REFERENCE

- Portions of the Registrant's 2023 Annual Report to Shareholders are incorporated by reference into Parts I, II, and IV; and
- Portions of the Registrant's 2024 Proxy Statement for its Annual Meeting of Shareholders to be held May 22, 2024, are incorporated by reference into Part III.

TOWNE BANK

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Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only the beliefs, expectations, or opinions of TowneBank and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward-looking statements may be identified by the use of such words as: "believe," "expect," "anticipate," "intend," "plan," "estimate," or words of similar meaning, or future or conditional terms, such as "will," "would," "should," "could," "may," "likely," "probably," or "possibly." These statements may address issues that involve significant risks, uncertainties, estimates, and assumptions made by management. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include competitive pressures in the banking industry that may increase significantly; changes in the interest rate environment that may reduce margins and/or the volumes and values of loans made or held as well as the value of other financial assets held; an unforeseen outflow of cash or deposits or an inability to access the capital markets, which could jeopardize our overall liquidity or capitalization; changes in the creditworthiness of customers and the possible impairment of the collectability of loans; insufficiency of our allowance for credit losses due to market conditions, inflation, changing interest rates, or other factors; adverse developments in the financial industry generally, such as the recent bank failures, responsive measures to mitigate and manage such developments, related supervisory and regulatory actions and costs, and related impacts on customer and client behavior; general economic conditions, either nationally or regionally, which may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit or other services; geopolitical instability, including wars, conflicts, civil unrest, and terrorist attacks and the potential impact, directly or indirectly, on our business; the effects of weather-related or natural disasters, which may negatively affect our operations and/or our loan portfolio and increase our cost of conducting business; public health events (such as the COVID-19 pandemic) and governmental and societal responses to them; changes in the legislative or regulatory environment, including changes in accounting standards and tax laws, which may adversely affect our business; costs or difficulties related to the integration of the businesses we have acquired may be greater than expected; expected cost savings associated with pending or recently completed acquisitions may not be fully realized or realized within the expected time frame; cybersecurity threats or attacks, the implementation of new technologies, and the ability to develop and maintain reliable electronic systems; our competitors may have greater financial resources and develop products that enable them to compete more successfully; changes in business conditions; changes in the securities market; and changes in our local economy with regard to our market area. Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events, or otherwise. For additional information on factors that could materially influence forward-looking statements included in this report, see the risk factors in "Item 1A., Risk Factors" in this report.

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Item 1. BUSINESS

Overview

TowneBank is a financial services company incorporated as a Virginia chartered bank in September 1998 that began operations in April 1999. Unless indicated otherwise, the terms "Company," "we," "us," and "our" refer to TowneBank and our consolidated subsidiaries.

We place special emphasis on serving the financial needs of individuals, commercial enterprises, and professionals, offering retail and commercial banking services to numerous markets in Virginia and North Carolina. In addition to a diversified range of financial services through our banking and non-banking subsidiaries, through two controlled divisions, we provide investment and asset management services and originate mortgage loans, the majority of which are sold to investors on the national secondary market.

Our common stock is listed on the Nasdaq Global Select Market under the symbol TOWN. Our bank's main office is located at 5716 High Street, Portsmouth, Virginia 23703 (telephone number 757-638-7500), and our Corporate Administration and Member Service Center is located at 6001 Harbour View Boulevard, Suffolk, Virginia 23435 (telephone number 757-638-6700).

A list of our subsidiaries is filed as Exhibit 21, and additional information relating to our business and our subsidiaries is included in the 2023 Annual Report to Shareholders ("Annual Report") filed as Exhibit 13 and incorporated herein by reference.

Organization

We have three reportable segments: Banking, Realty, and Insurance.

Banking Segment. The Banking segment provides loan and deposit services to retail and commercial customers. We also provide commercial mortgage brokerage services and a variety of investment and asset management services.

Realty Segment. The Realty segment provides residential resort property management services and originations of a variety of mortgage loans. Mortgage loans are originated and sold principally in the secondary market through purchase commitments from investors. Prior to the sale of Berkshire Hathaway HomeServices ("BHHS") Towne Realty in the second quarter of 2023, the segment also offered residential real estate services and commercial and residential title insurance. We retained a minority interest in the newly formed company BHHS RW Towne Realty, LLC.

Insurance Segment. The Insurance segment provides solutions for businesses, individuals, and community organizations. As an independent agency, Towne Insurance works with a variety of carriers to provide a wide array of insurance products, including property, casualty, life, and health insurance.

Operating Strategy

Our business strategy focuses on building strong relationships with our members, employees, and communities, while maintaining disciplined underwriting standards and continuing our focus on operational efficiency. We emphasize the making of marketing and member decisions at the local level (within centrally mandated and monitored control standards) with administrative and operational decisions at the central Company level. In order

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to accomplish this, we have established a "TowneBanking Group" ("Banking Group") for each of our targeted markets.

We maintain a "Hometown" banking image by providing each Banking Group with its own president, commercial loan officers, and local board of directors who are active and visible in their respective communities. It is the responsibility of each local board, acting under delegated authority of the Company's Board of Directors, to direct our overall development in their respective markets. The separate Banking Groups, with local decision-making authority, allow us to more effectively identify and respond to the financial needs of our members.

The Board of Directors believes the separate Banking Groups strategy facilitates member service by ensuring senior management is actively involved in each community and is available on a day-to-day basis to respond to the needs of the members in each community. From a member perspective, each Banking Group is positioned as a separate bank headquartered in its respective community.

Our business model is unique, with revenues from our Realty and Insurance segments providing a counter cyclical balance to our Banking revenues. Our strategic plan places increased emphasis on developing and generating noninterest income. Such development involves looking for opportunities to grow that income source, including acquisitions of non-bank financial service providers.

Enterprise Risk Management

The Company has a formalized risk management framework in alignment with our industry, size, and complexity. We, like other financial services companies, are subject to a number of risks that may adversely affect our financial condition or results of operations, many of which are outside of our direct control. Our framework is approved by our Enterprise Risk Management Committee of the Board of Directors ("ERM Board"). Key framework components include establishing our risk appetite, lines of defense and risk pillars, governance and committee oversight, as well as setting limits and escalation processes. Within this framework, the Company has identified eight risk pillars, while recognizing these risks are frequently interrelated or embedded within each other. The following defines the Company's risk pillars, in no particular order of importance.

- Strategic Risk - defined as risk to current or anticipated earnings, capital, or enterprise value arising from adverse business decisions, improper implementation of business decisions, or lack of responsiveness to industry and/or market changes.
- Operational Risk - defined as risk of loss arising from incomplete or failed processes, policies, systems, or events that disrupt daily business activities.
- Credit Risk - defined as the risk of loss due to borrowers or other counterparties not being able to meet their financial obligations under agreed-upon terms.
- Liquidity Risk - defined as the risk to current or anticipated earnings or capital arising from the Company's inability to effectively meet financial obligations when they come due. Liquidity risk includes the ability to access funding sources, manage fluctuations in funding levels, or liquidate assets quickly and with minimal loss in value.
- Market Risk - defined as the risk to earnings and capital due to changes in market variables like price and volatility that result in adverse price movements.
- Cyber and Security Risk - defined as the risk of financial loss, disruption of service, or damage to the Company's reputation from the failure, unauthorized use, or erroneous use of our information systems.
- Reputation Risk - defined as the risk that negative publicity regarding the Company's business practices, whether true or not, will cause a decline in our member base, costly litigation, and/or loss in revenue.
- Compliance Risk - defined as the risk to the Company of monetary penalties, enforcement actions, or other sanctions as a result of nonconformity with laws, regulations, and rules that apply to our business.

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Services

We provide our members with high-quality and responsive technology services. Members have easy access to our decision-makers and enjoy continuity in service relationships, allowing a fast response to meet their needs. We plan to continue to pursue economically advantageous acquisitions and other strategic opportunities to grow our businesses.

Banking and Other Financial Services. Through our Banking segment, we offer a full range of treasury solutions and deposit products, including checking accounts, savings accounts, and various types of time deposit services, which range from daily money market accounts to long-term certificates of deposit. The transaction accounts and certificates of deposit are tailored by market area at rates competitive to those offered in the area. In addition, we offer retirement account services, such as Individual Retirement Accounts. All deposit accounts are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount allowed by law and are solicited from individuals, businesses, associations and organizations, and governmental authorities.

Other services offered include safe deposit boxes, treasury management services, direct deposit of payroll and Social Security checks, and automatic drafts for various accounts. In addition, services to facilitate access to banking information and transactions, such as online banking, mobile banking, and on-call banking, are offered.

We offer a full range of short- to medium-term personal and commercial loans. Personal loans include secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. Commercial loans include secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and equipment and machinery purchases. Additionally, we originate fixed- and floating-rate mortgage loans, as well as real estate acquisition, development, and construction loans. Through TowneBank Commercial Mortgage, LLC, we broker larger commercial loans that are not intended to remain in our portfolio.

Through Towne 1031 Exchange, LLC, we offer the ability to serve as a qualified intermediary assisting investors with tax-deferred exchanges under Section 1031 of the Internal Revenue Code. We provide all necessary documentation to accomplish tax deferral while the investors' proceeds are safely held in accounts established at TowneBank awaiting reinvestment as required by Internal Revenue Service regulations.

Through Towne Wealth Management, we offer other financial services, such as financial, retirement, and estate planning. We also offer assistance on a variety of investment options, including alternative investments, annuities, margin accounts, convertible bonds, and pension and profit-sharing plans. Towne Wealth Management employs full-service financial advisors supported by an affiliation with Raymond James Financial, Inc., a full-service broker-dealer.

Realty Services. The services offered in our Realty segment allow us to realize certain operational synergies in providing originations of a variety of residential mortgages and property management services.

TowneBank Mortgage processes residential mortgage loans, from application acceptance to loan closing and funds disbursement. Once finalized, they are packaged and sold principally in the secondary market through purchase commitments from investors. In addition, through our partnership with Berkshire Hathaway HomeServices ("BHHS") RW Towne Realty, LLC, we offer relocation and property management services, real estate brokerage services, title and settlement services, perform real estate closings for residential properties, and issue title insurance policies for both residential and commercial transactions.

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Our vacation rentals business specializes in resort property management, offering vacation rentals with many of the most distinctive resort properties in Hilton Head, South Carolina; McHenry, Maryland; Oak Island, North Carolina; Wilmington, North Carolina; and Gatlinburg, Pigeon Forge, Wears Valley, and Sevierville, Tennessee.

Insurance Services. The Insurance segment provides individual and business members with a wide array of insurance products, including life, property, casualty, and health insurance. Through Towne Insurance, we offer a full line of commercial and consumer insurance products and financial services, as well as individual and group life and health insurance.

Human Capital

The success of the Company is directly attributed to an exceptional team of people who are clearly committed to a caring and nurturing environment centered on serving others. Continuing to build a passionate team with adherence to our culture of caring, vision, and opportunity for all will be the cornerstone of our ongoing success.

We have a strategic focus on designing our compensation and incentive programs to ensure they are competitive and effective in attracting and retaining diverse talent across all lines of business. In addition to competitive base and incentive compensation plans, the Company offers competitive benefits, including paid vacation; family and sick leave; 401(k) plan; health, dental, and vision plans; life and disability coverage; wellness plan; paid training opportunities; pre-tax flexible spending accounts; and tuition reimbursement.

As part of the Company's governance framework for human capital, the Board of Directors has a Compensation Committee composed of independent directors. Pursuant to the written charter of the Compensation Committee, the primary function of the committee is to provide independent oversight of TowneBank's compensation practices and to determine compensation or provide recommendations to the Board for the compensation of the Executive Chairman, the President and Chief Executive Officer, and all other executive officers of TowneBank. The committee also monitors all incentive and equity compensation plans for the benefit of Company officers and directors eligible to participate in such plans.

The Company's strategic plan has dedicated objectives and tactics to ensure we recruit, retain, and develop a diverse and talented team, with a specific focus on enhancing diversity, equity, and inclusion. We have established a Diversity Council with support at the highest level of leadership to ensure we meet its goals for a diverse, equitable, and inclusive workplace.

The Company has active learning and development programs designed to develop skills and knowledge, provide ongoing opportunities for teams to grow in existing roles, and to be prepared for future opportunities. For over 16 years, the Company has had a management development program designed to develop leadership and managerial talent for the future. Over this time, 175 employees have participated in this program, and many of these graduates have moved into leadership roles in the Company.

As of December 31, 2023, we had 2,784 full-time equivalent employees. None of our employees are represented by any collective bargaining agreements, and relations with employees are considered good.

Competition

Because we offer a wide variety of financial services, we compete with other financial institutions as well as other financial service providers, mortgage loan originators, and insurance companies. Competition is generally based on pricing and quality of products and services offered, convenience, availability, and the degree of expertise and personal manner in which services are offered.

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There is significant competition within the banking and financial services industry in our market areas. We face competition from other banks, savings institutions, credit unions, consumer finance companies, insurance companies, real estate companies, and other financial institutions in our targeted market areas. Many of our larger competitors have broader geographic markets and substantially greater resources and can offer more diversified products and services. Increasingly, we compete with other companies based on financial technology and capabilities. Competition among providers of financial products and services continues to increase as technology advances have lowered the barriers to entry for financial technology companies, with customers having the opportunity to select from a growing variety of traditional and nontraditional alternatives, including crowdfunding, digital wallets, and money transfer services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-bank financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures.

Despite the intense level of competition, we believe the existing and future banking and financial services market in our market areas represents excellent opportunities for a locally owned and managed financial services company with a strong community philanthropic philosophy, such as TowneBank. Among other factors, the economic outlook for the areas and the size and growth potential of existing markets for banking and other financial services point to a growing demand for such services. Further, in view of the continuing trend in the financial services industry toward consolidations into larger, sometimes impersonal, national institutions, our company fulfills a market demand for the personal and customized financial services an independent, locally run company can offer.

Concentrations

The majority of our depositors are located and doing business in our targeted market areas, and we lend a substantial portion of our capital and deposits to individual and business borrowers in these market areas. Any factors adversely affecting the economy of our targeted market areas could, in turn, adversely affect our performance. A geographic concentration exists with our loan portfolio because most of our business activity is with members in our targeted market areas. There were no significant concentrations in any one customer; however, we have a concentration in commercial real estate loans.

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The following table presents loan and deposit balances by geographic area as of the date indicated (dollars in millions):

(Amounts in millions)	December 31, 2023			
	Deposits	%	Loans	%
Virginia Beach	\$ 2,370	17.06 %	\$ 1,744	15.39 %
Portsmouth	784	5.64 %	600	5.30 %
Chesapeake	1,316	9.47 %	685	6.05 %
Norfolk	1,506	10.84 %	1,006	8.88 %
Peninsula	1,025	7.38 %	793	7.00 %
Williamsburg	707	5.09 %	236	2.08 %
Richmond	1,265	9.11 %	1,202	10.61 %
Suffolk/Western Tidewater	895	6.44 %	350	3.09 %
Chesterfield	221	1.59 %	53	0.47 %
Virginia	10,089	72.62 %	6,669	58.87 %
Raleigh	1,078	7.77 %	1,330	11.74 %
Cary	250	1.80 %	466	4.11 %
Greenville	193	1.39 %	290	2.56 %
Charlotte	910	6.55 %	1,244	10.98 %
Triad	122	0.88 %	254	2.24 %
Currituck	738	5.31 %	321	2.83 %
North Carolina	3,291	23.69 %	3,905	34.46 %
Other	513	3.69 %	755	6.67 %
Total	\$ 13,893	100.00 %	\$ 11,329	100.00 %

Governmental Monetary Policies

Our earnings and growth are affected not only by general economic conditions, but also by the monetary policies of various governmental regulatory authorities, particularly the Board of Governors of the Federal Reserve System ("Federal Reserve"). An important function of the Federal Reserve is to implement national monetary policy in an effort to combat recession and curb inflationary pressures. Among the instruments of monetary policy used by the Federal Reserve are open market operations in United States government securities, control of the discount rate, and establishment of reserve requirements against both member and nonmember financial institutions' deposits.

These actions have a significant effect on the overall growth and distribution of loans, investments, and deposits, as well as rates earned on loans or paid on deposits. Federal Reserve monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to do so in the future.

Development of Business

The following is a summary of developments in our business since January 1, 2023:

- Effective January 13, 2023, the Company completed its acquisition of Farmers Bankshares, Inc., and its wholly owned bank subsidiary, Farmers Bank, Windsor, Virginia, a Virginia chartered bank with eight banking offices.

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- In connection with the Farmers Bankshares, Inc., acquisition, TowneBank acquired a majority interest in a full-service, independent insurance agency, Manry-Rawls LLC. On January 31, 2023, TowneBank completed the acquisition by purchasing the noncontrolling interest in Manry-Rawls LLC.
- Effective April 27, 2023, the Company transferred its ownership interest in BHHS Towne Realty, which was formerly a subsidiary of TowneBank, to BHHS RW Towne Realty, LLC, in exchange for a minority interest in that company, which is accounted for as an equity method investment. The transaction also included the combination of the contributing companies' respective mortgage, title, and property management lines of businesses.
- In April 2023, the Company opened a full-service branch in Short Pump, VA. In November 2023, the Company opened a full-service branch in Raleigh, NC.
- TowneBank remained in first place in the latest Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area ("MSA") Annual Deposit Market Share Report released by the FDIC. The report ranks institutions by share of FDIC-insured deposits in the Hampton Roads area as of June 30, 2023. TowneBank had a 27.82% share of deposits in Hampton Roads and was the only community bank with a share greater than 4%. TowneBank was in fifth place in the Richmond, VA MSA in the FDIC's Annual Deposit Market Share Report with \$1.47 billion in deposits and a 2.67% market share as of June 30, 2023. In our North Carolina markets, TowneBank ranked sixth in the Raleigh, NC MSA with a 1.74% market share, eighth in the Greenville, NC MSA with a 5.41% market share, and eleventh in the Charlotte, NC MSA with a 0.24% market share.

Prior to 2023, our most significant acquisitions included the following:

- On January 26, 2018, the Company acquired Paragon Commercial Corporation and its wholly owned bank subsidiary, Paragon Commercial Bank, a Raleigh, North Carolina-based bank with three banking offices servicing Raleigh, Cary, and Charlotte, NC. The acquisition added approximately \$1.43 billion in loans and approximately \$1.25 billion in deposits.
- On June 24, 2016, TowneBank acquired Monarch Financial Holdings, Inc., and its wholly owned bank subsidiary, Monarch Bank, headquartered in Chesapeake, VA. The acquisition added approximately \$808.14 million in loans and approximately \$1.06 billion in deposits.

We anticipate concentrating on the further development of our markets by seeking merger and acquisition opportunities or opening additional banking offices and fee-based businesses as business and other conditions warrant, and by expanding into new markets as opportunities arise. The regulatory approval process for opening of additional banking offices takes into account a number of factors, including, among others, a determination that we have capital in an amount deemed necessary to warrant additional expansion, and a finding that the public interest will be served. Additionally, we will continue to focus on the development of noninterest income sources and will look for growth opportunities, which could include additional acquisitions of non-bank financial service providers.

Supervision and Regulation

We are regulated extensively under both federal and state law. The following is a brief summary of the material statutes, acts, rules, and regulations that affect us. This summary is qualified in its entirety by reference to the full text of the statutes, acts, rules, regulations, and policies referenced below. Changes in statutes, acts, rules, regulations, or regulatory policies could have a material effect on our business.

General. We are organized as a Virginia chartered banking corporation and are regulated and supervised by the Bureau of Financial Institutions of the Virginia State Corporation Commission ("Bureau of Financial Institutions"). In addition, we are regulated and supervised by the FDIC, which serves as our primary federal regulator. The Bureau of Financial Institutions and the FDIC conduct regular examinations of us, reviewing the adequacy of our

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credit reserves, the quality of our loans and investments, the appropriateness of management practices, compliance with laws and regulations, and other aspects of our operations. In addition to these regular examinations, we must furnish to the FDIC quarterly and annual reports containing detailed financial statements and schedules. Federal and Virginia banking laws and regulations govern all areas of our operations, including reserves, loans, mortgages, capital, issuance of securities, payment of dividends, and establishment of branches. The FDIC and the Bureau of Financial Institutions have authority to impose penalties, initiate civil and administrative actions, and take other steps intended to prevent us from engaging in unsafe or unsound practices. In this regard, the FDIC has adopted capital adequacy requirements.

We are also subject to the enforcement and rule-making authority of the Consumer Financial Protection Bureau ("CFPB") regarding consumer financial products. The CFPB has the authority to create and enforce consumer protection rules and regulations and has the power to examine us for compliance with such rules and regulations. The CFPB also has the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks and their affiliates, such as TowneBank, with more than \$10 billion in assets.

Capital Requirements. Federal bank regulatory agencies have adopted risk-based capital requirements for assessing bank capital adequacy. Virginia chartered banks must also satisfy the capital requirements adopted by the Bureau of Financial Institutions. Federal capital standards define capital and establish minimum capital requirements in relation to assets and off-balance-sheet exposure as adjusted for credit risk.

TowneBank is subject to certain risk-based capital and leverage capital requirements applicable to depository institutions under the U.S. Basel III capital rules ("Basel III"), adopted by the FDIC and other federal bank regulatory agencies.

Under Basel III, the Company's assets, exposures, and certain off-balance-sheet items are subject to risk weights used to determine total risk-weighted assets. These risk-weighted assets are used to calculate the following capital ratios:

- Common Equity Tier 1 ("CET1") Risked-Based Capital Ratio, equal to the ratio of CET1 capital to risk-weighted assets. CET1 capital consists of common stock instruments that meet eligibility criteria, retained earnings, and common equity Tier 1 minority interest.
- Tier 1 Risk-Based Capital Ratio, equal to the ratio of Tier 1 capital to risk-weighted assets. Tier 1 capital primarily comprises CET1 capital and certain qualifying capital instruments.
- Total Risk-Based Capital Ratio, equal to the ratio of total capital, including CET1, Tier 1 capital, and Tier 2 capital, to risk-weighted assets. Tier 2 capital primarily includes qualifying subordinated debt and qualifying allowance for credit losses.
- Tier 1 Leverage Ratio, equal to the ratio of Tier 1 capital to quarterly average assets (net of goodwill, certain other intangible assets, and certain other deductions).

In response to COVID-19, the federal bank regulatory agencies jointly issued an interim final rule that allowed banking organizations which adopted the Current Expected Credit Loss ("CECL") model in 2020 to mitigate the effects of the standard in their regulatory capital for two years. This two-year delay was in addition to the three-year transition period the agencies had already made available. The Company elected to adopt the option provided by the interim final rule, which largely delayed the effects of CECL on its regulatory capital for 2020 and 2021, after which time the effects are being phased in over a three-year period from January 1, 2022, through December 31, 2024.

In addition to minimum capital ratios, Basel III adds a capital conservation buffer which is designed to absorb losses during periods of economic stress. Banking institutions that fail to meet the effective minimum ratios once

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the capital conservation buffer is taken into account will face limitations on the payment of dividends, common stock repurchases, and discretionary cash payments to executive officers based on the amount of the shortfall and the institution's "eligible retained income" (the greater of: four quarter trailing net income and four quarter trailing net income, net of distributions and tax effects not reflected in net income).

Prompt Corrective Action. The Federal Deposit Insurance Act, as amended ("FDIA"), requires among other things, the federal bank regulatory agencies to take "prompt corrective action" against depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized."

At December 31, 2023, we had the following risk-based capital and leverage ratios relative to regulatory minimums (including the 2.5% conservation buffer under Basel III).

Ratio	TowneBank	Adequately Capitalized	Minimum Capital Requirements Including Conservation Buffer	Well Capitalized Under Prompt Corrective Action
Common equity Tier 1	12.18%	4.50%	7.00%	6.50%
Tier 1 risk-based capital	12.29%	6.00%	8.50%	8.00%
Total risk-based capital	15.06%	8.00%	10.50%	10.00%
Tier 1 leverage	10.17%	4.00%	4.00%	5.00%

The FDIC is authorized by federal legislation and regulations to take various enforcement actions against any undercapitalized insured depository institution and any insured depository institution that fails to submit an acceptable capital restoration plan, or fails to implement a plan accepted by the FDIC. These powers include, among other things, requiring a bank to be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring prior approval of capital distributions, requiring divestiture by the institution of its subsidiaries, requiring new election of directors, and requiring the dismissal of directors and officers.

Dividends. The amount of dividends payable depends upon our earnings and capital position and is limited by federal and state laws, regulations, and policies. In addition, under Virginia law, the Bureau of Financial Institutions may limit the ability of the bank to pay dividends. No dividend may be declared or paid that would impair a bank's paid-in capital.

The Bureau of Financial Institutions and the FDIC have the general authority to limit dividends paid if such payments are deemed to constitute an unsafe and unsound practice. In particular, Section 38 of the FDIA would prohibit us from paying a dividend if we were "undercapitalized" or if such dividend would result in us becoming "undercapitalized."

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act implemented significant changes to the regulation of the financial services industry and affected the lending, investment, trading, and operating activities of financial institutions. The legislation directed federal bank regulatory agencies to implement new leverage and capital requirements. These requirements take into account off-balance-sheet activities and other risks, including risks relating to securitized products and derivatives. The Dodd-Frank Act created a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. In addition, the Dodd-Frank Act contains a wide variety of provisions affecting

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the regulation of depository institutions, including restrictions related to mortgage originations, risk retention requirements as to securitized loans, establishment of the CFPB, and restrictions on proprietary trading.

Because our assets exceed \$10 billion, we are subject to the Durbin Amendment promulgated under the Dodd-Frank Act. Under the rule, the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. The rules also allow for an upward adjustment of no more than 1 cent to an issuer's debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve certain fraud-prevention standards. This limitation on interchange fees impacts noninterest income.

The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, which was signed into law on May 24, 2018 (the "EGRRCPA"), amended the Dodd-Frank Act to provide regulatory relief for certain smaller and regional financial institutions. The EGRRCPA, among other things, exempted banks with less than \$250 billion in total consolidated assets, such as the Company, from the enhanced prudential standards and the company-run and supervisory stress tests previously required under the Dodd-Frank Act.

The Dodd-Frank Act has had, and may in the future have, a material impact on the Company's operations, particularly through increased compliance costs resulting from new and possible future consumer and fair lending regulations. See Part I, Item 1A, "Risk Factors" for additional discussion of this topic.

FDIC Insurance Assessments. Substantially all of our members' deposit accounts are insured up to applicable limits by the Deposit Insurance Fund (the "DIF") of the FDIC. As such, the Company is subject to insurance assessments on member deposits to maintain the DIF.

The Dodd-Frank Act permanently increased the maximum deposit insurance amount for banks, savings institutions, and credit unions to \$250,000 per depositor, per insured depository institution, for each account ownership category.

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are now based on average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act required the FDIC to increase the reserve ratio of the DIF from 1.15% to 1.35% of insured deposits by 2020, and eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeded certain thresholds. In September 2018, the DIF reserve ratio reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35% ahead of the 2020 deadline, ending surcharges on insured depository institutions with assets greater than \$10 billion. FDIC insurance expense totaled \$12.58 million, \$2.97 million, and \$2.89 million in 2023, 2022, and 2021, respectively. In October 2022, the FDIC adopted a final rule to increase the initial base deposit insurance assessment rate schedules uniformly by 2 basis points beginning with the first quarterly assessment period of 2023.

In November 2023, the FDIC issued a final Special Assessment to Recover Deposit Insurance Fund Losses rule related to the 2023 closures of Silicon Valley Bank, Santa Clara, CA, and Signature Bank, New York, NY. The assessment applies to banks with assets in excess of \$5 billion. The final rule becomes effective April 1, 2024, with the first payment due June 28, 2024. Affected banks will be assessed based on their December 31, 2022, estimated uninsured deposits in excess of the first \$5 billion. The assessment will be collected at an annual rate of approximately 13.4 basis points, or 3.36 basis points per quarter, for an anticipated eight quarterly assessment periods. Based on this criteria, the Company recorded an expense in fourth quarter 2023 for our estimated assessment of \$5.17 million.

Because our total consolidated assets exceed \$10 billion, the FDIC uses a performance score and a loss-severity score to calculate our assessment rate. In calculating these scores, the FDIC uses a bank's capital level and regulatory supervisory ratings and certain financial measures to assess an institution's ability to withstand asset-

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related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances.

Community Reinvestment Act. Banks are subject to the provisions of the Community Reinvestment Act of 1977 ("CRA") that requires the appropriate federal bank regulatory agency, the FDIC in our case, to assess our record in meeting the credit needs of the communities we serve.

The CRA assessment is required by any bank that has applied to, among other things, establish a new branch office which will accept deposits; relocate an existing office; or merge, consolidate with, acquire the assets of, or assume the liabilities of a federally-regulated financial institution. We received an "Outstanding" rating in our last CRA examination.

On October 24, 2023, the federal bank regulatory agencies jointly issued a comprehensive revision to the agencies' CRA regulations. In addition to numerous technical modifications, the final rule introduces major changes to the CRA regulations in four key areas: (a) the delineation of assessment areas; (b) the overall evaluation framework and performance standards and metrics; (c) the definition of community development activities; and (d) data collection and reporting. TowneBank falls under the new evaluation framework for a large bank.

The agencies expect to issue supervisory guidance, including examination procedures, conduct outreach and training, develop data reporting guides and technical assistance materials, and provide data tools to facilitate the implementation and operation of performance tests.

Federal Deposit Insurance Corporation Improvement Act. The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") became effective July 2, 1993. FDICIA requires insured institutions with \$500 million or more in total assets at the beginning of their fiscal year to submit independently audited annual reports to the FDIC or the appropriate agency.

These publicly available reports must include: (i) annual financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and such other disclosure requirements as required by the FDIC or the appropriate agency, and (ii) a management report signed by the Chief Executive Officer and the Chief Financial Officer or Chief Accounting Officer of the institution that contains a statement of management's responsibilities for: (a) preparing the annual financial statements, (b) establishing and maintaining an adequate internal control structure and procedures for financial reporting, and (c) complying with the laws and regulations designated by the FDIC relating to safety and soundness, and an assessment of: (1) the effectiveness of the system of internal control and procedures for financial reporting as of the end of the fiscal year, and (2) the institution's compliance during the fiscal year with applicable laws and regulations designated by the FDIC relating to safety and soundness.

With respect to any internal control report, the institution's independent public accountants must attest to, and report separately on, certain assertions of the institution's management contained in such report for institutions with \$1 billion or more in total assets.

Privacy Legislation. Several laws, including the Privacy of Consumer Financial Information (Part V of the Gramm-Leach-Bliley Act) and related regulations issued by federal bank regulatory agencies, provide protections against the transfer and use of customer information by financial institutions. A financial institution must provide to its customers information regarding its policies and procedures with respect to the handling of customers' personal information. Each institution must conduct an internal risk assessment of its ability to protect customer information. These privacy provisions generally prohibit a financial institution from providing a customer's personal financial information to unaffiliated parties without prior notice and approval from the customer.

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Anti-Money Laundering Laws and Regulations. The Company is subject to several federal laws that are designed to combat money laundering, terrorist financing, and transactions with certain persons, companies, or foreign governments designated by U.S. authorities ("AML laws"). This category of laws includes the Bank Secrecy Act of 1970 (the "Bank Secrecy Act"), the Money Laundering Control Act of 1986, the USA PATRIOT Act of 2001, and the Anti-Money Laundering Act of 2020.

AML laws and their implementing regulations require insured depository institutions, broker-dealers, and certain other financial institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. AML laws and their regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. To comply with these obligations, the Company has implemented appropriate internal practices, procedures, and controls.

Office of Foreign Assets Control. The U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") is responsible for administering and enforcing economic and trade sanctions against specified foreign parties, including countries and regimes, foreign individuals, and other foreign organizations and entities. OFAC publishes lists of prohibited parties that are regularly consulted by us in the conduct of our business in order to ensure compliance. We are responsible for, among other things, blocking accounts of, and transactions with, prohibited parties identified by OFAC, avoiding unlicensed trade and financial transactions with such parties, and reporting blocked transactions after their occurrence. Failure to comply with OFAC requirements could have serious legal, financial, and reputational consequences for TowneBank.

Incentive Compensation. In June 2010, the federal bank regulatory agencies issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of financial institutions do not undermine the safety and soundness of such institutions by encouraging excessive risk-taking. The *Interagency Guidance on Sound Incentive Compensation Policies*, which covers all employees who have the ability to materially affect the risk profile of a financial institution, either individually or as part of a group, is based upon the key principles that a financial institution's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the institution's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the financial institution's board of directors.

The federal bank regulatory agencies issued such proposed rules in March 2011 and issued a revised proposed rule in June 2016 implementing the requirements and prohibitions set forth in Section 956. The revised proposed rule would apply to all banks, among other institutions, with at least \$1 billion in average total consolidated assets, for which it would go beyond the existing *Interagency Guidance on Sound Incentive Compensation Policies* to (i) prohibit certain types and features of incentive-based compensation arrangements for senior executive officers, (ii) require incentive-based compensation arrangements to adhere to certain basic principles to avoid a presumption of encouraging inappropriate risk, (iii) require appropriate board or committee oversight, (iv) establish minimum recordkeeping, and (v) mandate disclosures to the appropriate federal bank regulatory agency. These proposed rules have not yet been finalized.

The Nasdaq Stock Market, LLC, the exchange on which our common stock is listed, enacted a listing rule that became effective in 2023 requiring listed companies to adopt policies mandating the recovery or "clawback" of excess incentive compensation earned by a current or former executive officer during the three fiscal years preceding the date the listed company is required to prepare an accounting restatement, including to correct an error that would result in a material misstatement if the error were corrected in the current period or left

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uncorrected in the current period. The Company has adopted a clawback policy compliant with such rule, a copy of which is attached as Exhibit 97 to this Form 10-K.

Consumer Financial Protection. We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act, laws governing flood insurance, federal and state laws prohibiting unfair and deceptive business practices, foreclosure laws, and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. If we fail to comply with these laws and regulations, we may be subject to various penalties. Failure to comply with consumer protection requirements may also result in failure to obtain required bank regulatory approval for merger or acquisition transactions we may wish to pursue, or being prohibited from engaging in such transactions even if approval is not required.

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating a new agency, the CFPB, and giving it responsibility for implementing, examining, and enforcing compliance with federal consumer protection laws. The CFPB focuses on (i) risks to consumers and compliance with federal consumer financial laws, (ii) the markets in which firms operate and risks to consumers posed by activities in those markets, (iii) depository institutions that offer a wide variety of consumer financial products and services, and (iv) non-depository companies that offer one or more consumer financial products or services.

In October 2023, the CFPB proposed a new rule that would require a provider of payment accounts or products, such as the Company, to make certain data available to consumers upon request regarding the products or services they obtain from the provider. The proposed rule is intended to give consumers control over their financial data, including with whom it is shared, and encourage competition in the provision of consumer financial products and services. For banks with over \$850 million and less than \$50 billion in total assets, such as the Company, compliance would be required approximately two and one-half years after adoption of the final rule.

The CFPB has broad rule-making authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer's ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer's (i) lack of financial savvy, (ii) inability to protect himself in the selection or use of consumer financial products or services, or (iii) reasonable reliance on a covered entity to act in the consumer's interests. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or injunction.

Mortgage Banking Regulation. In connection with making mortgage loans, we are subject to rules and regulations that, among other things, establish standards for loan origination; prohibit discrimination; provide for inspections and appraisals of property; require credit reports on prospective borrowers; in some cases restrict certain loan features and fix maximum interest rates and fees; require the disclosure of certain basic information to mortgagors concerning credit and settlement costs; limit payment for settlement services to the reasonable value of the services rendered; and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution, and income level. We are also subject to rules and regulations that require collection and reporting of significant amounts of information with respect to mortgage loans and borrowers. Our mortgage origination activities are subject to the Federal Reserve's Regulation Z, which

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implements the Truth in Lending Act. Certain provisions of Regulation Z require creditors to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms.

Cybersecurity. Several regulatory statements have been issued regarding cybersecurity. Statements include that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure their risk management processes address the risk posed by electronic banking platforms, interbank messaging, payments, and distant-servers ("cloud") technologies. Cybersecurity controls should include identification of compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. A financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption, and maintenance of the institution's operations after a cyberattack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations, address rebuilding network capabilities, and restore data if the institution or its critical service providers fall victim to this type of cyberattack. If the Company fails to observe the regulatory guidance, it could be subject to various regulatory sanctions, including financial penalties.

In November 2021, the federal bank regulatory agencies issued a final rule, effective in April 2022, imposing new notification requirements for cybersecurity incidents. The rule requires financial institutions to notify their primary federal regulator as soon as possible and no later than 36 hours after the institution determines that a cybersecurity incident has occurred that has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the institution's: (i) ability to carry out banking operations, activities, or processes, or deliver banking products and services to a material portion of its customer base, in the ordinary course of business, (ii) business line(s), including associated operations, services, functions, and support, which upon failure would result in a material loss of revenue, profit, or franchise value, or (iii) operations, including associated services, functions, and support, as applicable, the failure or discontinuance of which would pose a threat to the financial stability of the United States.

In July 2023, the SEC issued a final rule to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and incident reporting by public companies that are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Specifically, the final rule requires current reporting about material cybersecurity incidents, periodic disclosures about a registrant's policies and procedures to identify and manage cybersecurity risk, management's role in implementing cybersecurity policies and procedures, and the board of directors' cybersecurity expertise, if any, and its oversight of cybersecurity risk. See Item 1C. Cybersecurity of this Form 10-K for a discussion of the Company's cybersecurity risk management, strategy and governance.

Reporting Obligation Under Securities Laws. We are subject to the periodic reporting requirements of the Exchange Act as adopted by the FDIC, including the filing of annual, quarterly, and other reports with the FDIC. As an Exchange Act reporting bank with over \$500 million in assets, we are directly affected by the Sarbanes-Oxley Act of 2002 and regulations promulgated thereunder, which are aimed at improving corporate governance and reporting procedures. We are also subject to the rules and listing standards adopted by The Nasdaq Stock Market, LLC. We are complying with the rules and regulations implemented pursuant to the Sarbanes-Oxley Act and by The Nasdaq Stock Market, LLC, and intend to comply with any applicable rules and regulations implemented in the future.

Future Legislation and Regulation. Congress may enact legislation from time to time that affects regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which we

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operate and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to business strategy, and limit the ability to pursue business opportunities in an efficient manner.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports are filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act and are accessible at no cost on our website, www.townebank.com, as soon as reasonably practicable after those reports have been filed with or furnished to the FDIC. These materials are available free of charge in print to shareholders who request them by writing to: TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23435. A copy of the statements of beneficial ownership of our equity securities filed by our directors, officers, and 10% or greater shareholders under Section 16 of the Exchange Act may also be obtained through our website. The information contained on our website is not a part of or included in this Form 10-K.

The public may read and copy any of the reports filed with the FDIC at the FDIC's Accounting and Securities Disclosure Section, Division of Risk Management Supervision, 550 17th Street, N.W., Washington, D.C. 20429. The public may contact the FDIC at 202-898-8913 should they require a copy of a filing be sent directly to them.

Item 1A. RISK FACTORS

An investment in our Company involves risks and uncertainties inherent to our business that could impact the value of our common stock. In addition to the other information set forth in this Form 10-K, including the information addressed under "Forward-Looking Statements," investors in our common stock should carefully consider the risk factors discussed below. These risks include the following:

- Strategic risk - the risk arising from a bank's long-term business strategy.
- Operational risk - the risk resulting from inadequate or failed internal processes, people, and systems or external events.
- Credit risk - the risk that a bank borrower, or counterparty, will fail to meet its payment obligations, or that the bank will not adequately plan for losses associated with that failure.
- Cybersecurity risk - the risk of damage, misuse, or theft of private and confidential electronic information.
- Liquidity risk - the risk to daily funding and operations due to the inability to access funding sources.
- Market risk - including interest rate and equity risk, the risk that arises from movement in market prices.
- Reputation Risk - defined as the risk that negative publicity regarding the Company's business practices, whether true or not, will cause a decline in our member base, costly litigation, and/or loss in revenue.
- Compliance Risk - defined as the risk to the Company of monetary penalties, enforcement actions, or other sanctions as a result of nonconformity with laws, regulations, and rules that apply to our business.

These factors could materially and adversely affect our business, financial condition, liquidity, results of operations, and capital position and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this Form 10-K, in which case the trading price of our common stock could decline.

This listing should not be considered all-inclusive. Additional risks and uncertainties, including those not presently known to us or that we currently consider immaterial, may also impair our business, financial condition, or operating results.

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Strategic Risk

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

We maintain an enterprise risk management program that is designed to identify, quantify, monitor, report, and control the risks we face. While we assess and improve this program on an ongoing basis, there can be no assurance that our approach and framework for risk management and related controls will effectively mitigate all risk and limit losses in our business. If conditions or circumstances arise that expose flaws or gaps in our risk management program, or if our controls break down, our results of operations and financial condition may be adversely affected.

Our methods for reducing risk exposures may not be effective.

Instruments, systems, and strategies used, particularly in relation to our mortgage business, to hedge or otherwise manage exposure to various types of market, credit, or liquidity risks could be less effective than anticipated. As a result, the Company may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk, which could have a material adverse impact on our business, financial condition, or results of operations.

Risks associated with acquisitions and the resulting integrations may affect costs and revenue.

A component of our business strategy includes growth through acquisitions. Costs or difficulties related to integrating the acquired business with the Company might be greater than expected. Further, expected revenue and/or operational synergies and cost savings associated with pending or recently completed acquisitions may not be fully realized or realized within the expected time frame. We cannot provide assurance that we will be successful in overcoming these risks or any other issues encountered in connection with acquisitions.

Attractive acquisition or expansion opportunities may not be available to us in the future.

We may consider acquiring other businesses or expanding into new product lines or markets that we believe will help us fulfill our strategic objectives. We expect that other banking and financial companies, some of which have significantly greater resources, will compete with us to acquire financial services businesses. Our target base of attractive candidates may be limited, and competition could increase prices for potential acquisitions that we believe are attractive. Acquisitions may also be subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate acquisitions that we believe are in our best interests.

Our business is concentrated in the Mid-Atlantic region, and the deterioration of economic conditions in the markets in which we operate could have a material adverse impact on our financial condition and results of operations.

We do business primarily in the Richmond, Virginia, region, the Greater Hampton Roads region in southeastern Virginia, northeastern North Carolina, and the Charlotte, Greensboro, Greenville, and Raleigh metropolitan areas in North Carolina. Since we are a community-focused financial institution, our business is particularly sensitive to local economic conditions in those markets. Adverse changes in economic conditions in our market areas would likely impair our ability to collect loans and could otherwise have a material adverse effect on our business, financial condition, and results of operations.

In addition, the U.S. military has a major presence in Greater Hampton Roads and is an important aspect of the Greater Hampton Roads economy. Actual and proposed cuts to defense and other security spending could have an

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adverse impact on the Greater Hampton Roads economy, which could adversely affect our business, financial condition, and results of operations.

Operational Risk

Loss of any of our key personnel could disrupt our operations and result in reduced revenues.

We are a relationship-driven organization. A key aspect of our business strategy is for our senior officers to have primary contact with our customers. Our growth and development to date have been, in large part, a result of these personalized relationships with our customer base. The success of our acquisitions also often depends on our ability to retain and integrate the senior officers of acquired businesses.

Our senior officers have considerable experience in the banking industry and related financial services and are extremely valuable and would be difficult to replace. The loss of the services of these officers could have a material adverse effect upon future prospects. Although we have entered into employment contracts with our Executive Chairman, Chief Executive Officer, and our other senior executive officers, and purchased key man life insurance policies to mitigate the risk of an unforeseen departure or death of certain of our senior executive officers, we cannot offer any assurance that they and other key employees will remain employed by us. The unexpected loss of services of one or more of these key employees could have a material adverse effect on operations and possibly result in reduced revenues.

There are risks resulting from the use of models in our business.

We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting or estimating losses, assessing capital adequacy and calculating economic and regulatory capital levels, as well as estimating the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating model output would be adversely affected due to the inadequacy of that information. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading.

Failure of our internal and disclosure controls and procedures could have a material adverse effect on our results of operations and financial condition.

Effective internal and disclosure controls and procedures are necessary to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. Our management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, no matter how well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our results of operations and financial condition.

Reliance on certain external vendors could adversely affect our operations.

We are reliant upon certain external vendors to provide products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service-level agreements. We maintain a system of comprehensive policies and a control framework designed to monitor vendor risks including, among other things, (i) changes in the vendor's financial condition, (ii) changes in the vendor's support for existing products and services, and (ii) changes in the

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vendor's strategic focus. While we believe these policies and procedures help to mitigate risk, the failure of an external vendor to perform in accordance with contracted arrangements under service-level agreements could be disruptive to our operations, which could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

The value of our goodwill and other intangible assets may decline in the future.

As of December 31, 2023, we had \$520.97 million of goodwill and other intangible assets. A significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates, or a significant and sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. If we were to conclude that a future write-down of goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our financial condition and results of operations.

We may be required to repurchase residential mortgage loans or reimburse investors and others as a result of breaches in contractual representations and warranties.

We sell residential mortgage loans to various parties, which may include government-sponsored entities and other bank and non-bank financial institutions that purchase residential mortgage loans for investment or private label securitization. We may be required to repurchase residential mortgage loans, indemnify the securitization trust, investor or insurer, or reimburse the securitization trust, investor or insurer, for credit losses incurred on loans in the event of a breach of contractual representations or warranties that is not remedied within a specified period (usually 60 days or less) after we receive notice of the breach. Contracts for residential mortgage loan sales to these entities include various types of specific remedies and penalties that could be applied to inadequate responses to repurchase requests. If economic conditions and the housing market deteriorate or future investor repurchase demand and our success at appealing repurchase requests differ from past experience, we could have increased repurchase obligations and increased loss severity on repurchases, which could adversely affect operations.

We are subject to losses due to errors, omissions, or fraudulent behavior by our employees, clients, counterparties, or other third parties.

We are exposed to many types of operational risk, including the risk of fraud by employees and third parties, clerical recordkeeping errors, and transactional errors. While our procedures are designed to follow customary, industry-specific security precautions, and while we provide employees with ongoing training and regular communications and guidance, our efforts might not be successful in mitigating or reducing errors, omissions, or fraudulent behavior, resulting in financial losses, increased litigation risk, and reputational harm. We could be materially and adversely affected if employees, clients, counterparties, or other third parties caused an operational breakdown or failure, either as a result of human error, fraudulent manipulation, or purposeful damage to any of our operations or systems.

Our mortgage revenue is cyclical and sensitive to the level of interest rates, changes in economic conditions, decreased economic activity, and slowdowns in the housing market, any of which could adversely impact our profits.

The success of our mortgage business is dependent upon our ability to originate loans and sell them to investors at or near current volumes. Loan production levels are sensitive to changes in the level of interest rates, product availability, and changes in economic conditions. Loan production levels may suffer if we experience a slowdown in housing markets in the regions in which we do business, or tightening credit conditions. Any sustained period of decreased activity caused by fewer home sales or refinancing transactions, higher interest rates, housing price pressure, or loan underwriting restrictions would adversely affect our mortgage originations and, consequently,

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could significantly reduce our income from mortgage activities. As a result, these conditions would also adversely affect our results of operations.

Credit Risk

Focus on loan type, industry type, borrower type, or location of the borrower or collateral may increase the risk of substantial credit losses.

Our credit risk and credit losses can increase if our loans are concentrated to borrowers engaged in the same or similar activities or to borrowers who individually or as a group may be uniquely or disproportionately affected by economic or market conditions. We offer a variety of loan products, including residential mortgage, consumer, construction, and commercial loans. At December 31, 2023, approximately 53.68% of loans were commercial and industrial loans and commercial loans secured by commercial real estate. It is expected that, as we grow, this percentage will remain fairly constant.

Commercial lending generally involves more risk than mortgage and consumer lending because loan balances are greater, and the borrower's ability to repay is contingent on the successful operation of a business. Risk of loan defaults is unavoidable in the banking industry. We attempt to limit exposure to this risk by monitoring carefully the amount of loans in specific industries and by exercising prudent lending practices. However, the risk that substantial credit losses could result in reduced earnings or losses cannot be eliminated.

We are subject to risk arising from conditions in the commercial real estate market.

As of December 31, 2023, approximately 42.51% of our loan portfolio was commercial real estate mortgage loans. These loans generally involve a greater degree of credit risk than residential real estate mortgage loans because they typically have larger balances and are more affected by adverse conditions in the real estate market or the economy or changes in government regulations. In recent years, commercial real estate markets have been particularly impacted by the economic disruption resulting from the COVID-19 pandemic. The COVID-19 pandemic has also been a catalyst for the evolution of various remote work options which could impact the long-term performance of some types of office properties within our commercial real estate portfolio. Accordingly, the federal banking regulatory agencies have expressed concerns about weaknesses in the current commercial real estate market. Failures in our risk management policies, procedures and controls could adversely affect our ability to manage this portfolio going forward and could result in and increased rate of delinquencies in, and increased losses from, this portfolio, which, accordingly, could have a material adverse effect on our business, financial condition, and results of operations.

The Company's focus on lending to small to mid-sized community-based businesses may increase its credit risk.

Most of our commercial business and commercial real estate loans are made to small business or middle-market customers. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. Additionally, these loans may increase concentration risk as to industry or collateral securing our loans. If general economic conditions in the market areas in which we operate negatively impact this important customer sector, our results of operations and financial condition may be adversely affected. Moreover, a portion of these loans have been made by the Company recently, and the borrowers may not have experienced a complete business or economic cycle. The deterioration of the borrowers' businesses may hinder their ability to repay their loans with the Company, which could have a material adverse effect on our financial condition and results of operations.

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Our allowance for credit losses may prove to be insufficient.

We maintain allowances for credit losses on loans, securities, and off-balance-sheet credit exposures. In the case of loans and securities, allowances for credit losses are contra-asset valuation accounts that are deducted from the amortized cost basis of these assets to present the net amount expected to be collected. In the case of off-balance-sheet credit exposures, the allowance for credit losses is a liability account reported as a component of other liabilities in our Consolidated Balance Sheets. The amount of each allowance account represents management's best estimate of current expected credit losses on these financial instruments considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current conditions, and reasonable and supportable forecasts. As a result, determination of the appropriate level of allowance for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates related to current and expected future credit risks and trends, all of which may materially change.

Factors that may impact the allowance for credit losses on loans, securities, and off-balance-sheet credit exposures include the following:

- Deterioration in economic conditions affecting borrowers and securities issuers, including the possibility of a recession, inflation, and higher interest rates
- New information regarding existing loans, credit commitments, and securities holdings
- Identification of additional problem loans
- Ratings downgrades and other factors, both within and outside of our control

In addition, bank regulatory agencies periodically review our allowance for credit losses and may require an increase in credit loss expense or the recognition of further loan charge-offs, based on judgments different than those of management. Furthermore, if any charge-offs related to loans, securities, or off-balance-sheet credit exposures in future periods exceed our allowances for credit losses on loans, securities, or off-balance-sheet credit exposures, we will need to recognize additional credit loss expense to increase the applicable allowance. Any increase in the allowance for credit losses on loans, securities, and off-balance-sheet credit exposures will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our business, financial condition, and results of operations.

Our credit standards and ongoing credit assessment processes might not protect us from significant credit losses.

We take credit risk by virtue of making loans and leases and extending loan commitments and letters of credit. We manage credit risk through a program of underwriting standards, the review of certain credit decisions, and an ongoing process of assessment of the quality of the credit already extended. Our exposure to credit risk is managed through the use of consistent underwriting standards that emphasize local lending while avoiding highly leveraged transactions as well as excessive industry and other concentrations. Our credit administration function employs risk management techniques to help ensure that problem loans and leases are promptly identified. While these procedures are designed to provide us with the information needed to implement policy adjustments where necessary and to take appropriate corrective actions, there can be no assurance that such measures will be effective in avoiding undue credit risk.

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We rely upon independent appraisals to determine the value of real estate that secures a significant portion of our loans, and the values indicated by such appraisals may not be realizable if we are forced to foreclose upon such loans.

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

We depend on the accuracy and completeness of information about clients and counterparties, and our financial condition could be adversely affected if we rely on misleading information.

In deciding whether to extend credit or to enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information, which the Company does not independently verify. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a customer's audited financial statements conform with accounting principles generally accepted in the United States and present fairly, in all material respects, the financial condition, results of operations, and cash flows of the customer. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with GAAP or are materially misleading.

Liquidity Risk

Liquidity could be impaired by an inability to access the capital markets or an unforeseen outflow of cash.

Liquidity is essential to our business. Our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy generally. Factors that could reduce our access to liquidity sources include a reduction in our credit ratings, a downturn in the economy, difficult credit markets or the liquidity needs of our depositors. A substantial majority of our liabilities are demand, savings, interest checking and money market deposits, which are payable on demand or upon several days' notice, while a substantial portion of our assets are loans, which cannot be called or sold in the same time frame. We may not be able to replace maturing deposits and advances as necessary in the future, especially if a large number of our depositors sought to withdraw their accounts, regardless of the reason. Our access to deposits may be negatively impacted by, among other factors, changes in interest rates which could promote increased competition for deposits, including from new financial technology competitors, or provide customers with alternative investment options. Additionally, negative news about us or the banking industry in general could negatively impact market and/or customer perceptions of our company, which could lead to a loss of depositor confidence and an increase in deposit withdrawals. A failure to maintain adequate liquidity could have a material adverse effect on our business, financial condition and results of operations.

Our credit ratings are also important to our liquidity. These ratings are based on a number of factors, including our overall financial strength, as well as factors not entirely within our control, such as conditions affecting the financial services industry generally. As a result, there can be no assurance that we will maintain our current ratings. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, or limit our access to capital markets.

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Our deposit account balances that exceed FDIC insurance limits may expose us to enhanced liquidity risk in times of financial distress.

In the wake of early 2023 bank failures, the FDIC and other banking regulators concluded that a significant contributing factor in those failures was the proportion of the deposits held by those institutions that exceeded FDIC insurance limits. Uninsured deposits have historically been viewed as less stable than insured deposits and in the event of financial distress, they have been more likely to withdraw their deposits.

At December 31, 2023, we had approximately \$6.46 billion in uninsured deposits. If a significant portion of our deposits were to be withdrawn in a short period of time such that additional sources of funding would be required to meet withdrawal demands, we may be unable to obtain funding at favorable terms, which may have an adverse effect on our net interest margin. Additionally, obtaining adequate funding to meet our deposit obligations may be more challenging during periods of elevated prevailing interest rates, such as the present period. Our ability to attract depositors during a time of actual or perceived distress or instability in the marketplace may be limited. Interest rates on alternate funding generally exceed the interest rates paid to depositors and may result in additional margin compression. For additional information regarding uninsured deposits and liquidity, see sections of Part II, Item 7, Management's Discussion and Analysis of Financial Conditions.

Market Risk

Changes in interest rates could have a negative impact on our results of operations.

Our profitability is dependent to a large extent on our net interest income, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. Our net interest income is impacted by changes in market rates of interest, changes in credit spreads, changes in the shape of the yield curve, the interest rate sensitivity of our assets and liabilities, prepayments on our loans and investments, and the mix of our funding sources and assets.

Our interest-earning assets and interest-bearing liabilities may react in different degrees to changes in market interest rates. Interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while rates on other types may lag behind. The result of these changes to rates may cause differing spreads on interest-earning assets and interest-bearing liabilities. Any substantial, unexpected, or prolonged change in market interest rates could have a material adverse effect on our business, financial condition, and results of operations. While we take measures, such as hedging our mortgage loans held for sale, intended to manage risks from changes in market interest rates, we cannot control or accurately predict changes in the rates of interest or be sure our protective measures are adequate.

Loss of deposits or a change in deposit mix could increase our funding costs.

Deposits are a low-cost and stable source of funding. We compete with banks and other financial institutions for deposits. Funding costs may increase because we may lose deposits and replace them with more expensive sources of funding, clients may shift their deposits into higher cost products, or we may need to raise interest rates to avoid losing deposits. Higher funding costs reduce our net interest margin, net interest income, and net income.

Economic and other conditions may cause volatility in the price of our common stock.

In the current economic environment, the prices of publicly traded stocks in the financial services sector have been volatile. However, even in a more stable economic environment, the price of our common stock can be affected by a variety of factors, such as expected or actual results of operations, changes in analysts' recommendations or projections, announcements of developments related to our businesses, operating and stock performance of other

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companies deemed to be peers, news or expectations based on the performance of others in the financial services industry, and expected impacts of a changing regulatory environment. These factors not only impact the price of our common stock, but could also affect the liquidity of the stock, given the Company's size, geographical footprint, and industry. The price for shares of our common stock may fluctuate significantly in the future, and these fluctuations may be unrelated to the Company's performance. General market price declines or market volatility in the future could adversely affect the price for shares of our common stock, and the current market price of such shares may not be indicative of future market prices.

Continued growth may require raising additional capital, which may dilute current shareholders' ownership percentage.

In order to meet applicable regulatory capital requirements, we may, from time to time, need to raise additional capital to support continued growth. If we sell our equity securities to raise additional funds, the relative ownership interests of our existing shareholders would likely be diluted.

Potential downgrades of U.S. government securities by one or more of the credit ratings agencies could have a material adverse effect on our operations, earnings, and financial condition.

A possible future downgrade of the sovereign credit ratings of the U.S. government and/or a decline in the perceived creditworthiness of U.S. government-related obligations could impact our ability to obtain funding that is collateralized by affected instruments, as well as affect the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments. We cannot predict if, when, or how any changes to the credit ratings or perceived creditworthiness of these obligations will affect economic conditions. A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies, or instruments could have a material adverse effect on our business, financial condition, and results of operations.

Our quarterly financial results may fluctuate as a result of seasonality, which may make it difficult to predict our future performance and may adversely affect our common stock price.

We engage in certain lines of business that are historically subject to seasonal trends. These include mortgage banking and real estate brokerage services that reflect the general patterns of housing sales, which typically peak in the spring and summer seasons. Our non-mortgage and real estate-related businesses have various seasonality trends that may create further fluctuations in our quarterly operating results. Any of these seasonal trends, or the combination of them, may negatively impact the price of our common stock. Due to the nature and timing of these fluctuations, Company comparisons should be made using annual results.

Cybersecurity Risk

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services, which increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Service interruptions, transaction processing errors, and system conversion delays may cause us to fail to comply with

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applicable laws. Such failure could have a material adverse effect on our business, financial condition, or results of operations.

A failure in, or breach of, our operational or security systems, infrastructure, or business continuity plans could disrupt our critical business operations and customer services and cause legal or reputational harm.

Our operational and security systems infrastructure, including computer systems, emerging technologies, and internal processes, as well as those of third parties, are integral to our performance. We also rely on our employees and third parties (including downstream service providers) in our day-to-day and ongoing operations, who may, as a result of human error, misconduct (including errors in judgment, malice, fraudulent activity, and/or engaging in violations of applicable policies, laws, rules, or procedures), malfeasance, or a failure or breach of systems or infrastructure cause disruptions to our organization and expose us to operational losses, regulatory risk, and reputational harm. We could also experience prolonged computer and network outages resulting in disruption to our critical business operations and customer services. We may experience sudden increases in customer transaction volume, or electrical, telecommunications, or other major physical infrastructure outages, newly identified vulnerabilities in key hardware or software, failure of aging infrastructure, and technology project implementation challenges, which could result in prolonged operational outages, cause legal, regulatory, or reputational harm.

Regardless of the measures we have taken to implement training, procedures, backup systems, and other safeguards to support our operations and bolster our operational resilience, our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties (including their downstream providers) with whom we interact or upon whom we rely, including systemic cyber events that result in system outages and unavailability of part or all of the internet, cloud services, and/or the financial services industry infrastructure (including critical banking activities). Our ability to implement backup systems and other safeguards with respect to third-party systems and the financial services industry infrastructure is more limited than with respect to our own systems.

Furthermore, to the extent that backup systems are available and utilized, they may not process data as quickly as our primary systems, and some data might not have been backed up. We regularly update the systems on which we rely to support our operations and growth and to remain compliant with all applicable laws, rules, and regulations. This updating entails significant costs and creates risks associated with implementing new systems and integrating them into existing ones, including business interruptions.

We, our colleagues, and/or customers, could be the target of cybersecurity risks including denial of service, hacking, social engineering attacks, identity theft, and malware intrusion or data corruption attempts that could result in the disclosure of confidential information, adversely affect our business or reputation, and create significant legal and financial exposure.

Our business relies on the secure processing, transmission, storage, and retrieval of confidential, proprietary, and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access our network, products, and services, our employees, customers, and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cybersecurity risks. Due to applicable laws, regulations, and contractual obligations, we may be held responsible for cyber-incidents attributed to these parties as they relate to the information we share with them.

Cybersecurity risks have significantly increased in recent years, and will likely continue to increase, in part because of the proliferation of new technologies, increased sophistication and activities of terrorist organizations, hostile foreign governments, organized crime affiliates, disgruntled employees or vendors, and the use of the

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internet and telecommunications technologies to conduct financial transactions. Remote work can also pose a risk related to cyber incidents as a result of our employees, vendors, and other third parties with which we interact working remotely on less secure systems and environments.

Targeted social engineering and email attacks are becoming more sophisticated and difficult to prevent. Techniques used by cyber criminals change frequently and may not be recognized until launch or well after a breach has occurred. Cyberattacks or other information security breaches, whether directed at us or third parties, may result in a material loss or have material consequences. A successful penetration or circumvention of system security could cause us serious negative consequences, including our loss of customers, business opportunities, significant business disruption, misappropriation, exposure, or destruction of our confidential information, reputational damage, reimbursement of other compensatory costs, additional compliance costs, and could adversely impact our results of operations, liquidity, and financial condition. In addition, we may not have adequate insurance coverage to compensate for losses from a cybersecurity event.

The operational functions of business counterparties over which we may have limited or no control may experience disruptions that could adversely impact our operations.

Every year, retailers and service providers are the target of data systems incursions which result in the thefts of credit and debit card information, online account information, and other financial data of tens of millions of their customers and users. These incursions affect cards issued and deposit accounts maintained by many banks, including the Company. Although our systems are not breached in such incursions, these events can cause us to reissue a significant number of cards and take other costly steps to avoid significant theft loss to us and our customers. In some cases, we may be required to reimburse customers for the losses they incur. Other possible points of intrusion or disruption not within our control include internet service providers, electronic mail portal providers, social media portals, cloud service providers, electronic data security providers, telecommunications companies, and smartphone manufacturers.

Reputational Risk

Negative perception of the Company through media may adversely affect our reputation and business.

The Company's reputation is critical to the success of its business. We believe that our brand image has been well received by customers, reflecting the fact that the brand image, like our business, is based in part on trust and confidence. Our reputation and brand image could be negatively affected by rapid and widespread distribution of publicity through social and traditional media channels. Our reputation could also be affected by our association with clients affected negatively through media distribution, or other third parties, or by circumstances outside of our control. Negative publicity, whether true or untrue, could affect our ability to attract or retain customers, or cause us to incur additional liabilities or costs, or result in additional regulatory scrutiny.

Security breaches and other disruptions could compromise our information and expose us to liability or result in the loss of money, which could damage our reputation and our business.

We rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. While we have policies and procedures designed to prevent or limit the effect of a possible security breach, our computer systems, software, and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have a security impact. If one or more such events occur, this potentially could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our or our customers' operations, or result in the loss of money. We may be required to expend

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significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Security breaches in our internet banking activities could further expose us to possible liability, financial loss, and damage to our reputation. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission of confidential information. We have implemented security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures, which could result in damage to our reputation and our business.

Compliance Risk

Restrictions relating to the acquisition of our common stock may discourage an acquisition.

Certain provisions of our articles of incorporation and bylaws could delay or frustrate the removal of incumbent directors and could make a merger, tender offer, or proxy contest more difficult, even in instances where shareholders deem the proposed transaction to be beneficial to their interests. These provisions, among others, provide for staggered terms for the Board of Directors and that a plan of merger, share exchange, sale of all or substantially all of our assets, or similar transaction must be approved and recommended by the affirmative vote of at least two-thirds of the directors in office or, if not so approved and recommended, by the affirmative vote of the holders of 80% of our outstanding shares, and limit the ability of shareholders to call a special meeting. In addition, certain provisions of state and federal law may also have the effect of discouraging or prohibiting a future takeover attempt in which our shareholders might otherwise receive a substantial premium for their shares over then-current market prices. To the extent that these provisions discourage or prevent takeover attempts, they may tend to reduce the market price for our common stock.

We are subject to environmental liability risk associated with our lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. Remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Changes in federal, state, or local tax laws may negatively impact our financial performance.

Changes in tax law could increase our effective tax rates. Such changes may be retroactive to previous periods and, as a result, could negatively affect our current and future financial performance. Similarly, our customers are likely to experience varying effects from both the individual and business tax provisions of new tax laws, and such effects, whether positive or negative, may have a corresponding impact on our business and the economy as a whole.

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Regulatory capital standards may have an adverse effect on our profitability, lending, and ability to pay dividends on our securities.

We are subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, regulators implement changes to these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and/or other regulatory requirements, our financial condition would be materially and adversely affected. The Basel III Capital Rules require us to maintain significantly more capital as a result of higher required capital levels and more demanding regulatory capital risk weightings and calculations. We must also comply with the capital requirements set forth in the "prompt corrective action" regulations pursuant to Section 38 of the FDIA. Satisfying capital requirements may require us to limit our banking operations, retain net income, or reduce dividends to improve regulatory capital levels, which could negatively affect our business, financial condition, and results of operations.

Noncompliance with AML laws could cause us material financial loss.

AML laws contain anti-money laundering and financial transparency provisions intended to detect and prevent the use of the U.S. financial system for money laundering and terrorist financing activities. These provisions require depository institutions to undertake activities including maintaining an anti-money laundering program, verifying the identity of customers, monitoring for and reporting suspicious transactions, reporting on cash transactions exceeding specific thresholds, and responding to requests for information by regulatory authorities and law enforcement agencies. The Federal Crimes Enforcement Network, a unit of the U.S. Treasury Department that administers the Bank Secrecy Act, is authorized to impose significant civil monetary penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the federal bank regulatory agencies, as well as the United States Department of Justice, Drug Enforcement Administration, and Internal Revenue Service.

There is also increased scrutiny of compliance with the rules enforced by the OFAC. If our policies, procedures, and systems are deemed deficient or the policies, procedures, and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends. We would also be required to obtain regulatory approvals to proceed with certain planned business activities, including acquisition plans, which would negatively impact our business, financial condition, and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for the Company.

Regulations issued by the Consumer Financial Protection Bureau could adversely affect our earnings.

The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers. As an independent bureau within the Federal Reserve System, the CFPB may impose requirements more severe than the previous bank regulatory agencies. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The CFPB has recently pursued a more aggressive enforcement policy with respect to a range of regulatory compliance matters, specifically including fair lending, loan servicing, financial institution sales and marketing practices, and financial institution consumer fee and account management practices. For example, in 2023, the CFPB brought enforcement actions against a number of financial institutions for overdraft practices that the CFPB alleged to be unlawful and ordered each of these institutions to pay a substantial civil money penalty in addition to customer restitution. In response to increased regulatory scrutiny, and in response to enhanced supervision and enforcement of overdraft protection practices, certain banking organizations have modified their overdraft protection programs, including by discontinuing the imposition of overdraft transaction fees. In April 2022, the Company implemented changes for personal accounts to eliminate fees for non-sufficient funds and other overdraft program fees. We may further modify our overdraft program and practices in response to competitive pressures, supervisory guidance and observable trends from

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public enforcement actions. Despite our ongoing compliance efforts, we may become subject to regulatory enforcement actions with respect to our programs and practices. The costs and limitations related to this additional regulatory scrutiny with respect to consumer product offerings and services may adversely affect the Company's profitability.

Extensive government regulation and monetary policy could adversely affect operations.

As a publicly traded corporation and insured depository institution, we are subject to extensive governmental supervision, regulation, and control that have materially affected our business in the past and are likely to do so in the future. Regulations affecting us may be changed at any time, and the interpretation of those regulations by regulatory authorities is also subject to change. There can be no assurance that future changes in legislation, administrative regulations, or governmental policy will not adversely affect the financial services industry and our business.

Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social, and governance ("ESG") practices may impose additional costs on us or expose us to new or additional risks.

We are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to our ESG practices and disclosure. Investor advocacy groups, investment funds, and influential investors are also increasingly focused on these practices, especially as they relate to climate risk, hiring practices, the diversity of the work force, and racial and social justice issues. Increased ESG-related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.

Climate change and related legislative and regulatory initiatives may result in operational changes and expenditures that could significantly impact our business.

The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. Federal and state legislatures and regulatory agencies have continued to propose and advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change. These climate-related initiatives could include increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress-testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate-related factors, and encouraging investment by banks in climate-related initiatives and lending to communities disproportionately impacted by the effects of climate change. To the extent that these initiatives lead to the promulgation of new regulations or supervisory guidance applicable to TowneBank, we would likely experience increased compliance costs and other compliance-related risks.

The lack of empirical data surrounding credit and other financial risks posed by climate change render it impossible to predict how specifically climate change may impact our financial condition and results of operations; however, the physical effects of climate change may also directly impact us. Specifically, unpredictable and more frequent weather disasters may adversely impact the value of real property securing the loans in our loan portfolio. Additionally, if insurance obtained by borrowers is insufficient to cover any losses sustained to the collateral, or if insurance coverage is otherwise unavailable to borrowers, the collateral securing loans may be negatively impacted by climate change, which could impact our financial condition and results of operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on customers and impact the communities in which we operate. Overall, climate change, its effects, and the resulting unknown impact could have a material adverse effect on our financial condition and results of operations.

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General Business Risk

Strong competition in our primary market area and from non-traditional financial institutions may limit asset growth and profitability.

We encounter strong competition from other financial institutions in our primary market area. In addition, established financial institutions not already operating in our primary market area may open branches at future dates. In the conduct of certain aspects of our business, we also compete with savings institutions, credit unions, mortgage banking companies, consumer finance companies, insurance companies, real estate companies, and other institutions, some of which are not subject to the same degree of regulation or restrictions as are imposed upon us. Also, technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. In particular, the activity of financial technology ("fintech") companies has grown significantly over recent years and is expected to continue to grow. Fintech companies have and may continue to offer bank or bank-like products, and some fintech companies have applied for bank charters. In addition, other fintech companies have partnered with existing banks to allow them to offer deposit products to their customers. Many of these competitors have substantially greater resources and lending limits than we have and offer services that we do not provide. In addition, many of these competitors have numerous branch offices located throughout their extended market areas that provide them with a competitive advantage. Finally, these institutions may have differing pricing and underwriting standards, which may adversely affect our Company through the loss of business or cause a misalignment in our risk-return relationship. No assurance can be given that such competition will not have an adverse impact on our financial condition and results of operations.

Severe weather, natural disasters, sea level rise, acts of war or terrorism, and other external events could significantly impact our business.

Severe weather, natural disasters, sea level rise and other environmental risks, acts of war or terrorism, and other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue, and/or cause us to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 1C. CYBERSECURITY

The Company has processes in place to identify, assess, and monitor material risks from cybersecurity threats, which are part of the Company's overall enterprise risk management process and have been embedded in the Company's operating procedures, internal controls, and information systems. TowneBank aligns to Federal Financial Institutions Examination Council requirements and utilizes their Cybersecurity Assessment Tool to identify risks and review cybersecurity preparedness.

As part of our cybersecurity risk management system, our information technology team tracks and logs privacy and security incidents across the Company, our vendors, and other third-party service providers to remediate and resolve any such incidents. Significant incidents are reviewed by a cross-functional incident response team to determine whether further escalation is appropriate. Any incident assessed as potentially being, or potentially becoming, material is immediately escalated for further assessment, and then reported to designated members of senior management. We consult with outside counsel as appropriate, including on materiality analysis and

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disclosure matters, and our senior management makes the final materiality, disclosure, and other compliance determinations. Our senior management apprises TowneBank's independent public accounting firm of any relevant developments.

TowneBank maintains a robust vendor management program that evaluates risk related to third parties and key service providers. TowneBank's internal audit function independently tests cybersecurity controls.

The Enterprise Risk Management Committee of the Board of Directors has oversight responsibility for risks and incidents relating to cybersecurity threats, including compliance with disclosure requirements, cooperation with law enforcement, and related effects on financial and other risks, and it reports any findings and recommendations, as appropriate, to the full Board for consideration. Senior management regularly discusses cyber risks and trends and, should they arise, any material incidents with the Enterprise Risk Management Committee.

Our business strategy, results of operations, and financial condition have not been materially affected by risks from cybersecurity threats, including as a result of previously identified cybersecurity incidents, but we cannot provide assurance that they will not be materially affected in the future by such risks or any future material incidents. For more information on our cybersecurity related risks, see Item 1A, Risk Factors, of this Annual Report on Form 10-K.

Item 2. PROPERTIES

Our bank's main office is located in Portsmouth, Virginia, and our Corporate Administration and Member Service Center is located in Suffolk, Virginia; we own both of these locations. As of December 31, 2023, we occupied an additional 133 properties, of which we own 54, in the cities and counties in which we operate. We consider our properties to be suitable and adequate for our present needs. Additional information with respect to the amounts at which company premises and equipment are carried and commitments under long-term leases is set forth in Note 7, "Premises and Equipment" and Note 8, "Leases" in the Annual Report, which is incorporated herein by reference.

Item 3. LEGAL PROCEEDINGS

In the ordinary course of operations, we are a party to various legal proceedings. Based upon information currently available, management believes that such legal proceedings, in the aggregate, will not have a material adverse effect on our business, financial condition, or results of operations.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the Nasdaq Global Select Market under the symbol TOWN.

Holders

As of December 31, 2023, we had issued and outstanding 74,893,462 shares of common stock. These shares were held by approximately 9,105 shareholders of record.

Dividends

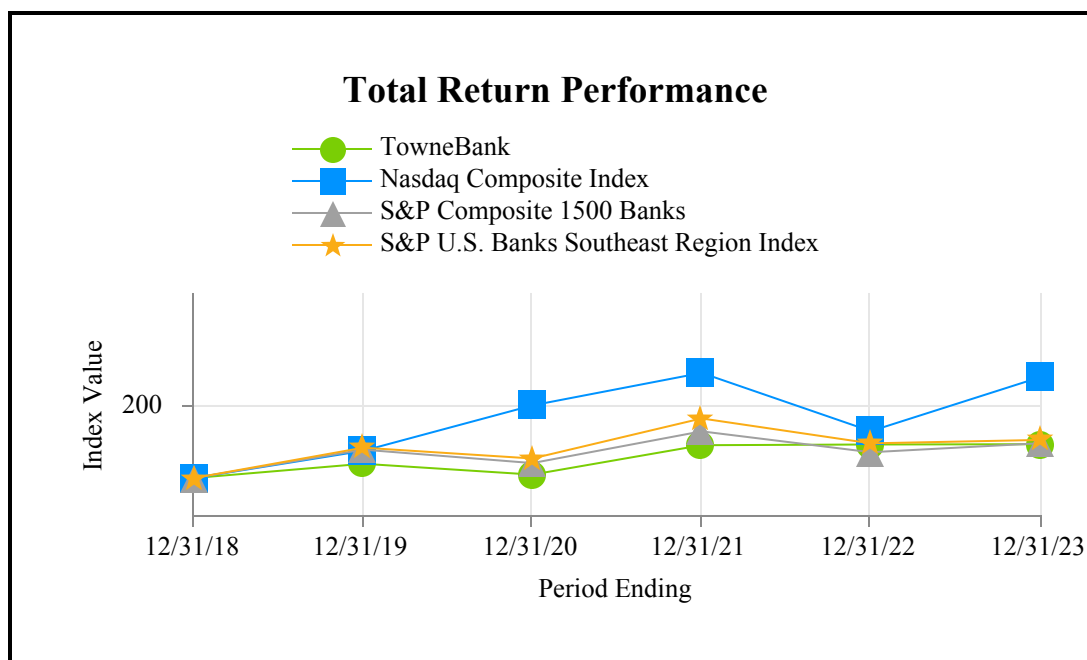
Beginning in second quarter 2023 through fourth quarter 2023, we declared quarterly cash dividends of \$0.25 per common share. In second quarter 2022 through first quarter 2023, we declared quarterly cash dividends of \$0.23 per common share. In second quarter 2021 through first quarter 2022, we declared quarterly cash dividends of \$0.20 per common share. All dividends paid are limited by the requirement to meet capital guidelines issued by regulatory authorities, and future declarations are subject to financial performance and regulatory guidelines.

Our future dividend policy is subject to the discretion of the Board of Directors and will depend upon a number of factors, including future earnings, financial condition, cash requirements, and general business conditions. We are also subject to certain restrictions imposed by the reserve and capital requirements of federal and Virginia banking statutes and regulations. See Part I, Item 1, "Business - Supervision and Regulation," for information on regulatory restrictions on dividends.

Stock Performance Graph

The following stock performance graph presents the cumulative total return comparison through December 31, 2023, of stock appreciation for our common stock, the Nasdaq Composite Index measuring all Nasdaq domestic and international-based common type stocks listed on the Nasdaq Stock Market ("Nasdaq Composite Index"), the S&P Securities Index including the Composite 1500 Banks Index ("S&P Bank Composite 1500 Index"), and the S&P Securities Index including only banks in the Southeast ("S&P Southeast Bank Index"). Returns assume an initial investment of \$100 at the market close of December 31, 2018, and reinvestment of dividends.

PART II



Index	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
TowneBank	\$ 100.00	\$ 119.23	\$ 104.60	\$ 144.31	\$ 145.28	\$ 145.66
Nasdaq Composite Index	100.00	136.69	198.10	242.03	163.28	236.17
S&P Composite 1500 Banks	100.00	138.32	120.15	163.04	134.81	146.97
S&P U.S. Banks Southeast Region Index	100.00	140.94	126.37	180.49	146.81	151.44

Item 6. RESERVED

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

Reference is made to the information in the section entitled, "Management's Discussion and Analysis," of our Annual Report, which is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to the information in the section entitled, "Management's Discussion and Analysis," under subsections "Interest Sensitivity," "Market Risk Management," "Earnings Simulation Analysis," "Market Value Simulation," and "Credit Risk Elements," of our Annual Report, which is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the information in the sections entitled, "Management's Report on Internal Control," "Report of Independent Registered Public Accounting Firm," and "Consolidated Financial Statements and Notes," of our Annual Report, which is incorporated herein by reference.

PART II

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) was carried out as of December 31, 2023, under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer, and several other members of our senior management. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

Management's Report on Internal Control Over Financial Reporting. The annual report of management on the effectiveness of our internal control over financial reporting and the attestation report thereon issued by our independent registered public accounting firm are set forth under "Management's Report on Internal Control" and "Report of Independent Registered Public Accounting Firm" of our Annual Report, which are incorporated herein by reference.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal controls over financial reporting that occurred during the last fiscal quarter which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

(a) None.

(b) During the quarter ended December 31, 2023, no director or Section 16 officer of TowneBank adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Reference is made to the information in the sections entitled, "Election of Directors," "Delinquent Section 16(a) Reports," and "Board of Directors and Committees," of our definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 22, 2024 ("2024 Proxy Statement"), which sections are incorporated herein by reference. The following information is provided, as of February 28, 2024, for those executive officers who are not directors.

Name (Age)	Principal Occupation During Past Five Years
R. Lee Clark (56)	Senior Executive Vice President and Chief Operating Officer since January 2023; Senior Executive Vice President and Chief Human Resources Officer from November 2019 to December 2022; Executive Vice President and Director of Banking Operations from July 2014 to October 2019; Executive Vice President - Loan Administration from June 2011 to June 2014.
Matthew C. Davis (57)	President and Regional Banking Director for North Carolina since October 2022; Senior Executive Vice President and Chief Strategy and Risk Officer from September 2019 to September 2022; President, NC Region of TowneBank from February 2019 to August 2019; Chief Operating Officer, Paragon Bank, from December 2012 to January 2019.
Denys J. Diaz (57)	Senior Executive Vice President and Chief Information Officer since June 2016; Executive Vice President and Chief Information Officer, Monarch Bank, from March 2011 to June 2016.
Kevin L. Fly (58)	Senior Executive Vice President and Chief Accounting Officer since May 2018; Executive Vice President - Financial Reporting, Tax, and Policy from June 2013 to May 2018.
Dawn S. Glynn (56)	President of the Corporate Services Group and Chief Experience Officer since October 2022; President, Hampton Roads and Northeastern North Carolina from August 2020 to September 2022; President, Retail and Private Banking from January 2019 to August 2020; President and Regional Executive Officer for Portsmouth/Chesapeake/Suffolk from 2016 to 2018.
William B. Littreal (53)	Senior Executive Vice President and Chief Financial Officer since March 2018; Senior Executive Vice President and Chief Strategy Officer and Director of Investor Relations from June 2016 to February 2018; Senior Executive Vice President and Chief Operating Officer from April 2011 to June 2016.
Ernest Piccioli (57)	Senior Executive Vice President and Chief Risk Officer since May 2023; Executive Vice President and Business Unit Chief Risk Officer Retail and Small Business Banking Unit at Truist Financial Corporation/BB&T from December 2018 to April 2023.
Philip M. Rudisill (58)	Senior Executive Vice President and Chief Credit Officer since July 2011.

PART III

Brian K. Skinner (53)	President and Regional Banking Director for Virginia and Northeastern North Carolina since October 2022; President and Chief Executive Officer of Towne Financial Services Group from May 2021 to September 2022; Senior Executive Vice President and Chief Banking Officer from January 2019 to May 2021; Regional Executive Officer of Peninsula/Williamsburg from 2007 to 2018.
George P. Whitley (71)	Senior Executive Vice President and Chief Legal Officer since October 2016; Partner, LeClairRyan, Richmond, Virginia, from May 1994 to September 2016.

Code of Ethical Conduct

We have adopted a Code of Ethical Conduct that applies to our Executive Chairman, Chief Executive Officer, and other executive officers and senior financial officers, including our Chief Financial Officer, Chief Accounting Officer, Chief Audit Executive, any person Executive Vice President and above in a Corporate Accounting position, any Regulation O executive officers along with any person serving in an equivalent position regardless of whether or not they are designated as executive officers for Regulation O purposes, or any persons serving in equivalent positions within the Company. The Code of Ethical Conduct is included as Exhibit 14. Any changes in or waivers from our Code of Ethical Conduct applicable to the Executive Chairman, Chief Executive Officer, and any other executive officer or senior financial officer shall be promptly disclosed through a filing with the FDIC on Form 8-K.

A written copy of our Code of Ethical Conduct is available free of charge to shareholders who request it by writing to: TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23435. We also provide this information on our website, www.townebank.com, under Investor Relations, Governance Documents, Code of Conduct.

Item 11. EXECUTIVE COMPENSATION

Reference is made to the information in the sections entitled, "Compensation Committee Report," "Compensation Discussion and Analysis," "Named Executive Officers Compensation," "Compensation of Directors," and "Board of Directors and Committees," of the 2024 Proxy Statement, which sections are incorporated herein by reference.

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

Reference is made to the information in the section entitled, "Ownership of Company Common Stock," of the 2024 Proxy Statement, which section is incorporated herein by reference.

TOWNE BANK

PART III

The following table summarizes information, as of December 31, 2023, relating to our stock incentive plans, pursuant to which grants of options to acquire shares of common stock may be awarded from time to time.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (1)
	(A)	(B)	(C)
Equity compensation plans approved by security holders	—	—	864,517
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	864,517

(1) Consists of shares available for future issuance under TowneBank's equity compensation plans.

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

Reference is made to the information in the sections entitled, "Related Party Transactions," "Election of Directors," and "Board of Directors and Committees," of the 2024 Proxy Statement, which sections are incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Reference is made to the information in the section entitled, "Accounting Firm Fees," of the 2024 Proxy Statement, which section is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a) The following documents are filed as part of this report.

(1) Financial Statements

The following documents are included in the 2023 Annual Report to Shareholders and are incorporated by reference in this report:

Report of Independent Registered Public Accounting Firm
Management's Report on Internal Control
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

All financial statement schedules as required by Item 8 and Item 15 of Form 10-K have been omitted because the information requested is not required, not applicable, or is shown in the Consolidated Financial Statements or Notes thereto.

PART IV

(3) *Exhibits*

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Reorganization, dated as of August 18, 2022, by and among TowneBank, Farmers Bankshares, Inc., and Farmers Bank, Windsor, Virginia (incorporated by reference to Exhibit 2.1 to our Form 8-K, previously filed with the FDIC on August 18, 2022).
3.1	Articles of Incorporation, as amended (incorporated herein by reference to Exhibit 3.1 to our Form 10-Q, previously filed with the FDIC on August 6, 2014).
3.2	Articles of Amendment to the Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form 8-K, previously filed with the FDIC on December 14, 2018).
3.3	Articles of Amendment to the Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form 8-K, previously filed with the FDIC on November 16, 2022).
3.4	Bylaws, as amended (incorporated herein by reference to Exhibit 3.2 to our Form 8-K, previously filed with the FDIC on March 31, 2020).
4.1	Form of Global 3.125% Subordinated Note due 2032 (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, previously filed with the FDIC on February 9, 2022).
4.2	Issuing and Paying Agency Agreement, dated February 9, 2022, between TowneBank and U.S. Bank Trust Company, N.A. (incorporated herein by reference to Exhibit 4.2 to our Form 8-K, previously filed with the FDIC on February 9, 2022).
4.3	Description of TowneBank's Securities.
10.1	Form of Employment Agreement entered into between TowneBank and G. Robert Aston, Jr. (incorporated herein by reference to Exhibit 10.5 to our 2002 Form 10-K, previously filed with the FDIC on March 26, 2003).
10.2	Form of Employment Agreement entered into between TowneBank and William I. Foster, III (terminated March 3, 2023) (incorporated herein by reference to Exhibit 10.4 to our 2002 Form 10-K, previously filed with the FDIC on March 26, 2003).
10.3	Form of Change in Control Agreement entered into between TowneBank and G. Robert Aston, Jr. (incorporated herein by reference to Exhibit 10.4 to our 2003 Form 10-K, previously filed with the FDIC on February 25, 2004).
10.4	First Amendment to the Amended and Restated Change in Control Employment Agreement, dated May 15, 2019, between TowneBank and G. Robert Aston, Jr. (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on May 15, 2019).
10.5	Form of Change in Control Agreement entered into between TowneBank and William I. Foster, III (terminated March 3, 2023) (incorporated herein by reference to Exhibit 10.5 to our 2004 Form 10-K, previously filed with the FDIC on February 23, 2005).

PART IV

Exhibits continued

- 10.6 Amended and Restated Employment Agreement, dated November 27, 2019, between TowneBank and William B. Littreal (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on November 27, 2019).
- 10.7 Change in Control Employment Agreement, dated November 27, 2019, by and between TowneBank and William B. Littreal (incorporated herein by reference to Exhibit 10.2 to our Form 10-Q, previously filed with the FDIC on November 27, 2019).
- 10.8 Form of Supplemental Executive Retirement Plan (incorporated herein by reference to Exhibit 10.7 to our 2008 Form 10-K, previously filed with the FDIC on March 13, 2009).
- 10.9 TowneBank 2008 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.8 to our 2008 Form 10-K, previously filed with the FDIC on March 13, 2009).
- 10.10 TowneBank 2017 Stock Incentive Plan (incorporated herein by reference to Appendix A to the Proxy Statement for the 2017 Annual Meeting of Shareholders on Schedule 14A, previously filed with the FDIC on April 21, 2017).
- 10.11 Amended and Restated Split Dollar Life Insurance Agreement, dated as of August 24, 2016, entered into between TowneBank and the trustees of two separate irrevocable life insurance trusts established by G. Robert Aston, Jr., for the benefit of certain family members (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on August 30, 2016).
- 10.12 Employment Agreement, dated December 16, 2015, by and between TowneBank and William T. Morrison (incorporated herein by reference to Exhibit 10.3 to our Form 10-Q, previously filed with the FDIC on August 9, 2016).
- 10.13 Change in Control Employment Agreement, dated December 16, 2015, by and between TowneBank and William T. Morrison (incorporated herein by reference to Exhibit 10.6 to our Form 10-Q, previously filed with the FDIC on August 9, 2016).
- 10.14 Employment and Consulting Agreement, dated April 26, 2017, by and between TowneBank and Robert C. Hatley (incorporated herein by reference to Exhibit 10.21 to our Form 10-K, previously filed with the FDIC on March 1, 2018).
- 10.15 Letter Agreement, dated as of November 2, 2022, between TowneBank and J. Morgan Davis (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on November 2, 2022).
- 10.16 Letter Agreement, dated as of November 23, 2022, between TowneBank and Brad E. Schwartz (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on November 23, 2022).
- 10.17 Amended and Restated Employment Agreement, dated as of March 3, 2023, between TowneBank and William I. Foster, III (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on March 9, 2023).

PART IV

Exhibits continued

10.18	Amended and Restated Change in Control Employment Agreement, dated as of March 3, 2023, between TowneBank and William I. Foster, III (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, previously filed with the FDIC on March 9, 2023).
10.19	Amendment to TowneBank Supplemental Executive Retirement Plan Agreement, effective as of January 1, 2023, between TowneBank and William I. Foster, III (incorporated herein by reference to Exhibit 10.3 to our Form 8-K, previously filed with the FDIC on March 9, 2023).
10.20	Supplemental Executive Retirement Plan Agreement Amendment, effective as of January 1, 2023, between TowneBank and G. Robert Aston, Jr. (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on December 21, 2023).
10.21	Supplemental Executive Retirement Plan Agreement Amendment, effective as of January 1, 2023, between TowneBank and William B. Littreal (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, previously filed with the FDIC on December 21, 2023).
13	2023 Annual Report to Shareholders.
14	Code of Ethical Conduct.
21	Subsidiaries of TowneBank.
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
97	Incentive Compensation Clawback Policy.

- b) See (a)(3) above for all exhibits filed herewith and the Exhibit Index.
- c) All schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements or related Notes.

Item 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

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

TOWNE BANK

Registrant

February 28, 2024

Date

/s/William I. Foster III

By: William I. Foster III

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 28, 2024:

SIGNATURES

/s/ Jacqueline B. Amato

Jacqueline B. Amato

Director

/s/ G. Robert Aston, Jr.

G. Robert Aston, Jr.

Executive Chairman of the Board, Director

/s/ Jeffrey F. Benson

Jeffrey F. Benson

Vice Chairman of the Board, Director

/s/ Richard S. Bray

Richard S. Bray

Lead Director

SIGNATURES

/s/ Bradford L. Cherry

Bradford L. Cherry

Director

/s/ J. Morgan Davis

J. Morgan Davis

Director

/s/ Douglas D. Ellis

Douglas D. Ellis

Director

/s/ John W. Failes

John W. Failes

Vice Chairman of the Board, Director

/s/ Andrew S. Fine

Andrew S. Fine

Director

/s/ Kevin L. Fly

Kevin L. Fly

Senior Executive Vice President and Chief Accounting Officer
(principal accounting officer)

/s/ William I. Foster III

William I. Foster III

President and Chief Executive Officer, Director
(principal executive officer)

/s/ Robert C. Hatley

Robert C. Hatley

Director

/s/ Howard J. Jung

Howard J. Jung

Director

SIGNATURES

/s/ John R. Lawson, II

John R. Lawson, II

Director

/s/ Harry T. Lester

Harry T. Lester

Director

/s/ Aubrey L. Layne, Jr.

Aubrey L. Layne, Jr.

Director

/s/ W. Ashton Lewis

W. Ashton Lewis

Director

/s/ William B. Littreal

William B. Littreal

Senior Executive Vice President and Chief Financial Officer
(principal financial officer)

/s/ Stephanie J. Marioneaux

Stephanie J. Marioneaux

Director

/s/ Juan M. Montero, II

Juan M. Montero, II

Director

/s/ R. Scott Morgan

R. Scott Morgan

Director

/s/ William T. Morrison

William T. Morrison

President and CEO of Towne Financial Services Group, Director

/s/ Thomas K. Norment, Jr.

Thomas K. Norment, Jr.

Director

/s/ Robert M. Oman

Robert M. Oman

Director

SIGNATURES

/s/ R.V. Owens, III

R.V. Owens, III

Director

/s/ J. Christopher Perry

J. Christopher Perry

Director

/s/ Elizabeth W. Robertson

Elizabeth W. Robertson

Director

/s/ Dwight C. Schaubach

Dwight C. Schaubach

Director

/s/ Richard B. Thurmond

Richard B. Thurmond

Director

/s/ Alan S. Witt

Alan S. Witt

Director

DESCRIPTION OF TOWNEBANK'S SECURITIES

TowneBank's common stock is the only class of its securities registered under Section 12 of the Securities Exchange Act of 1934. The common stock is registered with the Federal Deposit Insurance Corporation. The following summary description of the material features of TowneBank's common stock is qualified in its entirety by reference to TowneBank's articles of incorporation and bylaws, each as amended. For more information, refer to TowneBank's articles of incorporation and bylaws and any applicable provisions of relevant law, including the Virginia Stock Corporation Act (the "Virginia SCA") and federal laws governing banks.

General

TowneBank is authorized to issue 150,000,000 shares of common stock, par value \$1.667 per share. Each share of TowneBank's common stock has the same relative rights as, and is identical in all respects to, each other share of its common stock. TowneBank's common stock is traded on the Nasdaq Global Select Market under the symbol "TOWN." The transfer agent for TowneBank's common stock is Computershare, Inc., PO Box 43006, Providence, Rhode Island 02940. TowneBank's common stock is not a deposit or a savings account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Dividends

TowneBank's shareholders are entitled to receive dividends or distributions that its board of directors may declare out of funds legally available for those payments. The payment of distributions by TowneBank is subject to the restrictions of Virginia law applicable to the declaration of distributions by a Virginia banking corporation. Under Virginia law, TowneBank's board of directors may declare a dividend out of the net undivided profits of the bank, after providing for all expenses, losses, interest and taxes accrued or due. No dividend may be declared or paid by TowneBank that would impair its paid-in capital. To determine the net undivided profits, all debts due to TowneBank on which interest is past due and unpaid for a period of 12 months, unless well secured and in process of collection by law, are deducted from the undivided profits in addition to all expenses, losses, interest and taxes accrued. In addition, the payment of distributions to shareholders is subject to any prior rights of outstanding preferred stock. The ability of TowneBank to pay dividends in the future is and could be further influenced by bank regulatory requirements and capital guidelines.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of TowneBank, the holders of shares of its common stock will be entitled to receive, after payment of all debts and liabilities of TowneBank and after satisfaction of all liquidation preferences applicable to any preferred stock, all remaining assets of TowneBank available for distribution in cash or in kind.

Voting Rights

The holders of TowneBank's common stock are entitled to one vote per share and, in general, a majority of votes cast with respect to a matter is sufficient to authorize action upon routine matters. Directors are elected by a plurality of the votes cast, and shareholders do not have the right to accumulate their votes in the election of directors.

Classes of Directors

TowneBank's board of directors is divided into three classes, apportioned as evenly as possible, with directors serving staggered three-year terms.

No Preemptive Rights; Redemption and Assessment

Holders of shares of TowneBank's common stock are not entitled to preemptive rights with respect to any shares that may be issued. TowneBank's common stock is not subject to redemption or any sinking fund and the outstanding shares are fully paid and nonassessable.

Preferred Stock

TowneBank's board of directors is empowered to authorize the issuance, in one or more series, of shares of preferred stock at such times, for such purposes and for such consideration as it may deem advisable without shareholder approval. TowneBank's board is also authorized to fix the designations, voting, conversion, preference and other relative rights, qualifications and limitations of any such series of preferred stock. TowneBank's board, without shareholder approval, may authorize the issuance of one or more series of preferred stock with voting and conversion rights which could adversely affect the voting power of the holders of TowneBank's common stock. The creation and issuance of any series of preferred stock, and the relative rights, designations and preferences of such series, if and when established, will depend upon, among other things, the future capital needs of TowneBank, then existing market conditions and other factors that, in the judgment of TowneBank's board, might warrant the issuance of preferred stock.

Anti-takeover Provisions

Certain provisions of the articles of incorporation and bylaws of TowneBank may discourage attempts to acquire control of TowneBank. These provisions also may render the removal of one or all directors more difficult or deter or delay corporate changes of control that TowneBank's board of directors did not approve. These provisions include the following:

Classified Board of Directors. TowneBank's articles of incorporation provide for classification of TowneBank's board of directors into three separate classes, which may have certain anti-takeover effects. For example, at least two annual meetings of shareholders may be required for the shareholders to replace a majority of the directors serving on TowneBank's board of directors.

Authorized Preferred Stock. TowneBank's board of directors may, subject to application of Virginia law and federal banking regulations, authorize the issuance of preferred stock at such times, for such purposes and for such consideration as the board may deem advisable without further shareholder approval. The issuance of preferred stock under certain circumstances may have the effect of discouraging an attempt by a third party to acquire control of TowneBank by, for example, authorizing the issuance of a series of preferred stock with rights and preferences designed to impede the proposed transaction.

Supermajority Voting Provisions. TowneBank's articles of incorporation state that certain significant corporate actions must be approved by a majority of all the votes entitled to be cast on the action by each voting group entitled to vote at a meeting at which a quorum of the voting group is present, provided that the action has been approved and recommended by at least two-thirds of the directors in office at the time of such approval and recommendation. If the action is not so approved and recommended by two-thirds of the directors in office, then the action must be approved by the affirmative vote of 80% or more of all of the votes entitled to be cast on such action by each voting group entitled to vote. These significant corporate actions include: adoption of plans of merger or share exchange; sales of all or substantially all of TowneBank's assets other than in the ordinary course of business; adoption of plans of dissolution; and amendments to or restatement of TowneBank's articles of incorporation.

Removal of Directors. TowneBank's articles of incorporation provide that any director may be removed by shareholders only for cause and only if the number of votes cast to remove the director constitutes a majority of the votes entitled to be cast at an election of directors of the voting group or voting groups by which the director was elected. Absent this provision, under Virginia law, a director may be removed with or without cause by a majority vote of the holders of the corporation's outstanding voting stock. The requirement that directors may only be

removed for cause may provide anti-takeover protection through perpetuating the terms of incumbent directors by making it more difficult for shareholders to remove directors and replace them with their own nominees.

No Cumulative Voting. TowneBank's articles of incorporation do not provide for cumulative voting for any purpose. The absence of cumulative voting may afford anti-takeover protection by making it more difficult for shareholders of TowneBank to elect nominees opposed by the board of directors.

Special Meetings of Shareholders. The bylaws of TowneBank contain a provision pursuant to which special meetings of the shareholders of TowneBank may only be called by the chairman of the board, the chief executive officer, the president or by a majority of the board of directors. This provision is designed to afford anti-takeover protection by ensuring that only the board of directors and certain members of management may call a special meeting of shareholders to consider a proposed merger or other business combination.

Shareholder Nominations and Proposals. TowneBank's bylaws require a shareholder who intends to nominate a candidate for election to the board of directors, or to raise new business at a shareholder meeting, to deliver written notice to the Secretary of TowneBank not fewer than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, if the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the shareholder must be delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made.

The notice provision in TowneBank's bylaws requires TowneBank's shareholders who desire to raise new business to provide certain information to the corporation concerning the nature of the new business, the shareholder and the shareholder's interest in the business matter. Similarly, a TowneBank shareholder wishing to nominate any person for election as a director must provide TowneBank with certain information concerning the nominee and the proposing shareholder. These requirements may discourage TowneBank's shareholders from submitting director nominations and proposals.

TOWNE BANK

2023 Annual Report

TowneBank
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TOWNEBANK

GLOSSARY OF ACRONYMS AND DEFINED TERMS

As used in this report, the terms "Company," "we," "us," and "our" refer to TowneBank and our consolidated subsidiaries. The following list of acronyms and abbreviations are used in various sections of this Report, including the Notes to Consolidated Financial Statements and Management's Discussion and Analysis.

ACL	Allowance for Credit Loss
AFS	Available-for-Sale
ALCO	Asset/Liability Management Committee
ALLL	Allowance for Loan and Lease Losses
AMERIBOR	American Interbank Offered Rate
AOCI	Accumulated Other Comprehensive Income (Loss)
Appropriations Act	Consolidated Appropriations Act 2021
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
Basel III	Basel Committee on Banking Supervision's Capital Guidelines for U.S. Banks
BOLI	Bank-Owned Life Insurance
bp	Basis Points
BSA	Bank Secrecy Act
BHHS	Berkshire Hathaway HomeServices
C&I	Commercial and Industrial
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CDA	Collateral-Dependent Asset
CDARS	Certificate of Deposit Account Registry Service
CECL	Current Expected Credit Loss
CET1	Common Equity Tier 1
CRE	Commercial Real Estate
DCF	Discounted Cash Flow
EAD	Exposure at Default
ECL	Expected Credit Loss
EPS	Earnings Per Share
Farmers	Farmers Bankshares, Inc.
Farmers Bank	Farmers Bank, Windsor, Virginia
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank of Atlanta
FOMC	Federal Reserve Open Market Committee
FRB - Richmond	Federal Reserve Bank of Richmond
GAAP	Accounting Principles Generally Accepted in the United States of America
GNMA	Government National Mortgage Association
GSE	Government Sponsored Enterprise
HELOC	Residential Home Equity Lines of Credit
HTM	Held-to-Maturity
LGD	Loss Given Default
LHFS	Loans Held for Sale

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

LIBOR	London InterBank Offered Rate
LIHTC	Low Income Housing Tax Credits
MBS	Mortgage-backed Security
N/M	Not Meaningful
NENC	North Eastern North Carolina
OCI	Other Comprehensive Income
OREO	Other Real Estate Owned
Paragon	Paragon Commercial Corporation
Paragon Bank	Paragon Commercial Bank
PCD	Purchase Credit Deteriorated
PD	Probability of Default
REPO	Retail Repurchase Agreement
Resi-Mort	Residential Mortgage
RJFS	Raymond James Financial Services, Inc.
ROA	Annualized Return on Average Assets
ROE	Annualized Return on Average Equity
ROU	Right of Use
SBA	U.S. Small Business Administration
SCC	Virginia State Corporation Commission
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SOFR	Secured Overnight Financing Rate
TBA	To Be Announced
TDR	Troubled Debt Restructuring
TWM	Towne Wealth Management
U.S.	United States of America
Venture Resorts	Venture Resorts, Inc.
VIE	Variable Interest Entity

TOWNEBANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

TowneBank is a commercial and retail banking business that places special emphasis on serving the financial needs of individuals, commercial enterprises, and professionals in our geographic footprint. We offer a full range of banking and related financial services through our controlled divisions and subsidiaries.

Our financial services include banking, resort property management, mortgage, insurance, employee benefit services, and investments. We have three reportable segments: Banking, Realty, and Insurance. Our Banking segment provides loan and deposit services to retail and commercial customers and also provides a variety of investment and asset management services. The Realty segment offers mortgage loans and resort property management. Prior to the sale of BHHS Towne Realty in second quarter 2023, the segment also offered residential real estate services and commercial and residential title insurance. The Insurance segment provides a full line of commercial and consumer insurance products and financial services, as well as employee benefit services.

TowneBank had total assets of \$16.84 billion at December 31, 2023. The following table lists key asset and liability categories, as a percentage of total assets, as of the dates listed.

	December 31, 2023	December 31, 2022
Total Cash and Cash Equivalents	6.70 %	7.28 %
Total Securities	15.69 %	15.18 %
Mortgage loans held for sale	0.89 %	0.65 %
Loans, net of unearned income and deferred costs	67.29 %	68.13 %
Total Deposits	82.53 %	83.90 %
Noninterest-bearing Deposits	25.80 %	33.23 %
Total Borrowings	2.93 %	2.01 %

Management focused on strategic balance sheet management in 2023, with a concentration on controlled growth of securities and loans, net of unearned income and deferred costs, in response to margin pressures and market uncertainties in early 2023. Our deposit mix changed as the industry-wide trend that began in late 2022, of declining noninterest-bearing deposits, continued, offset by increases in interest-bearing deposits. Loans, net of unearned income and deferred cost, increased \$534.42 million and securities increased \$236.68 million. Noninterest-bearing deposits declined \$922.49 million while interest-bearing deposits increased \$1.52 billion. Borrowings increased \$174.57 million, primarily short-term FHLB advances.

In the later months of 2023, the FOMC announced it would keep rates unchanged after the more than 16 months' rapid ascent, which had a positive impact on the yield curve and the valuation of instruments carried at fair value. Assets purchased, prior to rate increases, had declined in market value while rates were rising because they carried lower than current market rates. The fair value of our AFS securities portfolio improved to an unrealized loss position of \$162.12 million at December 31, 2023, from an unrealized loss position of \$191.05 million at December 31, 2022. In addition to reducing the unrealized losses in our AFS securities portfolio, this swing, net of tax, positively impacted accumulated other comprehensive income, which is included in equity, by \$21.95 million.

TOWNEBANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected balance sheet and income statement data for the periods indicated were as follows:

(dollars in thousands)	December 31, 2023	December 31, 2022	Increase/ (Decrease)	% Change
Total assets	\$ 16,835,039	\$ 15,845,267	\$ 989,772	6.25 %
Total cash and cash equivalents	1,128,357	1,152,830	(24,473)	(2.12)%
Mortgage loans held for sale	149,987	102,339	47,648	46.56 %
Total securities	2,642,014	2,405,335	236,679	9.84 %
Loans, net of unearned income and deferred costs	11,329,021	10,794,602	534,419	4.95 %
Other assets	576,109	436,461	139,648	32.00 %
Total liabilities	14,779,161	13,956,510	822,651	5.89 %
Total deposits	13,893,206	13,294,223	598,983	4.51 %
Total borrowings	492,580	318,012	174,568	54.89 %
Total equity	2,055,878	1,888,757	167,121	8.85 %
Net income attributable to TowneBank	153,715	188,987	(35,272)	(18.66)%
Net interest income	457,780	461,365	(3,585)	(0.78)%
Total provision for credit losses	18,679	8,606	10,073	117.05 %
Total noninterest income	236,342	225,570	10,772	4.78 %
Total noninterest expense	489,222	441,279	47,943	10.86 %

In 2023, total revenues increased \$7.19 million, driven by noninterest income growth, partially offset by a slight decline in net interest income. Noninterest expense increased \$47.94 million, driven by increases in salaries and employee benefits, FDIC and other insurance expense, acquisition related expense, and software expense. Provision for credit losses increased \$10.07 million. Net income attributable to TowneBank declined \$35.27 million.

Noninterest income growth sources were insurance commissions, property management income, and gains on the sale of equity investments, partially offset by a decline in residential mortgage banking income and real estate commissions. Organic growth and acquisition activities drove insurance income and property management income growth. The sale of BHHS Towne Realty and a small book of insurance were the source of the gains on sale of equity investments. Mortgage banking income continued the decline that began in 2022, driven by lower production levels.

Net income for the year was impacted by a \$47.94 million increase in noninterest expense and an increase in our provision for credit losses of \$10.07 million. Primary categories of noninterest expense increases were salaries and employee benefits, FDIC and other insurance, software expense, and acquisition related expense. Modest loan growth, acquisition accounting, and the impact on CECL models of assumptions around increased interest rates and macroeconomic conditions resulted in an increase in provision for credit losses.

BHHS Towne Realty

Effective April 27, 2023, the Company transferred its ownership interest in BHHS Towne Realty, which was formerly a subsidiary of TowneBank, to BHHS RW Towne Realty, LLC, in exchange for a minority interest in that company, which is accounted for as an equity method investment. The new entity is the largest full service real estate brokerage firm in the Hampton Roads market with over 750 agents. The transaction included the combination of the contributing companies' mortgage, title, and property management lines of business. The Company recorded a gross gain on this sale of \$8.83 million.

Discussion in this Annual Report on Form 10-K includes results of operations and financial condition for 2023 and 2022 and year-over-year comparisons between 2023 and 2022. For discussion on results of operations and

TOWNEBANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

financial condition pertaining to 2021 and year-over-year comparisons between 2022 and 2021, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2022. Please refer to "Available Information" in Part I, Item 1 of this Annual Report on Form 10-K for information on accessing prior filings.

ANALYSIS OF RESULTS OF OPERATIONS

Consolidated Performance Summary

Results of Operations: We reported the following for the years ended December 31, 2023, 2022, and 2021:

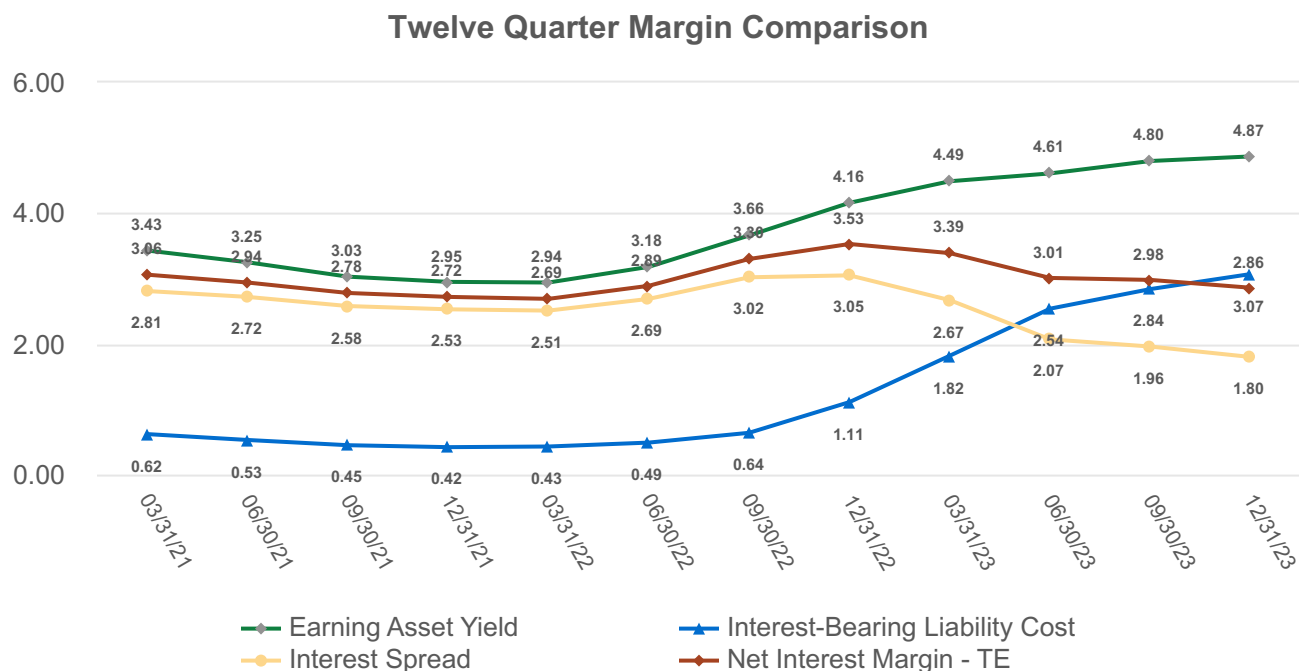
<i>(dollars in thousands, except per share data)</i>	2023	2022	2021
Total revenue	\$ 694,122	\$ 686,935	\$ 680,330
Operating revenue (non-GAAP)	\$ 684,745	\$ 686,935	\$ 679,108
Diluted earnings per share	\$ 2.06	\$ 2.60	\$ 2.97
Return on average assets	0.92 %	1.16 %	1.40 %
Return on average tangible assets (non-GAAP)	1.02 %	1.25 %	1.51 %
Return on average equity	7.78 %	10.06 %	11.61 %
Return on average tangible equity (non-GAAP)	11.38 %	14.37 %	16.55 %

Net Interest Income: Net interest income, the major source of our earnings, is the income generated by interest-earning assets reduced by the total interest cost of the funds incurred to carry them. It is impacted by market interest rates and the mix and volume of earning assets and interest-bearing liabilities. Net interest income declined \$3.59 million in 2023 compared to 2022, driven by margin compression as the spread on interest rates declined. The yields and rates in the following discussion and tables have been computed based upon interest income and expense adjusted to a taxable equivalent basis (non-GAAP) using a 21% federal marginal tax rate.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a visual representation, for the past 12 quarters, of the change in relationship between the key elements that make up net interest income.



Net interest income, on a tax-equivalent basis (non-GAAP), was \$462.44 million for the year ended December 31, 2023, which was \$2.02 million, or 0.44%, below prior year. The FOMC increased benchmark rates 11 times, between the beginning of 2022 and December 31, 2023, which had the effect of increasing both the yields on interest-earning assets and the cost of interest-bearing liabilities. The following table lists the Federal Funds target range for the periods indicated.

Date	Target Range for Federal Funds (%)
March 16, 2020 - March 16, 2022	0 - 0.25
March 17, 2022 - May 4, 2022	0.25 - 0.50
May 5, 2022 - June 15, 2022	0.75 - 1.00
June 16, 2022 - July 27, 2022	1.50 - 1.75
July 28, 2022 - September 21, 2022	2.25 - 2.50
September 22, 2022 - November 2, 2022	3.00 - 3.25
November 3, 2022 - December 14, 2022	3.75 - 4.00
December 15, 2022 - February 1, 2023	4.25 - 4.50
February 2, 2023 - March 22, 2023	4.50 - 4.75
March 23, 2023 - May 3, 2023	4.75 - 5.00
May 4, 2023 - July 26, 2023	5.00 - 5.25
July 27, 2023 - present (1)	5.25 - 5.50

(1) 23-year high

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table includes average balances, interest income and expense, and average yields and costs (dollars in thousands):

	Year Ended December 31,								
	2023			2022			2021		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
Assets:									
Loans (net of unearned income and deferred costs) (1)	\$11,177,132	\$ 565,453	5.06 %	\$10,262,095	\$ 433,350	4.22 %	\$ 9,473,081	\$ 397,877	4.20 %
Taxable investment securities	2,406,845	71,476	2.97 %	2,267,099	47,594	2.10 %	1,426,493	29,857	2.09 %
Tax-exempt investment securities	200,040	7,872	3.94 %	132,694	4,351	3.28 %	137,848	1,755	1.27 %
Total securities	2,606,885	79,348	3.04 %	2,399,793	51,945	2.16 %	1,564,341	31,612	2.02 %
Interest-bearing deposits	1,170,156	54,135	4.63 %	2,099,970	26,859	1.28 %	2,640,191	3,432	0.13 %
Mortgage loans held for sale	167,240	10,965	6.56 %	200,363	8,880	4.43 %	471,767	13,227	2.80 %
Total earning assets	15,121,413	709,901	4.69 %	14,962,221	521,034	3.48 %	14,149,380	446,148	3.15 %
Less: allowance for loan losses	(121,878)			(105,629)			(113,113)		
Total nonearning assets	1,657,151			1,411,422			1,348,395		
Total assets	<u>\$16,656,686</u>			<u>\$16,268,014</u>			<u>\$15,384,662</u>		
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	\$ 6,459,679	\$ 143,574	2.22 %	\$ 6,158,190	\$ 25,802	0.42 %	\$ 5,359,321	\$ 8,323	0.16 %
Savings	368,440	3,639	0.99 %	385,154	2,427	0.63 %	352,333	2,117	0.60 %
Certificates of deposit	2,067,053	72,763	3.52 %	1,447,701	12,586	0.87 %	1,788,985	16,669	0.93 %
Total interest-bearing deposits	8,895,172	219,976	2.47 %	7,991,045	40,815	0.51 %	7,500,639	27,109	0.36 %
Borrowings	407,125	18,600	4.51 %	124,168	1,320	1.05 %	395,045	2,159	0.54 %
Subordinated debt, net	254,129	8,886	3.50 %	362,410	14,436	3.98 %	249,335	11,816	4.74 %
Total interest-bearing liabilities	9,556,426	247,462	2.59 %	8,477,623	56,571	0.67 %	8,145,019	41,084	0.50 %
Noninterest-bearing liabilities									
Demand deposits	4,756,681			5,547,835			5,034,851		
Other noninterest-bearing liabilities	368,585			364,520			348,844		
Total liabilities	14,681,692			14,389,978			13,528,714		
Shareholders' equity	1,974,994			1,878,036			1,855,948		
Total liabilities and equity	<u>\$16,656,686</u>			<u>\$16,268,014</u>			<u>\$15,384,662</u>		
Net interest income (tax-equivalent basis)(4)		\$ 462,439			\$ 464,463			\$ 405,064	
Reconciliation of Non-GAAP Financial Measures:									
Tax-equivalent basis adjustment		(4,659)			(3,098)			(2,695)	
Net interest income (GAAP)		<u>\$ 457,780</u>			<u>\$ 461,365</u>			<u>\$ 402,369</u>	
Interest rate spread (2)(4)			2.10 %			2.81 %			2.65 %
Interest expense as a percent of average earning assets			1.64 %			0.38 %			0.29 %
Net interest margin (tax-equivalent basis) (3)(4)			3.06 %			3.10 %			2.86 %
Total cost of deposits			1.61 %			0.30 %			0.22 %

(1) Average loan balances and related yields have been restated to include previously excluded nonaccrual loans of \$10.63 million in 2021.

(2) Interest rate spread is the average yield earned on earning assets less the average rate paid on interest-bearing liabilities.

(3) Net interest margin is net interest income expressed as a percentage of average earning assets, tax-equivalent.

(4) Non-GAAP.

Net interest margin, on a tax-equivalent basis (non-GAAP), which is net interest income expressed as a percentage of average earning assets, was 3.06% in the year ended December 31, 2023, 4 bp lower than 3.10% one year ago, driven by increased costs of deposits and borrowings, which outpaced growth in interest income.

Interest income, on a tax-equivalent basis (non-GAAP), was \$709.90 million for the year ended December 31, 2023, \$188.87 million, or 36.25%, higher than \$521.03 million for the year ended December 31, 2022. Average

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MANAGEMENT'S DISCUSSION AND ANALYSIS

earning assets grew to \$15.12 billion in 2023 from \$14.96 billion in 2022, an increase of \$0.16 billion, or 1.06%. The yield on earning assets was 4.69% in the year ended December 31, 2023, compared to 3.48% in the prior year. Average loan balances were \$915.04 million, or 8.92%, higher in 2023 than in 2022, while loan yields increased 84 bp.

Interest expense for the year ended December 31, 2023, increased by \$190.89 million, or 337.44%, to \$247.46 million, from \$56.57 million for the year ended December 31, 2022. The balance of average interest-bearing liabilities increased to \$9.56 billion in 2023 from \$8.48 billion in 2022, an increase of \$1.08 billion, or 12.73%. Average interest-bearing deposits were \$8.90 billion, or 11.31%, higher in 2023 than 2022, while average interest cost increased 196 bp.

Interest spread, which is the difference between average interest yield and average interest cost, declined 71 bp to 2.10% in 2023 compared to 2.81% in 2022. Mismatched maturities, and the related repricing, between interest-earning assets and interest-bearing liabilities is the primary source of the decline in spread. This maturity mismatch is primarily between the two major components of net interest income mentioned previously: interest-bearing deposits and loans. Interest-bearing deposits are typically short-term in nature and therefore reprice more frequently than loans which have longer maturities and repricing intervals. Compounding this gap in repricing was an inverted yield curve and a shift in deposit mix from demand deposits to interest-bearing deposits. On average, total deposits increased 0.83%, or \$112.97 million. However, noninterest-bearing deposits declined \$791.15 million, or 14.26%, while interest-bearing deposits increased \$904.13 million, or 11.31%.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of volume and rate analysis is to describe the impact on interest income resulting from changes in average balances and average interest rates from those in effect during the previous year. The following table includes volume and rate analysis for the periods indicated:

(in thousands)	2023 vs 2022 Increase (Decrease)			2022 vs 2021 Increase (Decrease)		
	Due to Changes In			Due to Changes In		
	Volume	Rate (1)	Total	Volume	Rate (1)	Total
Assets:						
Loans (net of unearned income and deferred costs)	\$ 41,016	\$ 91,087	\$ 132,103	\$ 33,308	\$ 2,165	\$ 35,473
Taxable investment securities	3,091	20,791	23,882	17,647	90	17,737
Tax-exempt investment securities	2,525	996	3,521	(68)	2,664	2,596
Interest-bearing deposits	(16,396)	43,672	27,276	(843)	24,270	23,427
Loans held for sale	(1,648)	3,733	2,085	(9,809)	5,462	(4,347)
Total earning assets	28,588	160,279	188,867	40,235	34,651	74,886
Liabilities and Equity:						
Interest-bearing deposits:						
Demand and money market accounts	1,324	116,448	117,772	1,411	16,068	17,479
Savings	(110)	1,322	1,212	204	106	310
Certificates of deposit	7,405	52,772	60,177	(3,022)	(1,061)	(4,083)
Total interest-bearing deposits	8,619	170,542	179,161	(1,407)	15,113	13,706
Borrowings:						
Borrowings	7,062	10,218	17,280	(2,069)	1,230	(839)
Subordinated debt	(3,939)	(1,611)	(5,550)	4,726	(2,106)	2,620
Total interest-bearing liabilities	11,742	179,149	190,891	1,250	14,237	15,487
Net interest income (tax-equivalent basis)(2)	\$ 16,846	\$ (18,870)	\$ (2,024)	\$ 38,985	\$ 20,414	\$ 59,399

(1) Variances caused by the change in rate times the change in balances are allocated to rate.

(2) Non-GAAP.

Provision for Credit Losses: Financial assets with the contractual right to receive cash, including loans, HTM debt securities, trade receivables, net investments in leases, and off-balance-sheet credit exposures, are required to be measured at amortized cost and to be presented at the net amount expected to be collected. Credit losses on AFS debt securities are accounted for as an allowance for credit losses, which is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value and the amount expected to be collected on the financial asset. The allowance is established through a provision for credit losses charged against earnings.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents a breakdown of the provision for credit losses included in our Consolidated Statements of Income for the applicable periods (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Provision for loan losses	\$ 17,141	\$ 7,520	\$ (14,271)
Provision for off-balance-sheet exposures	1,124	222	(2,362)
Provision for HTM security losses	1	(11)	(3)
Provision for AFS security losses	413	875	(138)
Total provision for credit losses	<u>\$ 18,679</u>	<u>\$ 8,606</u>	<u>\$ (16,774)</u>

At loan acquisition or origination, the Company is required to calculate and record an estimated life of loan loss through earnings. Additionally, management is required to employ a prospective approach to reasonable and supportable forecasts to inform credit loss estimates. The provision for credit losses expense recorded in 2023 was \$18.68 million, and included \$4.01 million in initial provision for credit losses for the January 2023 acquisition of Farmers, compared to \$8.61 million in 2022. Net charge-offs for 2023 were \$2.88 million compared to \$2.76 million for 2022. The increase in the allowance was driven by a combination of modest loan growth and changes in our portfolio composition, offset by moderate improvements to the macroeconomic forecast scenarios utilized in our models. The allowance for credit losses on loans as a percentage of period-end loans was 1.12% and 1.03% at December 31, 2023 and 2022, respectively.

For further discussion and analysis of the loan portfolio and the allowance for credit losses on loans, see the "Analysis of Financial Condition" section found later in this report. Also, see Note 3, "Investment Securities," Note 4, "Loans," and Note 5, "Allowance for Credit Losses on Loans" in the Notes to Consolidated Financial Statements.

Noninterest Income: Total noninterest income for the year ended December 31, 2023, was \$236.34 million, \$10.77 million, or 4.78%, more than 2022. Noninterest income for the year ended December 31, 2023, was 34.52% of total operating revenue, compared with 32.84% for 2022.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides an analysis of noninterest income (dollars in thousands):

For the Year Ended December 31,	2023	2022	2021	2023 over 2022		2022 over 2021	
				Increase/(Decrease)		Increase/(Decrease)	
				Amount	%	Amount	%
Residential mortgage banking income, net	\$ 39,415	\$ 47,150	\$ 109,304	\$ (7,735)	(16.41)%	\$ (62,154)	(56.86)%
Insurance commissions and other title fees and income, net	90,305	75,579	67,541	14,726	19.48 %	8,038	11.90 %
Property management income, net	47,791	44,246	42,175	3,545	8.01 %	2,071	4.91 %
Real estate brokerage income, net	3,530	11,253	13,290	(7,723)	(68.63)%	(2,037)	(15.33)%
Service charges on deposit accounts	11,706	10,130	9,584	1,576	15.56 %	546	5.70 %
Credit card merchant fees, net	6,709	6,592	6,042	117	1.77 %	550	9.10 %
BOLI	7,402	7,140	7,265	262	3.67 %	(125)	(1.72)%
Gain (loss) on sale of equity investments	9,377	—	(30)	9,377	100.00 %	30	(100.00)%
Other income							
Towne Investment income, net	8,962	9,249	10,160	(287)	(3.10)%	(911)	(8.97)%
Service fees on loans	6,471	6,409	5,221	62	0.97 %	1,188	22.75 %
Income (loss) from equity method investments	(966)	559	1,334	(1,525)	(272.81)%	(775)	(58.10)%
Commercial mortgage brokerage fees, net	95	276	240	(181)	(65.58)%	36	15.00 %
Other	5,545	6,987	4,583	(1,442)	(20.64)%	2,404	52.45 %
Total other income	20,107	23,480	21,538	(3,373)	(14.37)%	1,942	9.02 %
Noninterest income before securities gain/(loss)	236,342	225,570	276,709	10,772	4.78 %	(51,139)	(18.48)%
Gain/(loss) on securities available for sale	—	—	1,252	—	N/M	(1,252)	(100.00)%
Total noninterest income	<u>\$236,342</u>	<u>\$225,570</u>	<u>\$277,961</u>	<u>\$ 10,772</u>	4.78 %	<u>\$ (52,391)</u>	(18.85)%

For the year ended December 31, 2023, residential mortgage banking income, net of commission expense, was \$39.42 million, reflecting a decrease of \$7.74 million, or 16.41%, compared to 2022. Production volume was \$1.98 billion in 2023, a decrease of 29.40%, or \$0.83 billion, as compared to 2022. High mortgage rates, relative to pre-2022 levels, have pushed first time home buyers and existing homeowners who wish to refinance out of the market. Refinance activity represented 4.33% of total volume in 2023 compared to 11.23% in 2022. Margins increased to 3.06% in fourth quarter 2023, compared to 2.93% one year prior. For further information, refer to our discussion of the Realty segment in this Annual Report, which provides a comparative schedule of operations.

For the year ended December 31, 2023, insurance commissions and other income, net of commission expense, were \$90.31 million, which was \$14.73 million, or 19.48%, higher than comparative 2022. Property and casualty insurance commissions, net of commission expense, increased \$14.15 million, driven by continued strong customer retention, organic growth, and the acquisition of Manry-Rawls, LLC. Benefit insurance commissions, net of commission expense, increased \$2.11 million in 2023 compared to 2022. The Company sold a small benefit administration book of business in 2023 for a gain of \$0.54 million.

Property management income, net, for the year ended December 31, 2023, was \$47.79 million, an increase of \$3.55 million, or 8.01%, from 2022. The increase year over year was driven primarily by the increase in homes under management and the acquisition of a property management company late in first quarter 2023.

With the sale of BHHS Towne Realty, LLC, in second quarter 2023, real estate brokerage income, net, decreased \$7.72 million in 2023 compared to 2022. The Company recorded a gross gain on this sale of \$8.83 million.

Service charges on deposit accounts were \$11.71 million for 2023, compared to \$10.13 million for 2022. Service charges increased in 2023 due to fees on organic deposit growth. Average deposits increased 0.83% in the year ended December 31, 2023. In April 2022, the Company implemented changes for personal accounts to eliminate

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fees for non-sufficient funds and other overdraft program fees. This change did not have a material effect on revenue.

For the year ended December 31, 2023, credit card merchant fees totaled \$6.71 million, which was \$117 thousand, or 1.77%, higher than comparative 2022. Income from BOLI was \$7.40 million in 2023, compared to \$7.14 million in 2022. BOLI income included life insurance proceeds in 2022.

Other noninterest income for the year ended December 31, 2023, was \$20.11 million, compared to \$23.48 million for the year ended December 31, 2022. Included in other noninterest income in 2022 was a gain of \$1.19 million on the early extinguishment of debt related to the payoff of FHLB advances in that year. Gains on the sale of OREO properties in 2023 were \$294 thousand compared to \$762 thousand in 2022. Other noninterest income includes income generated by TWM, net of commission expense, which declined to \$8.96 million in 2023, from \$9.25 million for the year ended December 31, 2022, driven by a combination of declines in billable assets and higher commission expenses.

We did not sell any investment securities in 2023 or 2022 and recorded no gains or losses in those periods.

Noninterest Expense: Total noninterest expense for 2023 was \$489.22 million, which was \$47.94 million, or 10.86%, higher than 2022. Total noninterest expense to total operating revenue was 71.45% for the year ended December 31, 2023, compared with 64.24% for 2022.

The following table provides an analysis of noninterest expense (dollars in thousands):

For the year ended December 31,	2023	2022	2021	2023 over 2022		2022 over 2021	
				Increase/(Decrease)		Increase/(Decrease)	
	Amount	%	Amount	%	Amount	%	
Salaries and benefits	\$ 270,158	\$ 255,625	\$ 245,844	\$ 14,533	5.69 %	\$ 9,781	3.98 %
Occupancy	36,886	34,669	31,657	2,217	6.39 %	3,012	9.51 %
Furniture and equipment	17,178	15,080	14,175	2,098	13.91 %	905	6.38 %
Amortization - intangibles	14,155	10,620	11,127	3,535	33.29 %	(507)	(4.56)%
Software	24,666	18,959	16,911	5,707	30.10 %	2,048	12.11 %
Data processing	15,033	13,874	13,779	1,159	8.35 %	95	0.69 %
Professional fees	12,286	10,020	9,548	2,266	22.61 %	472	4.94 %
Advertising and marketing	15,390	15,997	13,504	(607)	(3.79)%	2,493	18.46 %
Other expenses							
Acquisition-related expense	9,594	1,065	1,022	8,529	800.85 %	43	4.21 %
Bank franchise tax/SCC fees	10,141	9,072	8,841	1,069	11.78 %	231	2.61 %
Charitable contributions	11,804	12,674	13,611	(870)	(6.86)%	(937)	(6.88)%
Directors' expense	3,442	2,418	2,145	1,024	42.35 %	273	12.73 %
FDIC and other insurance	16,229	5,875	5,449	10,354	176.24 %	426	7.82 %
Foreclosed property expense	142	310	357	(168)	(54.19)%	(47)	(13.17)%
Other	17,791	22,443	17,759	(4,652)	(20.73)%	4,684	26.38 %
Stationery and office supplies	3,239	2,670	2,701	569	21.31 %	(31)	(1.15)%
Telephone and postage	6,293	6,570	6,975	(277)	(4.22)%	(405)	(5.81)%
Travel/Meals/Entertainment	4,795	3,338	1,867	1,457	43.65 %	1,471	78.79 %
Total other expenses	83,470	66,435	60,727	17,035	25.64 %	5,708	9.40 %
Total noninterest expense	\$ 489,222	\$ 441,279	\$ 417,272	\$ 47,943	10.86 %	\$ 24,007	5.75 %

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Salaries and employee benefits, the largest portion of noninterest expense, were \$270.16 million, representing 55.22% of total noninterest expense for the year ended December 31, 2023. This was a \$14.53 million, or 5.69%, increase over comparative 2022. The increase in salaries and employee benefits was driven by a higher number of employees, primarily acquisition related, increased year-over-year health insurance costs, and third quarter 2023 annual base salary adjustments.

In our Banking segment, we had a total of 1,470 full-time-equivalent employees at December 31, 2023, which was up from 1,365 at December 31, 2022. In our non-Banking segments at December 31, 2023, we had a total of 1,314 full-time equivalent employees, a decrease from 1,401 at December 31, 2022.

For the year ended December 31, 2023, occupancy expense totaled \$36.89 million, representing an increase of \$2.22 million, or 6.39%, over comparative 2022. This increase was driven by growth and the Farmers acquisition. Furniture and equipment expense was \$17.18 million for 2023, \$2.10 million and 13.91% higher than 2022. This increase was related to higher depreciation expense. In addition to the acquisition of Farmers, the company added two full-service branches in 2023.

Software expense was \$24.67 million in 2023, \$5.71 million, or 30.10%, higher than 2022, due to costs related to Farmers prior to the system conversion in April, software licensing increases, and projects related to Towne Vacations, mortgage systems, and our loan portfolio. Amortization of intangibles increased \$3.54 million due to the increase in intangibles related to the Farmers acquisition. Professional fees increased by \$2.27 million, or 22.61%, to \$12.29 million, driven by project-related accounting fees, professional information technology support services, and other consulting.

Other expenses for 2023 were \$83.47 million, which was \$17.04 million, or 25.64%, higher than the 2022 expense of \$66.44 million. FDIC and other insurance increased by \$10.35 million, or 176.24%, driven by an FDIC assessment increase of approximately \$4.72 million for 2023 and the FDIC's announcement in November of a special assessment which is estimated to be \$5.17 million. Acquisition-related expenses increased \$8.53 million, driven by the Farmers acquisition.

Income Taxes: Income taxes for the year ended December 31, 2023, were \$31.09 million. This was \$15.50 million below the 2022 total of \$46.58 million. The effective tax rate decreased to 16.82% in 2023 compared to 19.77% in 2022, primarily due to decreases in state taxes and an increase in benefits from low-income housing investments.

SEGMENT PERFORMANCE SUMMARY

Our reportable segments are a traditional full-service community bank, a full-service realty business, and a full-service insurance agency. In this section, we discuss the performance and financial results of our segments. For further financial details, see Note 27, "Segment Reporting," in the Notes to Consolidated Financial Statements.

Banking Segment: For the year ended December 31, 2023, the Banking segment represented 87.85%, or \$135.03 million, of our total consolidated net income, compared to 93.64% and \$176.97 million for 2022. Pre-tax earnings for the Banking segment for the year ended December 31, 2023, were \$158.90 million, decreasing \$60.01 million, or 27.41%, from comparative 2022. Total revenues increased \$4.04 million, or 0.82%, while total expenses increased \$53.78 million, or 19.74%. In 2023, the Banking segment recorded a provision expense of \$19.27 million compared to \$8.56 million in 2022, for a year-over-year increase of \$10.71 million, or 125.18%. The provision for income tax declined \$18.08 million on lower earnings. Overall earnings decreased \$41.94 million, or 23.70%.

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The Banking segment's primary source of revenue is net interest income which, as discussed previously, has come under pressure in 2023. Net interest income increased \$0.19 million, or 0.04%, for the year ended December 31, 2023.

For the year ended December 31, 2023, noninterest expense increased \$53.78 million, or 19.74%, over 2022. The acquisition of Farmers and the addition of two full-service branches had the most significant impact on the increase in Banking segment noninterest expenses. Salaries and employee benefits expense increased \$17.86 million, or 11.69%, amortization of intangible assets increased \$2.15 million, or 71.46%, occupancy expense increased \$2.80 million, or 11.70%, and furniture and equipment expense increased \$2.45 million, or 21.65%.

Full-time equivalent employees in the Banking segment increased by 105 in 2023 compared to 2022. More than half of this increase was in the branching network and the remaining additions were support staff.

Other expenses increased \$28.52 million, or 35.08%, for the year ended December 31, 2023. The primary source of this increase was FDIC and other insurance, which increased \$9.97 million. The increase was the result of a higher insurance assessment rate, combined with the FDIC special assessment of \$5.17 million. Acquisition related expense increased \$8.13 million, software expense increased \$3.18 million, and professional fees increased \$2.36 million. The acquisition of Farmers resulted in \$9.08 million in acquisition related expense. Increases in software expense and professional fees were partially attributable to the Farmers acquisition, in addition to licensing and ongoing projects.

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The following chart presents revenue and expenses for the Banking segment (dollars in thousands):

	Year Ended			Increase/(Decrease)			
	December 31,			2023 over 2022		2022 over 2021	
	2023	2022	2021	Amount	Percent	Amount	Percent
Revenue							
Net interest income	\$ 456,071	\$ 455,881	\$ 391,751	\$ 190	0.04 %	\$ 64,130	16.37 %
Noninterest income							
Service charges on deposit accounts	11,706	10,130	9,584	1,576	15.56 %	546	5.70 %
Credit card merchant fees	6,709	6,592	6,042	117	1.77 %	550	9.10 %
Other income	25,043	22,883	21,584	2,160	9.44 %	1,299	6.02 %
Subtotal	43,458	39,605	37,210	3,853	9.73 %	2,395	6.44 %
Gain (loss) on investment securities	—	—	1,252	—	— %	(1,252)	(100.00)%
Total noninterest income	43,458	39,605	38,462	3,853	9.73 %	1,143	2.97 %
Total revenue	499,529	495,486	430,213	4,043	0.82 %	65,273	15.17 %
Provision for credit losses							
Provision for credit losses	19,273	8,559	(15,859)	10,714	125.18 %	24,418	153.97 %
Expenses							
Salaries and employee benefits	170,733	152,870	140,105	17,863	11.69 %	12,765	9.11 %
Occupancy	26,698	23,901	21,198	2,797	11.70 %	2,703	12.75 %
Furniture and equipment	13,771	11,320	10,657	2,451	21.65 %	663	6.22 %
Amortization of intangible assets	5,154	3,006	3,549	2,148	71.46 %	(543)	(15.30)%
Other expenses	109,819	81,299	68,504	28,520	35.08 %	12,795	18.68 %
Total expenses	326,175	272,396	244,013	53,779	19.74 %	28,383	11.63 %
Income before income tax, corporate allocation, and noncontrolling interest	154,081	214,531	202,059	(60,450)	(28.18)%	12,472	6.17 %
Corporate allocation	4,817	4,381	5,041	436	9.95 %	(660)	(13.09)%
Income before income tax provision and noncontrolling interest	158,898	218,912	207,100	(60,014)	(27.41)%	11,812	5.70 %
Provision for income tax expense	23,866	41,944	37,584	(18,078)	(43.10)%	4,360	11.60 %
Net income	135,032	176,968	169,516	(41,936)	(23.70)%	7,452	4.40 %
Noncontrolling interest	—	—	(4)	—	— %	4	(100.00)%
Net income attributable to TowneBank	<u>\$ 135,032</u>	<u>\$ 176,968</u>	<u>\$ 169,512</u>	<u>\$ (41,936)</u>	<u>(23.70)%</u>	<u>\$ 7,456</u>	<u>4.40 %</u>

Realty Segment: For the year ended December 31, 2023, the Realty segment reported a loss of \$129 thousand compared to a loss of \$2.08 million for 2022. Residential mortgage banking has faced continued headwinds driven by increased rates and margin compression for residential mortgage banking and real estate brokerage commissions.

Income before income tax provision and noncontrolling interest for the Realty segment for the year ended December 31, 2023, was \$1.99 million, compared to a loss of \$0.79 million in 2022. Total revenue declined to \$103.67 million in 2023 as compared to \$117.11 million in 2022. A provision benefit of \$0.59 million was recorded in 2023, compared to a provision expense of \$0.05 million in 2022.

Net residential mortgage banking income decreased by \$10.50 million to \$41.29 million from 2022, driven by a decline in production volume. The net loss from our residential mortgage banking line of business was \$7.61 million compared to a net loss of \$6.67 million in 2022. Mortgage rates continued their climb that began in 2022, while housing inventories remained low. Rate increases also adversely impacted refinance activities, which declined to less than 5% of loan activity in 2023. Higher funding costs coupled with inflation-driven pricing concerns impacted profits in 2023. Margin was 3.06% in fourth quarter 2023, compared to 2.93% in fourth

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quarter 2022. Throughout 2023 management has focused on right-sizing production and expenses. Full-time equivalent employees have declined by 71, or 14%, from 504 in 2022 to 433 in 2023.

Property management fees, net, were \$47.79 million in 2023, increasing \$3.55 million, or 8.01%, from 2022. This increase was driven by an increase in units under management and a property management acquisition.

Net real estate brokerage income decreased \$7.72 million, or 68.63%, to \$3.53 million in 2023. Effective April 27, 2023, the Company transferred its ownership interest in BHHS Towne Realty, a subsidiary of TowneBank, to BHHS RW Towne Realty, LLC, in exchange for a minority interest in that company which is accounted for as an equity method investment. Subsequent to the sale, the Company did not record any real estate brokerage income. The portion of income related to minority interests is included in net interest and other income. The Company reported a gain on this transaction of \$8.83 million, in the Realty segment. Full-time-equivalent employees for the real estate brokerage unit declined to zero in 2023 compared to 82 in 2022.

Expenses for the Realty segment decreased 12.67%, or \$14.52 million, when compared to 2022. Salaries and benefits expense decreased \$10.31 million, or 16.29%, due to reductions in the number of full-time equivalent employees.

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The following chart presents revenue and expenses for the Realty segment (dollars in thousands):

	Year Ended			Increase/(Decrease)			
	December 31,			2023 over 2022		2022 over 2021	
	2023	2022	2021	Amount	Percent	Amount	Percent
Revenue							
Residential mortgage banking income, net	\$ 41,287	\$ 51,783	\$ 113,155	\$ (10,496)	(20.27)%	\$ (61,372)	(54.24)%
Real estate brokerage income, net	3,530	11,253	13,290	(7,723)	(68.63)%	(2,037)	(15.33)%
Title insurance and settlement fees	443	1,981	2,527	(1,538)	(77.64)%	(546)	(21.61)%
Property management fees, net	47,791	44,246	42,175	3,545	8.01 %	2,071	4.91 %
Income from unconsolidated subsidiary	(1,309)	368	1,077	(1,677)	(455.71)%	(709)	(65.83)%
Gain on sale of equity investment	8,833	—	—	8,833	N/M	—	— %
Net interest and other income	3,095	7,478	12,232	(4,383)	(58.61)%	(4,754)	(38.87)%
Total revenue	103,670	117,109	184,456	(13,439)	(11.48)%	(67,347)	(36.51)%
Provision for credit losses	(594)	47	(915)	(641)	N/M	962	105.14 %
Expenses							
Salaries and employee benefits	52,958	63,263	67,922	(10,305)	(16.29)%	(4,659)	(6.86)%
Occupancy	7,158	7,784	7,689	(626)	(8.04)%	95	1.24 %
Furniture and equipment	2,544	2,970	2,661	(426)	(14.34)%	309	11.61 %
Amortization of intangible assets	2,903	3,102	2,813	(199)	(6.42)%	289	10.27 %
Other expenses	34,559	37,527	40,579	(2,968)	(7.91)%	(3,052)	(7.52)%
Total expenses	100,122	114,646	121,664	(14,524)	(12.67)%	(7,018)	(5.77)%
Income before income tax, corporate allocation, and noncontrolling interest	4,142	2,416	63,707	1,726	71.44 %	(61,291)	(96.21)%
Corporate allocation	(2,152)	(3,202)	(4,000)	1,050	32.79 %	798	19.95 %
Income (loss) before income tax provision and noncontrolling interest	1,990	(786)	59,707	2,776	353.18 %	(60,493)	(101.32)%
Provision for income tax	698	(186)	13,911	884	475.27 %	(14,097)	(101.34)%
Net income (loss)	1,292	(600)	45,796	1,892	315.33 %	(46,396)	(101.31)%
Noncontrolling interest	(1,421)	(1,482)	(9,647)	61	4.12 %	8,165	84.64 %
Net income (loss) attributable to TowneBank	\$ (129)	\$ (2,082)	\$ 36,149	\$ 1,953	(93.80)%	\$ (38,231)	(105.76)%

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The following chart shows key data for the Realty segment (dollars in thousands):

	Year Ended			Increase/(Decrease)			
	December 31,			2023 over 2022		2022 over 2021	
	2023	2022	2021	Amount	Percent	Amount	Percent
Key data							
Number of units sold (1)	1,373	4,387	5,436	(3,014)	(68.70)%	(1,049)	(19.30)%
Volume of units sold (1)	\$659,472	\$1,858,144	\$2,134,019	\$ (1,198,672)	(64.51)%	\$ (275,875)	(12.93)%
Number of real estate agents (1)	0	405	405	(405)	(100.00)	—	— %
Loans originated, mortgage	\$1,340,454	\$1,929,089	\$4,028,552	\$ (588,635)	(30.51)%	\$ (2,099,463)	(52.11)%
Loans originated, joint ventures	641,622	878,214	1,495,268	(236,592)	(26.94)%	(617,054)	(41.27)%
Total loans originated	\$1,982,076	\$2,807,303	\$5,523,820	\$ (825,227)	(29.40)%	\$ (2,716,517)	(49.18)%
Refinance %	4.33 %	11.23 %	29.25 %				
Refinance volume	\$ 85,789	\$315,352	\$1,615,940	\$ (229,563)	(72.80)%	\$ (1,300,588)	(80.48)%
Number of loans, mortgage	3,582	5,108	11,731	(1,526)	(29.87)%	(6,623)	(56.46)%
Number of loans, joint ventures	2,106	2,749	5,273	(643)	(23.39)%	(2,524)	(47.87)%
Total number of loans	5,688	7,857	17,004	(2,169)	(27.61)%	(9,147)	(53.79)%
Average loan amount, mortgage	\$ 374	\$ 378	\$ 343	\$ (4)	(1.06)%	\$ 35	10.20 %
Average loan amount, joint ventures	305	319	284	(14)	(4.39)%	35	12.32 %
Average loan amount	\$ 348	\$ 357	\$ 325	\$ (9)	(2.52)%	\$ 32	9.85 %
Number of originators, mortgage	131	132	149	(1)	(0.76)%	(17)	(11.41)%
Number of originators, joint ventures	50	54	59	(4)	(7.41)%	(5)	(8.47)%
Number of originators	181	186	208	(5)	(2.69)%	(22)	(10.58)%

(1) Does not represent a full year of activity. Effective with the ownership transfer to BHHS RW Towne Realty, LLC, in second quarter 2023, units sold and real estate agents, who are independent contractors, are no longer reported on a consolidated basis.

Insurance Segment: The Insurance segment comprises property and casualty and group benefits divisions. The Insurance segment represented 12.24%, or \$18.81 million, of our total consolidated net income in 2023 compared to 7.46%, or \$14.10 million, in 2022. Earnings before taxes and noncontrolling interest for the Insurance segment were \$25.33 million in 2023, as compared to \$18.92 million in 2022.

Property and casualty commissions and fees increased \$15.38 million, or 23.78%, over 2022, contingency and bonus revenue increased \$0.53 million, or 5.29%, and employee benefits revenue increased \$1.67 million, or 10.41%. The Insurance segment recorded a \$0.54 million gain on the sale of a small book of business in 2023.

The acquisition of Manry-Rawls LLC, which was part of the Farmers acquisition, resulted in an increase in property and casualty commissions and fees of \$7.23 million, contingency and bonus revenue of \$0.75 million, and employee benefits revenue of \$100 thousand. The remaining increase in commissions was due to organic growth, account retention, and higher rates. Contingent revenue, which increased in 2023, consists primarily of amounts received from various property and casualty insurance carriers. These carriers use several nonclient-specific factors to determine the amount of contingency payments made to insurance brokers. Such factors include the aggregate loss performance of insurance policies previously placed and the volume of business, among other things. The Company surpassed its previously targeted long-term goal of \$100 million in revenue in 2023, with total revenue of \$109.46 million. The Company expects to continue actively pursuing attractive insurance agency acquisitions, with a strategic objective to grow revenues to \$150 - \$200 million.

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Salaries and employee benefits expense increased \$6.98 million, or 17.66%, when comparing 2023 to 2022. Amortization of intangible assets increased \$1.59 million, or 35.15%, while all other expense categories were fairly level with prior year. The acquisition of Manry-Rawls LLC was the primary source of both increases. Full-time equivalent employees increased 8.35% to 493 in 2023, from 455 in 2022.

The following chart presents revenue and expenses for the Insurance segment (dollars in thousands):

	Year Ended			Increase/(Decrease)			
	December 31,			2023 over 2022		2022 over 2021	
	2023	2022	2021	Amount	Percent	Amount	Percent
Commission and fee income							
Property and casualty	\$ 80,054	\$ 64,672	\$ 57,603	\$ 15,382	23.78 %	\$ 7,069	12.27 %
Employee benefits	17,726	16,054	14,817	1,672	10.41 %	1,237	8.35 %
Specialized benefit services	481	658	666	(177)	(26.90)%	(8)	(1.20)%
Total commissions and fees	98,261	81,384	73,086	16,877	20.74 %	8,298	11.35 %
Contingency and bonus revenue	10,619	10,085	8,977	534	5.29 %	1,108	12.34 %
Other income	580	84	196	496	590.48 %	(112)	(57.14)%
Total revenue	109,460	91,553	82,259	17,907	19.56 %	9,294	11.30 %
Employee commission expense	18,537	17,213	16,598	1,324	7.69 %	615	3.71 %
Revenue, net of commission expense	90,923	74,340	65,661	16,583	22.31 %	8,679	13.22 %
Salaries and employee benefits	46,467	39,492	37,817	6,975	17.66 %	1,675	4.43 %
Occupancy	3,030	2,984	2,770	46	1.54 %	214	7.73 %
Furniture and equipment	863	790	857	73	9.24 %	(67)	(7.82)%
Amortization of intangible assets	6,098	4,512	4,765	1,586	35.15 %	(253)	(5.31)%
Other expenses	6,467	6,459	5,386	8	0.12 %	1,073	19.92 %
Total expenses	62,925	54,237	51,595	8,688	16.02 %	2,642	5.12 %
Income before income tax, corporate allocation, and noncontrolling interest	27,998	20,103	14,066	7,895	39.27 %	6,037	42.92 %
Corporate allocation	(2,665)	(1,179)	(1,041)	(1,486)	(126.04)%	(138)	(13.26)%
Income before income tax provision and noncontrolling interest	25,333	18,924	13,025	6,409	33.87 %	5,899	45.29 %
Provision for income tax expense	6,521	4,823	3,303	1,698	35.21 %	1,520	46.02 %
Net income	18,812	14,101	9,722	4,711	33.41 %	4,379	45.04 %
Noncontrolling interest	—	—	—	—	N/M	—	N/M
Net income attributable to TowneBank	\$ 18,812	\$ 14,101	\$ 9,722	\$ 4,711	33.41 %	\$ 4,379	45.04 %

ANALYSIS OF FINANCIAL CONDITION

Overview: Our total assets increased \$0.99 billion, or 6.25%, to \$16.84 billion at December 31, 2023, from \$15.85 billion at December 31, 2022. Our loan portfolio increased by 4.95%, or \$0.53 billion, to \$11.33 billion at December 31, 2023, from \$10.79 billion at December 31, 2022.

Our total average assets were \$16.66 billion for 2023, reflecting an increase of \$388.67 million, or 2.39%, compared to the 2022 average of \$16.27 billion. Average earning assets were \$15.12 billion in 2023, reflecting an increase of \$159.19 million, or 1.06%, compared to 2022.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our average total deposits were \$13.65 billion in 2023, reflecting growth of \$112.97 million, or 0.83%, compared to 2022. Total deposits increased \$0.60 billion, or 4.51%, on a year-over-year basis. Noninterest-bearing deposits declined \$0.92 billion, or 17.52%.

Interest-Bearing Deposits in Financial Institutions: Interest-bearing deposits in other banks, at the FRB-Richmond, and federal funds sold are used for daily cash management purposes, management of short-term interest rate opportunities, and liquidity. At December 31, 2023, these balances were \$1.04 billion, down marginally from \$1.10 billion one year prior, and consisted mainly of overnight deposits with the FRB-Richmond and deposits in other banks.

The average balance of interest-bearing deposits at the FRB-Richmond, in other banks, and federal funds sold in 2023 was \$1.17 billion, or 7.74% of average total earning assets, compared with \$2.10 billion, or 14.04% of average total earning assets in 2022.

Securities: Our securities consist of AFS debt securities, HTM debt securities, and other equity securities. Our AFS debt securities portfolio, which is held primarily for earnings, liquidity, and asset/liability management purposes, is reported at fair value based on market prices for similar instruments. Our HTM debt securities portfolio, which is held primarily for yield and pledging purposes, is valued at amortized cost. Our investment portfolio totaled \$2.64 billion as of December 31, 2023, with a balance of \$2.13 billion in AFS, \$477.51 million in HTM, \$13.79 million in other equity securities, and \$21.37 million in FHLB stock. Average yield on AFS debt securities was 3.11% at December 31, 2023, compared with 2.59% at December 31, 2022. Average yield on HTM debt securities was 1.70% at December 31, 2023, compared to 1.69% at December 31, 2022.

We record an allowance for credit losses on our AFS debt securities portfolio and on our HTM debt securities portfolio. These portfolios are reviewed quarterly to assess whether an allowance for credit losses is required. The allowance is charged through a provision for credit losses on our Consolidated Statements of Income. Net unrealized losses related to the fair value of AFS debt securities decreased \$21.95 million, net of tax, in 2023, primarily driven by the stabilization in market interest rates. Unrealized losses in this portfolio are related to changes in market interest rates rather than deterioration in credit quality. At December 31, 2023, our allowance for credit losses on AFS debt securities was \$1.50 million and our allowance for credit losses on HTM debt securities was \$84 thousand, compared to \$1.09 million and \$83 thousand, respectively, at December 31, 2022.

Both our AFS and HTM debt securities portfolios consist of U.S. Treasury notes, U.S. agency securities, municipal securities, MBSs, and trust preferred corporate obligations. Our investment activities are governed internally by a written and Board-approved investment policy, which is administered by our ALCO, which generally meets quarterly to review the economic environment, to assess current activities for appropriateness, and to establish investment strategies.

Investment strategies are established by the ALCO in consideration of the interest rate cycle, balance sheet mix, actual and anticipated loan demand, funding options, and our overall interest rate sensitivity. In general, the investment portfolio is managed in a manner appropriate with the attainment of the following goals: (i) to provide a sufficient margin of liquid assets to cover unanticipated deposit and loan fluctuations, seasonal funds flow variations, and overall funds management objectives; (ii) to provide eligible securities to secure public funds, trust deposits, and repurchase agreements as prescribed by law; and (iii) to earn the maximum return on funds invested that is commensurate with meeting the requirements of (i) and (ii).

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides information regarding the composition of our AFS and HTM securities portfolio, showing selected maturities and yields (dollars in thousands). For more information, refer to Note 3, "Investment Securities," in the Notes to Consolidated Financial Statements.

	Year Ended December 31,								
	2023			2022			2021		
	Amortized Cost	Estimated Fair Value	Weighted Average Yield (1)	Amortized Cost	Estimated Fair Value	Weighted Average Yield (1)	Amortized Cost	Estimated Fair Value	Weighted Average Yield (1)
Securities Available for Sale:									
U.S. agency securities	\$ 334,782	\$ 306,386	3.60 %	\$ 322,259	\$ 293,894	2.68 %	\$ 311,665	\$ 310,587	1.47 %
U.S. Treasury notes	28,559	27,684	2.97 %	27,891	26,693	2.96 %	1,000	1,000	0.08 %
Municipal securities	544,433	509,854	2.52 %	483,461	430,948	2.34 %	375,327	385,569	2.15 %
Trust preferred corporate securities	101,664	84,793	4.13 %	86,736	77,701	3.90 %	53,484	53,844	4.05 %
Mortgage-backed securities	1,283,525	1,200,625	3.15 %	1,112,693	1,011,666	2.56 %	1,047,377	1,055,183	1.69 %
Total securities available for sale	2,292,963	2,129,342	3.11 %	2,033,040	1,840,902	2.59 %	1,788,853	1,806,183	1.82 %
Securities Held to Maturity:									
U.S. agency securities	101,850	95,878	1.53 %	101,092	92,195	1.53 %	73,360	73,394	1.19 %
U.S. Treasury notes	362,593	353,578	1.69 %	433,866	413,404	1.69 %	66,326	66,253	0.89 %
Municipal securities	5,272	5,551	3.98 %	5,181	5,416	3.97 %	5,095	6,162	3.96 %
Trust preferred corporate securities	2,172	2,273	3.55 %	2,223	2,308	3.52 %	2,272	2,524	3.49 %
Mortgage-backed securities	5,705	5,376	2.35 %	6,113	5,670	2.34 %	7,168	7,343	2.43 %
Total securities held to maturity	477,592	462,656	1.70 %	548,475	518,993	1.69 %	154,221	155,676	1.24 %
Total Portfolio	\$ 2,770,555	\$ 2,591,998	2.87 %	\$ 2,581,515	\$ 2,359,895	2.40 %	\$ 1,943,074	\$ 1,961,859	1.77 %

(1) Yields are presented on a taxable-equivalent basis using the federal statutory tax rate of 21%.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table indicates the maturities of securities at December 31, 2023 (dollars in thousands):

	Available for Sale			Held to Maturity		
	Amortized Cost	Fair Market Value	Weighted Average Yield (1)	Amortized Cost	Fair Market Value	Weighted Average Yield (1)
U.S. Treasury notes						
Due in one year or less	\$ —	\$ —	— %	\$ 264,966	\$ 263,000	1.77 %
After one year through five years	28,559	27,684	2.97 %	97,627	90,578	1.45 %
After five years through ten years	—	—	— %	—	—	— %
After ten years	—	—	— %	—	—	— %
U.S. agency securities						
Due in one year or less	36	36	5.60 %	—	—	— %
After one year through five years	29,980	27,430	1.38 %	93,754	88,261	1.39 %
After five years through ten years	68,133	64,985	4.68 %	8,096	7,617	3.08 %
After ten years	236,633	213,935	3.56 %	—	—	— %
Municipal securities						
Due in one year or less	7,180	7,063	2.41 %	—	—	— %
After one year through five years	240,642	222,819	2.02 %	2,231	2,276	3.65 %
After five years through ten years	127,166	116,594	2.64 %	3,041	3,275	4.22 %
After ten years	169,445	163,378	3.16 %	—	—	— %
Mortgage-backed securities						
Due in one year or less	28	27	2.09 %	—	—	— %
After one year through five years	352,761	319,672	1.64 %	5,406	5,077	2.12 %
After five years through ten years	332,221	311,909	3.68 %	—	—	— %
After ten years	598,515	569,017	3.76 %	299	299	6.50 %
Trust preferred corporate securities						
Due in one year or less	—	—	—	—	—	—
After one year through five years	—	—	—	—	—	—
After five years through ten years	101,664	84,793	4.13 %	500	601	8.75 %
After ten years	—	—	—	1,672	1,672	2.00 %
Total Portfolio	<u>\$ 2,292,963</u>	<u>\$ 2,129,342</u>	<u>3.11 %</u>	<u>\$ 477,592</u>	<u>\$ 462,656</u>	<u>1.70 %</u>

(1) Yields are presented on a taxable-equivalent basis using the federal statutory tax rate of 21%.

Loans Held for Sale: At December 31, 2023, we held \$149.99 million in mortgage loans originated and intended for sale in the secondary market, compared with \$102.34 million at December 31, 2022. Average loans held for sale were 1.11% and 1.34% of average earning assets for the years ended December 31, 2023 and 2022, respectively.

Our mortgage banking activities include two types of commitments: rate lock commitments and forward mortgage loan sales contracts. Rate lock commitments are loans in our pipeline that have an interest rate locked with the customer. The commitments are generally for periods of 60 days and are at market rates. In order to mitigate the effect of the interest rate risk inherent in providing rate lock commitments, we enter into either a forward loan sales contract under best efforts delivery, or a trade of TBA MBSs ("notional securities") for mandatory delivery. When the interest rate is locked with the borrower, the rate lock commitment and MBS position are undesignated derivatives and marked to fair value through earnings. The fair value of the rate lock derivative is based on quoted prices for similar loans in the secondary market adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close. Both the rate lock commitment and the corresponding TBA MBSs are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives during the commitment period are recorded in current earnings and included in net residential mortgage banking income in the Consolidated Statements of Income. Forward loan sale commitments that economically hedge the closed loan inventory are recognized at fair value in the Consolidated Balance Sheet

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MANAGEMENT'S DISCUSSION AND ANALYSIS

in other assets or other liabilities, with changes in their fair values recorded as a component of mortgage banking activities in the Consolidated Statements of Income.

Loan Portfolio: Our loan portfolio, net of unearned income and deferred costs, totaled \$11.33 billion at December 31, 2023. As a percentage of total average earning assets, average loans were 73.92% in 2023, compared with 68.59% in 2022. Lending activities represent our primary source of income. The following tables provide the balance and composition of the loan portfolio by major classification for the periods indicated (dollars in thousands):

Year Ended December 31,	2023	2022
Commercial Real Estate		
Construction and land development	\$ 1,249,735	\$ 1,428,376
Owner occupied	1,699,386	1,580,099
Non-owner occupied	3,117,071	2,830,620
Multi-family	583,209	496,190
Total Commercial Real Estate	6,649,401	6,335,285
Residential 1-4 family	1,852,891	1,634,062
HELOC	382,979	395,526
Commercial and industrial business	1,265,169	1,256,697
Government	525,261	512,265
Indirect	558,789	568,190
Consumer loans and other	94,531	92,577
Loans, net of unearned income and deferred costs	<u>\$ 11,329,021</u>	<u>\$ 10,794,602</u>
Year Ended December 31,	2023	2022
Commercial Real Estate		
Construction and land development	11.03 %	13.23 %
Owner occupied	15.00 %	14.64 %
Non-owner occupied	27.51 %	26.22 %
Multi-family	5.15 %	4.60 %
Total Commercial Real Estate	58.69 %	58.69 %
Residential 1-4 family	16.36 %	15.14 %
HELOC	3.38 %	3.66 %
Commercial and industrial business	11.17 %	11.64 %
Government	4.64 %	4.75 %
Indirect	4.93 %	5.26 %
Consumer loans and other	0.83 %	0.86 %
Loans, net of unearned income and deferred costs	<u>100.00 %</u>	<u>100.00 %</u>

Commercial real estate loans constituted 58.69% of our loan portfolio at December 31, 2023 and 2022. The table below provides additional information regarding commercial real estate loans segregating by the type of property securing the loans and the geographic region in which the loans were originated (dollars in thousands):

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Description Within Major Classification	Consolidated	% of Major Class	Virginia / NENC	North Carolina	Classified (1)
Residential construction	\$ 189,184	15.14 %	\$ 124,361	\$ 64,823	\$ —
Improved lots	188,641	15.09 %	109,538	79,103	—
Raw land	126,600	10.13 %	73,236	53,364	78
Construction-to-perm	105,572	8.45 %	38,231	67,341	183
Land Development	98,063	7.85 %	75,959	22,104	—
All other	541,675	43.34 %	255,217	286,458	—
Construction and land development	\$ 1,249,735	100.00 %	\$ 676,542	\$ 573,193	\$ 261
Percentage of Consolidated			54.13 %	45.87 %	0.02 %
Office buildings	\$ 439,038	25.84 %	\$ 289,779	\$ 149,259	\$ 910
Warehouse light industry	359,328	21.14 %	239,058	120,270	2,573
Auto dealer and repair	189,355	11.14 %	170,524	18,831	8,211
Restaurants	126,543	7.45 %	81,121	45,422	251
All other	585,122	34.43 %	415,674	169,448	6,845
Owner occupied	\$ 1,699,386	100.00 %	\$ 1,196,156	\$ 503,230	\$ 18,790
Percentage of Consolidated			70.39 %	29.61 %	1.11 %
Hotels	\$ 752,580	24.14 %	\$ 654,996	\$ 97,584	\$ —
Office buildings	736,454	23.63 %	456,916	279,538	901
Shopping centers	709,635	22.77 %	377,566	332,069	34
Warehouse light industry	323,430	10.38 %	190,665	132,765	—
All other	594,972	19.08 %	405,483	189,489	2,756
Non-owner occupied	\$ 3,117,071	100.00 %	\$ 2,085,626	\$ 1,031,445	\$ 3,691
Percentage of Consolidated			66.91 %	33.09 %	0.12 %
Less than \$1 Million Origination	\$ 74,264	12.73 %	\$ 41,744	\$ 32,520	\$ 215
More than \$1 Million Origination	508,945	87.27 %	273,537	235,408	113
Multi-family	\$ 583,209	100.00 %	\$ 315,281	\$ 267,928	\$ 328
Percentage of Consolidated			54.06 %	45.94 %	0.06 %
Total Commercial Real Estate	\$ 6,649,401		\$ 4,273,605	\$ 2,375,796	\$ 23,070
Percentage of Consolidated Total Commercial Real Estate			64.27 %	35.73 %	0.35 %

(1) Classified loans are defined as substandard or doubtful. Classified commercial real estate loans totaled \$23.07 million, or 63.97% of total classified credits at December 31, 2023.

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The table below provides the maturity and sensitivity of the loan portfolio at December 31, 2023 (in thousands):

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years through Fifteen Years	Due after Fifteen Years	Totals	Due After One Year	
						Fixed Rates	Adjustable Rates
Commercial Real Estate							
Construction and land development	\$ 619,244	\$ 469,358	\$ 158,929	\$ 2,204	\$ 1,249,735	\$ 383,719	\$ 246,772
Owner occupied	103,082	505,714	952,097	138,493	1,699,386	1,509,075	87,229
Non-owner occupied	339,635	1,213,529	1,351,909	211,998	3,117,071	2,447,078	330,358
Multi-family	104,636	217,582	240,410	20,581	583,209	446,321	32,252
Residential 1- 4 family	63,989	335,760	268,847	1,184,295	1,852,891	1,199,737	589,165
HELOC	29,086	32,359	23,052	298,482	382,979	10,876	343,017
Commercial and industrial business	530,928	437,836	295,841	564	1,265,169	599,344	134,897
Government	12,057	55,532	142,153	315,519	525,261	346,050	167,154
Indirect	19,003	361,720	178,066	—	558,789	539,786	—
Consumer loans and other	43,355	32,049	17,418	1,709	94,531	32,146	19,030
Loans, net of unearned income and deferred costs	<u>\$ 1,865,015</u>	<u>\$ 3,661,439</u>	<u>\$ 3,628,722</u>	<u>\$ 2,173,845</u>	<u>\$ 11,329,021</u>	<u>\$ 7,514,132</u>	<u>\$ 1,949,874</u>

The following table is a summary of our floating rate loan portfolio and contractual interest rate indices at December 31, 2023 (dollars in thousands):

Contractual Interest Rate Index	Floating Rate (at floor rate)	Floating Rate (not at floor or ceiling rate)	Floating Rate (at ceiling rate)	Total Floating Rate	Percentage of Floating Rate Loans
Wall Street Journal Prime	\$ —	\$ 1,260,245	\$ 31,256	\$ 1,291,501	44.02 %
AMERIBOR	—	292,006	77,187	369,193	12.58 %
SOFR	50,604	620,758	—	671,362	22.88 %
Other contractual interest rate indices	11,871	484,617	105,503	601,991	20.52 %
	<u>\$ 62,475</u>	<u>\$ 2,657,626</u>	<u>\$ 213,946</u>	<u>\$ 2,934,047</u>	<u>100.00 %</u>

At December 31, 2023, the majority of our floating rate loans are tied to Wall Street Journal Prime interest rates. The Company is no longer originating loans tied to LIBOR. New originations and renewals of existing loans that would typically have been tied to LIBOR are being tied to SOFR or AMERIBOR.

Allowance for Credit Losses and Asset Quality: We incorporate reasonable and supportable forecasts into our credit loss estimates, and losses are estimated over the life of the loan and recorded at origination or acquisition. The allowance for credit losses on funded loans is established through a provision for credit losses charged against earnings. The allowance for credit losses on unfunded commitments is recorded in other liabilities, with a provision for credit losses charged against earnings. The level of the allowance for credit losses is an estimate of expected losses inherent in the Company's portfolio at December 31, 2023.

The allowance for credit losses on funded loans at December 31, 2023 and 2022, was \$126.46 million and \$110.82 million, respectively. In 2023, the Company increased the allowance for credit losses on funded loans by \$15.65 million. Included in the increase was an initial loan provision related to the acquisition of Farmers of \$5.05 million and an increase in the allowance of \$1.38 million on acquired loans with a purchase credit deteriorated loan mark. Additional contributing factors to the change in the allowance was 4.95% loan growth, net charge-offs of \$2.88 million, and changes in the macroeconomic forecast scenarios used by management to assist in estimating credit losses. Expected loss estimates consider various factors, including the impacts of

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changes in current economic conditions and reasonable and supportable forecasts, customer-specific credit information, and the potential impact of various current geopolitical situations. The allowance was equal to 1.12% of total loans outstanding at December 31, 2023, compared with 1.03% at December 31, 2022.

Classified loans, defined as loans in the substandard and doubtful categories, remained low at 0.32% of total loans at December 31, 2023, up from 0.25% at December 31, 2022. Loans 30 to 89 days past due were \$9.52 million at December 31, 2023, compared to \$8.63 million at December 31, 2022. The allowance for credit losses on funded loans was equal to 18.48x of nonperforming loans at December 31, 2023, compared with 17.67x at December 31, 2022. Our allowance for unfunded commitments was \$8.23 million and \$7.10 million, at December 31, 2023 and 2022, respectively.

Our allowance for credit losses, for both funded loans and unfunded commitments, was determined by evaluating numerous variables, many of which are interrelated or dependent on other assumptions and estimates, and considered past events, current conditions, and reasonable and supportable forecasts. We believe the quality of our loan portfolio supports the level of our allowance for credit losses, and that it is adequate to cover estimated lifetime credit losses expected in the loan portfolio based on our reasonable and supportable forecasts at that date.

The following table provides a breakdown of the allowance for credit losses among the various loan types as of the dates indicated (dollars in thousands):

	December 31,		December 31,	
	2023	%	2022	%
Real estate - construction and development	\$ 18,736	14.82 %	\$ 20,218	18.24 %
Real estate - commercial owner occupied	14,078	11.13 %	10,625	9.59 %
Real estate - commercial non-owner occupied	22,098	17.47 %	16,478	14.87 %
Real estate - multi-family	3,133	2.48 %	1,909	1.72 %
Real estate - residential 1-4 family	32,363	25.59 %	27,688	24.99 %
HELOC	17,324	13.70 %	16,766	15.13 %
Commercial and industrial business loans	8,069	6.38 %	6,912	6.24 %
Government	3,092	2.45 %	3,176	2.87 %
Indirect	4,794	3.79 %	4,172	3.76 %
Consumer and other loans	2,774	2.19 %	2,872	2.59 %
Total	\$ 126,461	100.00 %	\$ 110,816	100.00 %

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The following table provides information on the allowance for credit losses on loans and nonperforming assets for the periods indicated (dollars in thousands):

Year Ended December 31,	2023	2022
Nonperforming assets:		
Nonperforming loans	\$ 6,843	\$ 6,273
Foreclosed property	908	560
Total nonperforming assets	\$ 7,751	\$ 6,833
Loans past due 90 days accruing interest	\$ 735	\$ 324
Asset Quality Ratios		
Allowance for loan losses to nonperforming loans	18.48x	17.67x
Allowance to nonperforming assets	16.32x	16.22x
Allowance for loan losses to period end loans	1.12 %	1.03 %
Nonperforming loans to period end loans	0.06 %	0.06 %
Nonperforming assets to period end assets	0.05 %	0.04 %
Net charge-offs to average loans	0.03 %	0.03 %

The following table provides the charge-offs and recoveries by portfolio for the periods indicated (dollars in thousands):

	December 31, 2023		December 31, 2022	
	Charge-offs	Recoveries	Charge-offs	Recoveries
CRE - Construction and development	\$ —	\$ 61	\$ —	\$ 13
CRE - Owner occupied	2	10	2	35
CRE - Non-owner occupied	—	95	—	231
CRE - Multi-family	—	—	—	—
Residential 1-4 family	1	157	10	55
HELOC	2	544	50	125
Commercial and industrial business	3,751	1,605	3,380	254
Government	—	—	—	—
Indirect	1,358	267	398	292
Consumer and other loans	687	186	34	106
Total charge-offs and recoveries	\$ 5,801	\$ 2,925	\$ 3,874	\$ 1,111

All charge-offs/recoveries were in the Banking segment for both periods presented. For additional financial details regarding the analysis of the allowance for credit losses on loans, see Note 5, "Allowance for Credit Losses on Loans," of the Notes to Consolidated Financial Statements in this report.

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The following table provides information on the composition of nonperforming loans by loan type as of the dates indicated (in thousands):

	December 31, 2023	December 31, 2022
CRE - Construction and development	\$ 185	\$ 93
CRE - Owner occupied	521	565
CRE - Non-owner occupied	—	—
CRE - Multi-family	216	—
Residential 1-4 family	2,778	2,416
HELOC	698	457
Commercial and industrial business	1,217	2,079
Government	—	—
Indirect	1,228	663
Consumer and other loans	—	—
Total nonperforming loans	<u>\$ 6,843</u>	<u>\$ 6,273</u>

Nonperforming assets consist of nonaccrual loans, foreclosed real estate, and other repossessed collateral. It is our policy to place commercial loans on nonaccrual status when full collection of principal and interest becomes doubtful, or when any portion of principal or interest becomes 90 days past due, whichever occurs first, unless the debt is both well-secured and in the process of collection. When loans are placed on nonaccrual status, interest receivable is reversed against interest income recognized in the current period, and any prior-year unpaid interest is charged off against the allowance for loan losses. Interest payments received thereafter are applied as a reduction of the remaining principal balance so long as doubt exists as to the ultimate collection of the principal. Loans are removed from nonaccrual status when they become current as to both principal and interest and when the collection of principal or interest is no longer doubtful. Similarly, residential mortgage loans and other consumer loans are also placed on nonaccrual status when full collection of principal and interest becomes doubtful, or when any portion of principal or interest becomes 120 days past due, whichever occurs first, unless the debt is both well-secured and in the process of collection.

At December 31, 2023, we had \$7.75 million in nonperforming assets, which amounted to 0.05% of total assets. Nonperforming assets consist of \$6.84 million in nonperforming loans and \$0.91 million in foreclosed property. Nonperforming loans increased by \$0.57 million from December 31, 2022. At December 31, 2023, foreclosed property totaled \$0.91 million, increasing from \$0.56 million at December 31, 2022. Foreclosed property consists of one residential property and repossessed autos at year-end 2023.

At December 31, 2023, loans 60-89 days past due, excluding nonperforming loans, totaled \$1.12 million. All loans in these categories are subject to constant management attention, and their status is reviewed on a regular basis.

In order to maximize the collection of loan balances, we evaluate loans to borrowers experiencing financial difficulty on a case-by-case basis to determine if a loan modification would be appropriate. We may pursue loan modifications when there is a reasonable chance that an appropriate modification would allow our clients to continue servicing the debt. Because these modifications may not ultimately result in the complete collection of principal and interest (as modified by the terms of the restructuring), additional incremental losses could result. These potential incremental losses have been factored into our overall allowance for credit losses estimate.

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Nonaccruing loans that are modified can be placed back on accrual status when both principal and interest are current, there is a sustained repayment performance of six months or longer, and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

Deposits: Customer deposits are attractive sources of liquidity because of their stability, low average cost, and the ability to generate fee income through the cross-sale of other services to depositors. Deposits are attracted principally from customers within our market area through the offering of a broad selection of deposit instruments, including demand deposits, savings accounts, money rate savings, certificates of deposit, and individual retirement accounts. Deposit account terms vary with respect to the minimum balance required, the time period the funds must remain on deposit, and service charge schedules.

Interest rates paid on specific deposit types are set by considering the (i) interest rates offered by competitors, (ii) anticipated amount and timing of funding needs, (iii) availability of and cost of alternative sources of funding, and (iv) anticipated future economic conditions and interest rates.

Deposit accounts held as of December 31, 2023, totaled \$13.89 billion. This represented an increase of \$0.60 billion, or 4.51%, from 2022. This increase was driven by the Farmers acquisition. Deposit accounts represent our primary source of funds and are provided by individuals, professionals, and small- to medium-sized businesses in our market area. Approximately 70.51% of our deposits are business related.

Our deposits consist of demand deposits, interest-bearing checking accounts, money market deposit accounts, and time deposits. Our deposit mix changed in 2023 with a \$0.92 billion, or 17.52%, decline in noninterest-bearing deposits, primarily commercial escrow balances, with a corresponding increase in interest-bearing deposits.

Some of our interest-bearing deposits were obtained through brokered transactions and our participation in CDARS. We had brokered time deposits of \$486.04 million and CDARS deposits of \$78.75 million at December 31, 2023, and \$138.68 million and \$95.99 million, respectively, at December 31, 2022.

The following table sets forth a summary of the ending balance by deposit category for the periods indicated (in thousands). See Note 11, "Deposits," in the Notes to Consolidated Financial Statements for additional information on deposits.

	Total Deposits Period Ended		2023 over 2022	
	December 31,		Change	
	2023	2022	\$	%
Interest-bearing demand and money market accounts	\$ 6,757,619	\$ 6,185,075	\$ 572,544	9.26 %
Regular savings	336,492	374,987	(38,495)	(10.27)%
Certificates of deposit	2,456,394	1,468,975	987,419	67.22 %
Total interest-bearing	9,550,505	8,029,037	\$ 1,521,468	18.95 %
Noninterest-bearing demand	4,342,701	5,265,186	(922,485)	(17.52)%
Total	<u>\$ 13,893,206</u>	<u>\$ 13,294,223</u>	<u>\$ 598,983</u>	4.51 %

At December 31, 2023, we had \$6.46 billion in estimated uninsured deposits, \$0.78 billion of which is collateralized by securities, for an estimated uncollateralized and adjusted uninsured deposit total of \$5.68 billion, roughly 41% of total deposits. Total liquidity sources at December 31, 2023, totaled \$6.01 billion, or 106% of adjusted uninsured deposits. At December 31, 2022, we had \$6.92 billion in estimated uninsured deposits.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides the average balance and cost rate of interest-bearing deposits for the periods indicated (dollars in thousands). The aggregate amount of time deposits of \$250,000 or more was \$934.83 million and \$574.27 million at December 31, 2023 and 2022, respectively.

For the Year Ended December 31,	Average Balance		Average Cost Rate	
	2023	2022	2023	2022
Noninterest-bearing demand deposits	\$ 4,756,681	\$ 5,547,835	—	—
Demand and money markets	6,459,678	6,158,190	2.22 %	0.42 %
Savings	368,440	385,154	0.99 %	0.63 %
Certificates of deposit:				
Less than \$250,000	1,239,713	865,864	1.58 %	0.34 %
\$250,000 or more	827,340	581,837	6.43 %	1.65 %
Total interest-bearing deposits	8,895,171	7,991,045	2.47 %	0.51 %
Total deposits	<u>\$13,651,852</u>	<u>\$13,538,880</u>	1.61 %	0.30 %

The following table provides the scheduled maturities of time deposits greater than \$250,000 (in thousands).

For the Year Ended December 31,	2023	2022
Months to maturity:		
Three or less	\$ 299,465	\$ 67,247
Over three through six	265,124	130,425
Over six through twelve	281,395	220,438
Over twelve	88,843	156,165
Total	<u>\$ 934,827</u>	<u>\$ 574,275</u>

Average noninterest-bearing demand deposits were 34.84% of average total deposits during the year ended December 31, 2023, and 40.98% for 2022. The average cost of interest-bearing deposits was 2.47% for the year ended December 31, 2023, compared with 0.51% for 2022.

Advances from the Federal Home Loan Bank: Our ability to borrow funds through nondeposit sources provides additional flexibility in meeting the liquidity needs of customers while enhancing our cost of funds structure. Average funds borrowed from the FHLB were \$348.03 million and \$65.79 million for the years ended December 31, 2023 and 2022, respectively. The balance at December 31, 2023, of \$203.96 million, increased \$174.28 million from the balance at December 31, 2022, of \$29.67 million.

In addition to borrowings from the FHLB, we maintain various borrowing arrangements with financial institutions to support liquidity needs. As of December 31, 2023, we had no outstanding balances on these borrowing agreements with other financial institutions. Average total borrowings during 2023 were \$407.13 million, compared with \$124.17 million in 2022, while the average cost of these funds was 4.51% and 1.05%, respectively. Early in 2023, in response to bank closures and market turmoil, management prudently elected to increase short-term borrowings to bolster the Company's on-balance-sheet liquidity. As the year progressed, continued strength of the Company's deposit business enabled the borrowings to mature. Refer to Note 12, "Borrowings," in the Notes to Consolidated Financial Statements for additional disclosures related to borrowing arrangements.

Subordinated Debt: On February 9, 2022, the Company issued \$250.00 million of fixed-to-floating-rate subordinated notes due February 15, 2032, in a public offering. The Company received \$246.90 million in net proceeds after deducting discounts and issuance costs. The subordinated notes accrue interest at a fixed rate of

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3.125% for the first five years until February 15, 2027. From and including this date and for the remaining five years of the subordinated notes' term, interest will accrue at a floating rate of three-month SOFR plus 1.68%. The Company may redeem the subordinated notes, in whole or in part, on or after February 15, 2027.

With the January 2023 acquisition of Farmers, the Company assumed two issues of capital notes with an aggregate carrying value of \$8.50 million. The first issue, with a carrying value of \$2.69 million at acquisition, bears a 3.00% fixed annual rate and matures August 14, 2025. The second issue, with a carrying value of \$5.82 million at acquisition, bears a 3.25% fixed annual rate, and matures August 14, 2027.

On August 1, 2022, the Company redeemed its \$250.00 million of fixed-to-floating-rate subordinated notes due July 30, 2027, in full satisfaction of their outstanding principal and interest. At December 31, 2022, the carrying value of the notes totaled zero.

At December 31, 2023, the carrying value of the notes totaled \$255.80 million, and average subordinated debt during 2023 was \$254.13 million, while the average cost of the debentures was 3.50%. At December 31, 2022, the carrying value of the notes totaled \$247.42 million, and average subordinated debt during 2022 was \$362.41 million, while the average cost of the debentures was 3.98%.

Liquidity: Liquidity represents our ability to respond to current and future funding requirements, in a timely manner, at a reasonable cost, without impairing profitability. In addition to meeting member demand for loans and deposit withdrawals, we must fund balance sheet growth and meet current obligations in relation to operating costs, investment repurchases, and short-term funding sources. We manage liquidity through adherence to established policies, which are monitored by management and ALCO. Our liquid assets consist of cash, interest-bearing deposits in financial institutions, federal funds sold, securities available for sale, investments, and loans maturing within one year. Loans held for sale are typically held on our books for less than 60 days and are funded, primarily, through their sale. We also have the ability to access short-term and long-term borrowings through FHLB, correspondent banks, federal funds purchased, and the Federal Reserve discount window.

The following table provides summarized information on our availability of liquid funds and borrowings as of December 31, 2023 (in thousands):

Liquidity Sources	December 31, 2023
Available Liquid Funds:	
Cash and cash equivalents	\$ 1,128,357
Unencumbered investment securities	1,665,603
Availability of Borrowings:	
Amount available from FHLB	1,347,076
Amount available from unsecured lines of credit with correspondent banks	150,000
Amount available for Federal Reserve discount window	1,721,641
	<u>\$ 6,012,677</u>

We maintained an average of \$1.17 billion outstanding in overnight interest-bearing deposits during 2023, compared with \$2.10 billion for 2022. On average, noninterest-bearing demand deposits decreased \$0.79 billion, or 14.26%, in 2023. Ending noninterest-bearing demand deposits declined \$0.92 billion compared to December 31, 2022, driven by a decline in commercial escrow balances.

We intend to maintain sufficient liquidity at all times to meet our funding commitments and growth plans. During 2023, we primarily funded our growth in total assets with excess liquidity and existing deposits.

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Capital Resources: Federal banking laws set forth certain regulatory capital requirements that apply to us. Within the framework established by the law, we qualify for the classification "well-capitalized," which is the highest regulatory classification.

Additional information concerning our capital resources is contained in Note 19, "Regulatory Capital Requirements," in the Notes to Consolidated Financial Statements.

Impact of Inflation and Changing Prices: The financial statements and related data presented herein have been prepared in accordance with GAAP. These principles dictate that financial position and operating results be measured in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. A financial institution's assets and liabilities are primarily monetary in nature. As a result, general levels of inflation typically have a less significant effect on financial performance than do changes in interest rates; however, noninterest expenses tend to rise in periods of general inflation.

Interest Sensitivity: Prudent balance sheet management requires processes that monitor and protect us against unanticipated or significant changes in the level of market interest rates. Net interest income stability should be maintained in changing rate environments by ensuring that interest rate risk is kept to an acceptable level. The ability to reprice our interest-sensitive assets and liabilities over various time intervals is of critical importance.

We use a variety of traditional and on-balance-sheet tools to manage our interest rate risk. Gap analysis, which monitors the "gap" between interest-sensitive assets and liabilities, is one such tool. In addition, we use simulation modeling to forecast future balance sheet and income statement behavior. By studying the effects on net interest income of rising, stable, and falling interest rate scenarios, we can position ourselves to take advantage of anticipated interest rate movement, and protect ourselves from unanticipated rate movements, by understanding the dynamic nature of our balance sheet components.

An asset-sensitive balance sheet structure implies that assets, such as loans and securities, will reprice faster than liabilities; consequently, net interest income should be positively affected in an increasing interest rate environment. Conversely, a liability-sensitive balance sheet structure implies that liabilities, such as deposits, will reprice faster than assets; consequently, net interest income should be positively affected in a decreasing interest rate environment. At December 31, 2023, we had \$4.92 billion more liabilities than assets subject to repricing within one year. This is a one-day position that is continually changing and is not necessarily indicative of our position at any other time.

Market Risk Management: The effective management of market risk is essential to achieving our strategic objectives. As a financial institution, our most significant market risk exposure is interest rate risk. The primary objective of the management of interest rate risk is to minimize the effect that changes in interest rates have on net interest income. This is accomplished through active management of asset and liability portfolios, with a focus on the strategic pricing of asset and liability accounts and management of appropriate maturity mixes of assets and liabilities. The goal of these activities is the development of appropriate maturity and repricing opportunities in our portfolios of assets and liabilities that will produce consistent net interest income during periods of changing interest rates. Our ALCO monitors loan, investment, and liability portfolios to ensure comprehensive management of interest rate risk. These portfolios are analyzed for proper fixed-rate and variable-rate mixes under various interest rate scenarios.

The asset and liability management process is designed to achieve relatively stable net interest margins and ensure liquidity by coordinating the volumes, maturities, and/or repricing opportunities of earning assets, deposits, and borrowed funds. It is the responsibility of the ALCO to determine and achieve the most appropriate volume and mix of earning assets and interest-bearing liabilities, as well as ensure an adequate level of liquidity and capital

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within the context of corporate performance goals. The ALCO also sets policy guidelines and establishes long-term strategies with respect to interest rate risk exposure and liquidity. The ALCO meets regularly to review our interest rate risk and liquidity positions in relation to present and prospective market and business conditions. In addition, funding and balance sheet management strategies are adopted with the intent to ensure that potential impacts on earnings and liquidity due to fluctuations in interest rates are within acceptable standards. We currently do not use off-balance-sheet financial instruments to manage interest rate sensitivity and net interest income at the portfolio level.

Earnings Simulation Analysis: Management uses simulation analysis to measure the sensitivity of net interest income to changes in interest rates. The model calculates an earnings estimate based on current and projected balances and rates. This method is subject to the accuracy of the assumptions that underlie the process, but it provides an additional analysis of the sensitivity of earnings to changes in interest rates to static gap analysis. Assumptions used in the model rates are derived from historical trends, peer analysis, and management's outlook, and include loans and deposit growth rates and projected yields and rates. All maturities, calls, and prepayments in the securities portfolio are assumed to be reinvested in like instruments. Mortgage loans and mortgage-backed securities prepayment assumptions are based on industry estimates of prepayment speeds for portfolios with similar coupon ranges and seasoning. Different interest rate scenarios and yield curves are used to measure the sensitivity of earnings to changing interest rates. Interest rates on different asset and liability accounts move differently when the prime rate changes and is reflected in the different rate scenarios.

The following table represents interest rate sensitivity on our net interest income using different rate scenarios:

Change in Prime Rate	% Change in Net Interest Income
+ 300 basis points	(14.75)%
+ 200 basis points	(9.76)%
+ 100 basis points	(4.92)%
- 100 basis points	(2.53)%
- 200 basis points	(2.60)%

Market Value Simulation: Market value simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. Market values are calculated based on discounted cash flow analysis. The net market value is the market value of all assets minus the market value of all liabilities. The change in net market value over different rate environments is an indication of the longer term repricing risk in the balance sheet. The same assumptions are used in the market value simulation as in the earnings simulation. The following table reflects the change in net market value over different rate environments:

Change in Prime Rate	Change in Net Market Value (in thousands)
+ 300 basis points	\$ (321,103)
+ 200 basis points	\$ (223,709)
+ 100 basis points	\$ (111,804)
- 100 basis points	\$ (211,815)
- 200 basis points	\$ (165,126)

Credit Risk Elements: We place commercial loans in nonaccrual status when management believes, after considering economic and business conditions and collections efforts, that the borrower's financial condition is such that full collection of principal and interest is doubtful or when the loan is past due for 90 days or more, unless the debt is both well-secured and in the process of collection. Residential mortgage loans and other consumer loans are placed on nonaccrual status when full collection of principal and interest becomes doubtful or

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when the loan is past due for 120 days or more, unless the debt is both well-secured and in the process of collection.

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to our plans, objectives, future performance, and business, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "believes," "plans," "intends," "estimates," and other similar expressions or future or conditional verbs such as "will," "should," "would," "may," "likely," "probably," "possibly," and "could" are intended to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties and are based on the beliefs and assumptions of our management.

Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following:

- competitive pressures in the banking industry may increase significantly;
- changes in the interest rate environment may reduce margins and/or the volumes and values of loans made or held, as well as the value of other financial assets held;
- unforeseen outflow of cash or deposits or an inability to access capital markets, which could jeopardize our overall liquidity or capitalization;
- changes in the creditworthiness of customers may possibly impair the collectability of loans;
- insufficiency of our allowance for credit losses due to market conditions, inflation, changing interest rates, or other factors;
- adverse developments in the financial industry generally, such as the recent bank failures, responsive measures to mitigate and manage such developments, related supervisory and regulatory actions and costs, and related impacts on customer and client behavior;
- general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit or other services;
- geopolitical instability, including wars, conflicts, civil unrest, and terrorist attacks may impact, directly or indirectly, our business;
- the effects of weather-related or natural disasters may negatively affect our operations and/or our loan portfolio and increase our cost of conducting business;
- public health events (such as the COVID-19 pandemic) and governmental and societal responses to them;
- changes in the legislative or regulatory environment, including changes in accounting standards and tax laws, may adversely affect our businesses;
- costs or difficulties related to the integration of the business and the businesses we have acquired may be greater than expected;
- expected cost savings associated with pending or recently completed acquisitions may not be fully realized or realized within the expected time frame;
- cybersecurity threats or attacks, the implementation of new technologies, and the ability to develop and maintain reliable electronic systems;

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- our competitors may have greater financial resources and develop products that enable them to compete more successfully;
- changes in business conditions;
- changes in the securities market; and
- changes in our local economy with regard to our market area.

We undertake no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events, or otherwise.

NON-GAAP FINANCIAL MEASURES

This report contains financial information determined by methods other than in accordance with GAAP. The Company's management uses these non-GAAP financial measures in its analysis of the Company's performance. Management believes presentations of these non-GAAP financial measures provide useful supplemental information that is essential to a proper understanding of the operating results of the Company's core businesses. These non-GAAP disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

The Company presents return on average assets, return on average tangible assets, return on average equity, return on average tangible equity, return on average common equity, and return on average tangible common equity. The Company excludes the balance of average goodwill and other intangible assets from our calculation of return on average tangible assets and return on average tangible equity. This adjustment allows management to review the Company's core operating results and core capital position.

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(dollars in thousands)

Year Ended December 31,	2023	2022	2021
Average assets (GAAP basis)	\$ 16,656,686	\$ 16,268,014	\$ 15,384,662
Less: average goodwill and other intangibles	525,546	504,167	501,689
Average tangible assets (non-GAAP)	<u>\$ 16,131,140</u>	<u>\$ 15,763,847</u>	<u>\$ 14,882,973</u>
Average equity (GAAP basis)	\$ 1,974,994	\$ 1,878,036	\$ 1,855,948
Less: average goodwill and other intangibles	525,546	504,167	501,689
Average tangible equity (non-GAAP)	<u>\$ 1,449,448</u>	<u>\$ 1,373,869</u>	<u>\$ 1,354,259</u>
Average common equity (GAAP)	\$ 1,959,208	\$ 1,861,496	\$ 1,840,261
Less: average goodwill and other intangibles	525,546	504,167	501,689
Average tangible common equity (non-GAAP)	<u>\$ 1,433,662</u>	<u>\$ 1,357,329</u>	<u>\$ 1,338,572</u>
Net interest income (GAAP)	\$ 457,780	\$ 461,365	\$ 402,369
Add: Tax equivalent basis adjustment	4,659	3,098	2,695
Tax equivalent net interest income (non-GAAP)	<u>\$ 462,439</u>	<u>\$ 464,463</u>	<u>\$ 405,064</u>
Net income (GAAP)	\$ 153,715	\$ 188,987	\$ 215,383
Add: Amortization of intangibles, net of tax	11,182	8,390	8,790
Tangible net income (non-GAAP)	<u>\$ 164,897</u>	<u>\$ 197,377</u>	<u>\$ 224,173</u>
Total revenue (GAAP)	\$ 694,122	\$ 686,935	\$ 680,330
Net (gain)/loss on investment securities	—	—	(1,252)
(Gain) loss on sale of equity investments	(9,377)	—	30
Operating revenue (non-GAAP)	<u>\$ 684,745</u>	<u>\$ 686,935</u>	<u>\$ 679,108</u>
Total noninterest expenses (GAAP)	\$ 489,222	\$ 441,279	\$ 417,272
Less: Amortization of intangibles	14,155	10,620	11,127
Operating expense (non-GAAP)	<u>\$ 475,067</u>	<u>\$ 430,659</u>	<u>\$ 406,145</u>

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Year Ended December 31,	2023	2022	2021
Return on average assets (GAAP basis)	0.92 %	1.16 %	1.40 %
Impact of excluding average goodwill and other intangibles and amortization	0.10 %	0.09 %	0.11 %
Return on average tangible assets (non-GAAP)	1.02 %	1.25 %	1.51 %
Return on average equity (GAAP basis)	7.78 %	10.06 %	11.61 %
Impact of excluding average goodwill and other intangibles and amortization	3.60 %	4.31 %	4.94 %
Return on average tangible equity (non-GAAP)	11.38 %	14.37 %	16.55 %
Return on average common equity (GAAP basis)	7.85 %	10.15 %	11.70 %
Impact of excluding average goodwill and other intangibles and amortization	3.65 %	4.39 %	5.05 %
Return on average tangible common equity (non-GAAP)	11.50 %	14.54 %	16.75 %
Efficiency ratio (GAAP)	70.48 %	64.24 %	61.33 %
Impact of exclusions	(1.10)%	(1.55)%	(1.52)%
Efficiency ratio (non-GAAP) (1)	69.38 %	62.69 %	59.81 %

(1) Operating expense/operating revenue.

The Company presents book value per share (period-ended shareholders' equity divided by the period-ended common shares outstanding) and tangible book value per share. In calculating tangible book value per share, the Company excludes goodwill and other intangible assets, allowing management to review its core capital position.

(dollars in thousands, except per share data)

Year Ended December 31,	Per share		
	2023	2022	2021
Book value (GAAP basis)	\$ 27.24	\$ 25.73	\$ 26.13
Impact of excluding average goodwill and other intangibles and amortization	(6.96)	(6.89)	(6.98)
Tangible book value (non-GAAP)	\$ 20.28	\$ 18.84	\$ 19.15
Period End:			
Common equity (GAAP basis)	\$ 2,039,972	\$ 1,873,960	\$ 1,899,314
Less: goodwill and other intangibles	520,969	501,645	507,566
Tangible common equity (non-GAAP)	\$ 1,519,003	\$ 1,372,315	\$ 1,391,748

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make judgments, assumptions, and estimates in certain circumstances that affect amounts reported in the Consolidated Financial Statements and the accompanying footnotes. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments.

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We consider accounting estimates to be critical to reported financial results if the outcome of such estimates could have a material impact on our financial statements based on the following:

- The estimate requires management to make assumptions about matters that are highly uncertain.
- Management could have potentially utilized a different set of assumptions and estimates in the current period.
- Changes in the estimate are reasonably likely to occur from period to period.

We consider our policy for the allowance for credit losses on loans to be a critical accounting policy. The allowance for credit losses on loans includes both the allowance for loan losses and the allowance for loan-related off-balance-sheet credit exposures, and is calculated with the objective of maintaining a life-of-credit reserve for current expected credit losses and the remaining contractual life of the portfolio. Management uses loss factors, based on estimated probability of default for internal risk ratings and loss given default, to determine the allowance for credit losses for the majority of the loan portfolio and off-balance-sheet credit exposures. A well-documented methodology, which includes the use of macroeconomic variables sourced from third parties and weightings based on the Company's economic outlook, has been developed and is applied to ensure consistency across our markets. We also have a formalized independent loan review program to evaluate loan administration, credit quality, and compliance with corporate loan standards. This program includes regularly scheduled reviews of problem loan reports, delinquencies, and charge-offs.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for credit losses on loans. Such agencies may require us to recognize additions to the allowance based on their judgments of information available to them at the time of their examination. The allowance represents our best estimate of incurred losses in the loan portfolio, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on our financial condition and results of operations. Significant accounting policies and effects of new accounting pronouncements are discussed in detail in Note 1, "Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
TowneBank

Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of TowneBank (the "Company") as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively referred to as the "consolidated financial statements"). We have also audited the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by COSO.

Basis for Opinion

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

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

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting

principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Critical Audit Matter

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

Allowance for Loan Credit Losses on Loans

As described in Notes 1 and 5 to the consolidated financial statements, the Company's consolidated allowance for loan credit losses on loans ("ACL") was \$126.5 million at December 31, 2023 and represents an estimate of expected losses inherent within the Company's loan portfolio. As described by management, estimating the ACL includes collectively assessing loans aggregated into pools with similar risk characteristics and individually evaluating loans that do not share similar risk characteristics.

The Company builds an estimate of expected credit losses ("ECL") using a methodology that incorporates probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") which are derived from various vendor models, internally developed statistical models, or nonstatistical estimation approaches. PD is projected in these models or estimation approaches using loan level and macroeconomic variables. Multiple outcomes are weighted based on the Company's economic outlook and incorporate relevant information including the Company's historical loss experience, current conditions, and reasonable and supportable forecast. After quantitative expected loss estimates are calculated, management adjusts these estimates to incorporate considerations of current trends and conditions that are not captured in the quantitative loss estimates using qualitative and/or environmental factors.

FORV/S

We identified the ACL as a critical audit matter. The principal considerations for our determination of the ACL as a critical audit matter includes the subjectivity and complexity involved in management's determination of loan credit loss estimates and assumptions, specifically the determination of the weightings applied to the reasonable and supportable forecast and qualitative adjustments made by management to reflect current trends and conditions not captured within the quantitative models. This required an increased auditor effort, including specialized skill and knowledge, and a high degree of auditor subjectivity in evaluating the estimated credit losses for the loan portfolio.

The primary procedures we performed to address this critical audit matter included:

- We tested the design and operating effectiveness of controls relating to management's determination of the ACL, including controls over:
 - The completeness and accuracy of inputs into the model used to determine the allowance for loan credit losses.
 - Management's review of a reasonable and supportable forecast.
 - Management's review of the qualitative adjustments to the modeled ECL output.
- We evaluated management's application of qualitative adjustments, including testing the accuracy of the supporting calculations and evaluating whether the qualitative factors appropriately addressed risks that were not fully accounted for in the quantitative ECL component of the methodology.
- We evaluated management's determination of reasonable and supportable forecast, including testing the application of the forecast, including scenario weightings, in the quantitative ECL calculation. We also utilized our internal specialists to assist us in testing the application of the forecast to the ECL calculation.

FORVIS, LLP

We have served as the Company's auditor since 1999.

Charlotte, NC
February 28, 2024

TOWNEBANK

MANAGEMENT'S REPORT ON INTERNAL CONTROL

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of TowneBank is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this report. The accompanying Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America and include, as necessary, best estimates and judgments by management. Management also prepared other information in the Annual Report and is responsible for its accuracy and consistency with the Consolidated Financial Statements. Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for our compliance with laws and regulations relating to safety and soundness designated by the Federal Deposit Insurance Corporation ("FDIC"). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We maintain systems of controls that we believe are reasonably designed to provide our management with timely and accurate information about our operations. The system of internal controls includes, but is not limited to, maintaining internal audit and compliance functions; establishing formal written policies, procedures, and codes of conduct; training personnel; and segregating key duties and functions, where appropriate.

The Audit Committee of the Board of Directors participates in the adequacy of the system of internal controls and financial reporting. The Audit Committee consists of independent directors who meet regularly with management, the internal auditor, and the independent auditors to review the scope of their work and findings.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2023, including controls over regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for Consolidated Reports of Condition and Income. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on our assessment we believe that, as of December 31, 2023, our internal control over financial reporting is effective based on those criteria.

Financial Statements

Our management is responsible for the preparation, integrity, and fair presentation of our published Consolidated Financial Statements as of December 31, 2023, and for the year then ended. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts, some of which are based on management's judgments and estimates.

TOWNEBANK

MANAGEMENT'S REPORT ON INTERNAL CONTROL

Compliance with Designated Laws and Regulations

Our management is also responsible for compliance with federal and state laws and regulations concerning dividend restrictions and federal laws and regulations concerning loans to insiders designated by the FDIC as safety and soundness laws and regulations. Management assessed our compliance with the designated laws and regulations. Based on this assessment, our management believes that we complied, in all significant respects, with the designated laws and regulations relating to safety and soundness for the year ended December 31, 2023.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for Consolidated Reports of Condition and Income, as of December 31, 2023, has been audited by FORVIS, the independent registered public accounting firm, as stated in their report dated February 28, 2024. A copy of this report, which is combined with the report expressing an opinion on the Consolidated Financial Statements, precedes.

February 28, 2024

/s/ William I. Foster III

William I. Foster III
President and Chief Executive Officer

/s/ William B. Littreal

William B. Littreal
Senior Executive Vice President and Chief Financial Officer

TOWNEBANK

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and due from banks	\$ 85,584	\$ 55,381
Interest-bearing deposits at FRB-Richmond	939,356	1,000,205
Interest-bearing deposits in financial institutions	103,417	97,244
Total Cash and Cash Equivalents	1,128,357	1,152,830
Securities available for sale, at fair value (amortized cost of \$2,292,963 and \$2,033,040, and allowance for credit losses of \$1,498 and \$1,086 at December 31, 2023 and 2022, respectively)	2,129,342	1,840,902
Securities held to maturity, at amortized cost (fair value of \$462,656 and \$518,993 at December 31, 2023 and 2022, respectively)	477,592	548,475
Less: allowance for credit losses	(84)	(83)
Securities held to maturity, net of allowance for credit losses	477,508	548,392
Other equity securities	13,792	6,424
FHLB stock	21,372	9,617
Total Securities	2,642,014	2,405,335
Mortgage loans held for sale	149,987	102,339
Loans, net of unearned income and deferred costs	11,329,021	10,794,602
Less: allowance for credit losses	(126,461)	(110,816)
Net Loans	11,202,560	10,683,786
Premises and equipment, net	337,598	304,802
Goodwill	456,335	458,482
Other intangible assets, net	64,634	43,163
BOLI	277,445	258,069
Other assets	576,109	436,461
TOTAL ASSETS	\$ 16,835,039	\$ 15,845,267
LIABILITIES AND EQUITY		
Deposits:		
Noninterest-bearing demand	\$ 4,342,701	\$ 5,265,186
Interest-bearing:		
Demand and money market accounts	6,757,619	6,185,075
Savings	336,492	374,987
Certificates of deposit	2,456,394	1,468,975
Total Deposits	13,893,206	13,294,223
Advances from the FHLB	203,958	29,674
Subordinated debt, net	255,796	247,420
Repurchase agreements and other borrowings	32,826	40,918
Total Borrowings	492,580	318,012
Other liabilities	393,375	344,275
TOTAL LIABILITIES	14,779,161	13,956,510
Preferred stock, 2,000,000 shares authorized and unissued	—	—
Common stock, \$1.667 par value: 150,000,000 shares authorized		
Issued and outstanding shares - 74,893,462 in 2023 and 72,841,379 in 2022	124,847	121,426
Capital surplus	1,112,761	1,052,262
Retained earnings	921,126	840,777
Common stock issued to deferred compensation trust, at cost		
1,004,717 shares in 2023 and 931,030 shares in 2022	(20,813)	(18,974)
Deferred compensation trust	20,813	18,974
Accumulated other comprehensive income (loss)	(118,762)	(140,505)
TOTAL SHAREHOLDERS' EQUITY	2,039,972	1,873,960
Noncontrolling interest	15,906	14,797
TOTAL EQUITY	2,055,878	1,888,757
TOTAL LIABILITIES AND EQUITY	\$ 16,835,039	\$ 15,845,267

See accompanying Notes to Consolidated Financial Statements.

TOWNEBANK

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per share data)

For the Years Ended December 31, 2023, 2022, and 2021

	2023	2022	2021
INTEREST INCOME:			
Loans, including fees	\$ 562,160	\$ 430,990	\$ 395,322
Investment securities	77,982	51,207	31,472
Interest-bearing deposits in financial institutions and federal funds sold	54,135	26,859	3,432
Mortgage loans held for sale	10,965	8,880	13,227
Total interest income	705,242	517,936	443,453
INTEREST EXPENSE:			
Deposits	219,976	40,815	27,109
Advances from the FHLB	17,754	926	1,224
Subordinated debt, net	8,886	14,436	11,816
Repurchase agreements and other borrowings	846	394	935
Total interest expense	247,462	56,571	41,084
Net interest income	457,780	461,365	402,369
PROVISION FOR CREDIT LOSSES	18,679	8,606	(16,774)
Net interest income after provision for credit losses	439,101	452,759	419,143
NONINTEREST INCOME:			
Residential mortgage banking income, net	39,415	47,150	109,304
Insurance commissions and other income, net	90,305	75,579	67,541
Property management income, net	47,791	44,246	42,175
Real estate brokerage income, net	3,530	11,253	13,290
Service charges on deposit accounts	11,706	10,130	9,584
Credit card merchant fees, net	6,709	6,592	6,042
BOLI	7,402	7,140	7,265
Other income	20,107	23,480	21,538
Gain (loss) on sale of equity investments	9,377	—	(30)
Net gain (loss) on investment securities	—	—	1,252
Total noninterest income	236,342	225,570	277,961
NONINTEREST EXPENSE:			
Salaries and employee benefits	270,158	255,625	245,844
Occupancy	36,886	34,669	31,657
Furniture and equipment	17,178	15,080	14,175
Amortization - intangibles	14,155	10,620	11,127
Software	24,666	18,959	16,911
Data processing	15,033	13,874	13,779
Professional fees	12,286	10,020	9,548
Advertising and marketing	15,390	15,997	13,504
Other expenses	83,470	66,435	60,727
Total noninterest expense	489,222	441,279	417,272
Income before income tax expense and noncontrolling interest	186,221	237,050	279,832
Provision for income tax expense	31,085	46,581	54,798
Net income	\$ 155,136	\$ 190,469	\$ 225,034
Net income attributable to noncontrolling interest	(1,421)	(1,482)	(9,651)
Net income attributable to TowneBank	\$ 153,715	\$ 188,987	\$ 215,383
Per common share information			
Basic earnings	\$ 2.06	\$ 2.60	\$ 2.97
Diluted earnings	\$ 2.06	\$ 2.60	\$ 2.97

See accompanying Notes to Consolidated Financial Statements.

TOWNEBANK

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

For the Years Ended December 31, 2023, 2022, and 2021

	2023	2022	2021
Net income	\$ 155,136	\$ 190,469	\$ 225,034
Other comprehensive income (loss)			
Unrealized gains (losses) on securities			
Unrealized holding gains (losses) arising during the period	28,930	(208,592)	(39,532)
Tax effect	(6,985)	46,202	8,687
Realized (gains) losses reclassified into earnings	—	—	(1,252)
Tax effect	—	—	263
Net unrealized gains (losses)	21,945	(162,390)	(31,834)
Pension and postretirement benefit plans			
Prior service costs	(216)	154	—
Tax effect	47	(34)	—
Actuarial gain (loss)	1,550	13,594	718
Tax effect	(337)	(3,010)	(159)
Amortization of prior service costs	662	675	684
Tax effect	(155)	(149)	(151)
Amortization of net actuarial (gain) loss	(2,303)	75	199
Tax effect	550	(17)	(44)
Change in retirement plans, net of tax	(202)	11,288	1,247
Other comprehensive income (loss), net of tax	21,743	(151,102)	(30,587)
Comprehensive income	\$ 176,879	\$ 39,367	\$ 194,447
Comprehensive income attributable to noncontrolling interest	(1,421)	(1,482)	(9,651)
Comprehensive income attributable to TowneBank	\$ 175,458	\$ 37,885	\$ 184,796

See accompanying Notes to Consolidated Financial Statements.

TOWNEBANK

CONSOLIDATED STATEMENTS OF EQUITY

(dollars in thousands, except share data)

For the Years Ended December 31, 2023, 2022, and 2021

	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Deferred Compensation Trust	Common Stock Issued to Deferred Compensation Trust	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	Total
Balance, December 31, 2020	72,667,541	\$ 121,132	\$ 1,046,642	\$ 557,889	\$ 16,969	\$ (16,969)	\$ 41,184	\$ 16,981	\$ 1,783,828
Net income	—	—	—	215,383	—	—	—	9,651	225,034
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	(30,587)	—	(30,587)
Cash dividends declared on common stock (\$0.78 per share)	—	—	—	(56,667)	—	—	—	—	(56,667)
Directors' deferred compensation	—	—	—	—	1,288	(1,288)	—	—	—
Distribution of interests in joint ventures, net	—	—	—	—	—	—	—	(9,772)	(9,772)
Issuance of common stock - stock compensation plans	16,444	32	4,306	—	—	—	—	—	4,338
Balance, December 31, 2021	72,683,985	\$ 121,164	\$ 1,050,948	\$ 716,605	\$ 18,257	\$ (18,257)	\$ 10,597	\$ 16,860	\$ 1,916,174
Net income	—	—	—	188,987	—	—	—	1,482	190,469
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	(151,102)	—	(151,102)
Cash dividends declared on common stock (\$0.89 per share)	—	—	—	(64,815)	—	—	—	—	(64,815)
Directors' deferred compensation	—	—	—	—	717	(717)	—	—	—
Distribution of interests in joint ventures, net	—	—	—	—	—	—	—	(2,307)	(2,307)
Issuance of common stock - stock compensation plans	157,394	262	3,046	—	—	—	—	—	3,308
Purchase of noncontrolling interest	—	—	(1,732)	—	—	—	—	(1,238)	(2,970)
Balance, December 31, 2022	72,841,379	\$ 121,426	\$ 1,052,262	\$ 840,777	\$ 18,974	\$ (18,974)	\$ (140,505)	\$ 14,797	\$ 1,888,757
Net income	—	—	—	153,715	—	—	—	1,421	155,136
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	21,743	—	21,743
Cash dividends declared on common stock (\$0.98 per share)	—	—	—	(73,366)	—	—	—	—	(73,366)
Directors' deferred compensation	—	—	—	—	1,839	(1,839)	—	—	—
Investment of noncontrolling interest in consolidated joint ventures	—	—	—	—	—	—	—	786	786
Distribution of interests in joint ventures, net	—	—	—	—	—	—	—	(1,098)	(1,098)
Issuance of common stock - acquisitions	1,897,019	3,162	56,442	—	—	—	—	—	59,604
Issuance of common stock - stock compensation plans	155,064	259	6,004	—	—	—	—	—	6,263
Purchase of noncontrolling interest	—	—	(1,947)	—	—	—	—	—	(1,947)
Balance, December 31, 2023	74,893,462	\$ 124,847	\$ 1,112,761	\$ 921,126	\$ 20,813	\$ (20,813)	\$ (118,762)	\$ 15,906	\$ 2,055,878

See accompanying Notes to Consolidated Financial Statements.

TOWNEBANK

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

For the Years Ended December 31, 2023, 2022, and 2021

	2023	2022	2021
OPERATING ACTIVITIES:			
Net income	\$ 155,136	\$ 190,469	\$ 225,034
Adjustments to reconcile net income to net cash from operating activities:			
Net amortization of securities	7,046	12,171	10,757
Investment securities gains	—	—	(1,252)
Depreciation, amortization, and other intangible amortization	34,224	28,698	28,798
Amortization of debt issuance costs	619	864	597
Provision for credit losses	18,679	8,606	(16,774)
BOLI	(7,402)	(6,237)	(7,265)
Deferred income tax (benefit) expense	(3,319)	10,365	143
Share-based compensation expense	7,022	5,216	5,635
Gain on sale and write-down of foreclosed assets	(198)	(596)	(265)
Gain on sale of equity investments	(9,377)	—	—
Originations of mortgage loans held for sale	(2,026,505)	(2,867,601)	(5,539,965)
Proceeds from sales of mortgage loans held for sale	2,035,953	3,199,781	5,917,127
Gain on sales of mortgage loans held for sale	(57,096)	(76,216)	(194,667)
Changes in:			
Interest receivable	(8,493)	(14,018)	3,018
Other assets	(8,616)	(14,732)	3,522
Interest payable	17,007	1,508	(3,311)
Other liabilities	6,624	(62,773)	87,691
Net cash provided by operating activities	161,304	415,505	518,823
INVESTING ACTIVITIES:			
Purchase of available-for-sale securities	(159,207)	(433,236)	(688,748)
Purchase of held-to-maturity securities	—	(396,059)	(139,795)
Purchase of other securities	(773)	—	(443)
Sale of available-for-sale securities	—	—	18,819
Net change in FHLB stock	(11,755)	3,529	16,989
Proceeds from maturities, calls, and prepayments of available-for-sale securities	130,489	177,593	181,866
Proceeds from maturities, calls, and prepayments of held-to-maturity securities	70,447	1,092	2,039
Proceeds from maturities, calls, and prepayments of other securities	—	335	177
Net (increase) decrease in loans	(263,287)	(1,293,484)	119,877
Net change in investment in LIHTC	(84,663)	(60,957)	(10,037)
Purchases of premises and equipment	(44,135)	(52,286)	(31,205)
Proceeds from sales of premises and equipment	1,199	784	3,699
Proceeds from sales of foreclosed assets	7,448	6,991	3,818
Proceeds from BOLI	—	903	1,665
Investment from noncontrolling interest in consolidated joint ventures	786	—	—
Acquisition of business, net of cash acquired	17,776	(2,418)	(26,078)
Net cash used for investing activities	(335,675)	(2,047,213)	(547,357)
FINANCING ACTIVITIES:			
Net change in deposit accounts	84,411	(279,403)	2,000,460
Net change in short-term borrowings	141,152	(35,825)	(448,791)
Repayment of long-term borrowings	(1,239)	(125,747)	(25,721)
Proceeds from issuance of subordinated debt, net of issuance costs	—	246,904	—
Redemption of subordinated debt	—	(250,000)	—
Purchase of noncontrolling interest	(1,947)	(2,970)	—
Distribution of noncontrolling interest	(1,098)	(2,307)	(9,772)
Cash dividends paid	(71,381)	(62,750)	(55,293)
Net cash (used for) provided by financing activities	149,898	(512,098)	1,460,883
Change in cash and cash equivalents	(24,473)	(2,143,806)	1,432,349
Cash and cash equivalents at beginning of year	1,152,830	3,296,636	1,864,287
Cash and cash equivalents at end of year	\$ 1,128,357	\$ 1,152,830	\$ 3,296,636
Supplemental cash flow information:			
Cash paid for interest	\$ 230,455	\$ 55,063	\$ 44,395
Cash paid for income taxes	\$ 13,446	\$ 24,180	\$ 51,006
Noncash financing and investing activities:			
Transfer from loans to foreclosed property	\$ 5,262	\$ 2,371	\$ 3,111
Sales of foreclosed assets financed by the Company	\$ —	\$ —	\$ 475
Net unrealized gain (loss) on available-for-sale securities, net of tax	\$ 21,945	\$ (162,390)	\$ (31,834)
Dividends declared but not paid	\$ 18,888	\$ 16,900	\$ 14,835

See accompanying Notes to Consolidated Financial Statements.

TOWNEBANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business: TowneBank was organized and incorporated under the laws of the Commonwealth of Virginia on September 1, 1998, and commenced operations on April 8, 1999. Through its banking and non-banking subsidiaries, the Company provides a diverse range of financial services and products throughout Richmond, Virginia, the Greater Hampton Roads region in southeastern Virginia, northeastern North Carolina, and the Raleigh, Charlotte, Greensboro, and Greenville, North Carolina, metropolitan areas.

Basis of presentation: The Consolidated Financial Statements include the accounts of the Company and all other entities in which the Company has a controlling financial interest. The Company reposts any noncontrolling interests in its subsidiaries in the equity section of the Consolidated Balance Sheets and separately presents the income and loss attributable to the noncontrolling interest of a consolidated subsidiary in its Consolidated Statements of Income. The accompanying Consolidated Financial Statements are prepared in conformity with GAAP and prevailing practices of the banking industry. All significant intercompany balances and transactions have been eliminated in consolidation. The following is a summary of the significant accounting and reporting policies used in preparing the Consolidated Financial Statements.

Reclassifications and corrections: To maintain consistency and comparability, certain amounts from prior periods have been reclassified to conform to current period presentation with no effect on net income or shareholders' equity as previously reported.

Use of estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions. The material estimate that is particularly susceptible to significant changes in the near term relates to the determination of the allowance for credit losses.

Cash and cash equivalents: For purposes of reporting cash flows, the Company considers cash and due from banks, interest-bearing deposits in financial institutions, and federal funds sold as cash and cash equivalents. Generally, federal funds and securities purchased under agreements to resell are purchased and sold for one-day periods.

Current expected credit losses: The Company's allowance for credit losses is determined using a CECL model. Financial instruments, measured at amortized cost, potentially held by TowneBank and subject to the measurement of credit losses under the CECL methodology include loans receivable, HTM debt securities, trade receivables, net investments in leases, and off-balance-sheet credit exposures not accounted for as insurance, unless specifically excluded from scope. Financial assets measured at an amortized cost basis are presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value and the amount expected to be collected on the financial asset. AFS debt securities are accounted for as an allowance rather than as a direct write-down of the AFS debt securities which management does not intend to sell or does not believe that it is more likely than not they will be required to sell.

Investment securities: Investment securities are classified in three categories and accounted for as follows:

- a) Debt securities that the Company has the positive intent and ability to hold to maturity are classified as HTM securities and reported at amortized cost.

TOWNEBANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- b) Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- c) Debt securities not classified as either HTM or trading securities are classified as AFS securities and reported at fair value, with unrealized holding gains and losses, not related to impairment, excluded from earnings and reported net of tax as other comprehensive income, a separate component of shareholders' equity, until realized.

Interest income on debt securities includes the amortization of purchase premiums and discounts. Premiums and discounts on securities are generally amortized on the effective yield method without anticipating prepayments, except for MBSs where prepayments are anticipated. Premiums on callable securities are amortized to their earliest call date.

Gains and losses on sales of securities are determined on a trade date basis using specific identification of the adjusted cost of each security and included in noninterest income. Amortization of premiums and accretion of discounts are computed by the effective yield method and included in interest income.

Debt securities are evaluated individually at each trade level. A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income on a timely basis. At a minimum, debt securities are evaluated for potential losses on a quarterly basis, and more frequently, if deemed necessary. We charge off any portion of an investment security we determine to be uncollectible. The amortized cost basis, excluding accrued interest, is charged off through the allowance for credit losses. Accrued interest is charged off as a reduction to interest income. Recoveries of previously charged off principal amounts are recognized in our provision for credit losses when received.

When the fair value of an individual AFS debt security has declined below its amortized cost basis, the Company will assess whether (i) we intend to sell, or (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either is affirmative, any previously recognized allowances are charged off and the security's amortized cost is written down to fair value through income. If neither is affirmative, the Company will assess whether the decline is from a credit loss or other factor.

In our assessment of whether the decline in fair value of AFS debt securities below the amortized cost is due to credit factors, all relevant information is considered at the individual security level. Specifically, the Company considers both qualitative and quantitative factors:

- Qualitative Factors
 - Market spread
 - The extent to which the fair value is less than the amortized cost basis
 - Adverse changes in the financial condition of the issuer
 - Adverse conditions specifically related to the security, such as past due principal or interest
 - Adverse changes in security ratings
 - Economic conditions and demographics
- Quantitative Factors
 - The present value of cash flows expected to be collected from the security compared with the amortized cost basis of the security
 - The likelihood the Company will be able to collect all amounts due in accordance with the contractual terms of the debt security

TOWNEBANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

If our assessment indicates that a credit loss exists, the Company records an allowance for credit losses for the excess of the amortized cost basis over the present value of cash flows expected to be collected, subject to the fair value floor. Subsequent changes in the allowance for credit losses are recorded as an addition to (or reversal of) the provision for credit loss expense, in the period in which they occur. This change results in recognition and presentation of credit losses on the income statement.

For HTM debt securities, an allowance is recognized when lifetime credit losses are expected, for an amount that reflects the expected contractual credit losses, even when the risk of credit losses is remote. As such, credit losses for HTM debt securities will generally be recognized earlier than credit losses for AFS debt securities, which are not recognized until there is evidential support of a potential loss.

Loans: Our loan portfolio is divided into portfolio segments, which are further broken down into portfolios:

Portfolio Segment	Loan Class
CRE	Construction and development
	Commercial owner occupied
	Commercial non-owner occupied
	Multi-family
Resi-Mort	1 - 4 family mortgage and subordinated mortgage
HELOC	Residential home equity lines of credit
C&I	Commercial and industrial
	Dealer floorplans
Government	Municipal loans / bonds
Indirect	Indirect auto
Consumer	Consumer and other loans

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, generally are stated at the amount of outstanding principal less unamortized fees and costs on originated loans, unearned income, and participation interests sold to other lending institutions. Interest on loans is accrued and credited to income based upon the principal amount outstanding. Fees collected and costs incurred in connection with loans originated are deferred and recognized as interest income over the term of the loan as an adjustment of yield on a level yield basis.

We charge off loans, or portions of loans, we determine to be uncollectible. The amortized cost basis, excluding interest, is charged off as a reduction to the allowance for credit losses. Accrued interest on loans determined to be uncollectible is reversed as a reduction of interest income. When received, recoveries of previously charged off amounts are recorded as an increase to the allowance for credit losses until prior charge-offs have been fully recovered.

Allowance for credit losses on loans: Credit risk is inherent in the business of extending loans to borrowers and is continuously monitored by management and reflected within the allowance for credit losses on loans. The allowance for credit losses on loans is established through a provision for loan losses charged against earnings. It consists of reserves for expected losses that have been identified related to specific borrowing relationships, as well as expected losses inherent in the loan portfolio that are not specifically identified.

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In estimating the allowance for credit losses, loans with similar risk characteristics are aggregated into pools and collectively assessed. Risk characteristics for pooling include, but are not limited to: loan purpose, underlying collateral, and similarities in performance and structure. Some loans are not sufficiently similar in risk characteristics to other loans. These loans are excluded from collective evaluation and evaluated on an individual basis. Loans identified for individual assessment include: substandard loans greater than or equal to \$1.0 million, PCD loans with specific reserves, and/or loans identified as no longer sharing similar risk characteristics with other pooled loans.

The level of the allowance for credit losses on loans is based on management's estimates of expected loss inherent in the portfolio using relevant available information from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. To facilitate the development of these estimates, management utilizes a model that deploys multiple economic scenarios with probability weightings, reasonable and supportable forecasting with reversion to long-term historical loss after two years, and in-depth portfolio analysis.

In determining the allowance for credit losses, management utilizes two approaches:

- Risk parameter - PD, LGD, EAD
- Qualitative adjustment

For government and dealer floorplans, which have limited data history and limited history of defaults, baseline estimated credit losses are adjusted quantitatively to determine the allowance for credit losses. Baseline ECL is defined as the most likely scenario for financial outcome based on the current conditions of U.S. monetary policy, fiscal policy, U.S. dollar strength, and energy prices as provided through widely published macroeconomic modeling tools. For all other segments/portfolios, we build an estimate of ECLs using an expected loss methodology that incorporates risk parameters which are derived from various vendor models, internally developed statistical models, or nonstatistical estimation approaches.

- PD - estimates the frequency of loss events by assigning probabilities of default within each period to each account
- LGD - calculates the loss severity for defaulted accounts relative to their exposure at the point of default
- EAD - calculates the exposure the account faces at default

PD is projected in these models or estimation approaches using loan-level and macroeconomic variables. Loan-level variables can include structural, performance, and credit variables such as amortization terms, balance, and credit scores, including age groupings. Macroeconomic variables, as detailed below, are sourced from third parties. Multiple outcomes are weighted based on the Company's economic outlook and incorporate relevant information about past events, current conditions, and reasonable and supportable forecasts. The weighting of the outcomes of economic scenarios involves significant judgment by management about the effects of matters that are inherently uncertain. Additionally, these weightings are subject to change between periods, and adjustments may be added to capture risk, based on management's assessment of the economic realities, and identified sensitivities, unique to the Company and its markets. For economic forecasts, management uses scenarios from an independent third party.

The Company's PD models share a common definition of default, which include loans that are 90 days past due, on nonaccrual status, and/or have a write-off or obligor bankruptcy. All of the Company's models utilize an eight-quarter reasonable and supportable forecast period followed by a four-quarter input reversion period. The Company's loan segments' LGD was developed from actual cumulative loss history. Based on model development results, the Company applies an average net charge-off rate for each modeling segment utilizing internal loss historical observations. For off-balance-sheet commitments, EAD includes estimates of amounts available to draw

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for loans considered not unconditionally cancellable. Calculations for EAD utilize a flat-rate assumption methodology based on median over time for C&I, consumer, and HELOC loans, and average utilization at default for CRE loans.

For most of the Company's loan segments, prepayment rate assumptions are based on prepayment patterns of pools with shared risk characteristics. Prepayment trends are sensitive to interest rates and the macroeconomic environment. While both fixed-rate and variable-rate loans are influenced by interest rates, variable rate loans are more heavily influenced by the macroeconomic environment. After quantitative expected loss estimates are calculated, management then adjusts these estimates to incorporate considerations of current trends and conditions that are not captured in the quantitative loss estimates through the use of qualitative and/or environmental factors.

The allowance for credit losses on loans is applied to amortized cost, which is defined as the amount at which a financing receivable is originated or acquired, adjusted for applicable accrued interest, accretion of discount, or amortization of premium, discount, and net of deferred fees and costs, collection of cash, and write-offs. ASC 326 allows a company to make a separate accounting policy election to exclude accrued interest receivable balances from the calculation of an allowance, contingent on the company having an accounting policy in place that results in the timely reversal, or write-off, of any unpaid accrued interest. The Company has such a policy in place, and has elected to exclude accrued interest from the calculation of its allowance for credit losses.

It is our policy to assign internal risk grades to all loans as a component of the approval process. Based on the size of the loan, senior credit officers, regional credit administrators, and the Chief Credit Officer review the classification to ensure accuracy and consistency of classifications, which are then validated by the internal loan review process. Loan classifications are internally reviewed to determine if any changes in the circumstances of the loan require a different risk grade. To determine the most appropriate risk grade classification for each loan, the credit officers examine the borrower's liquidity level, asset quality, the amount of the borrower's other indebtedness, cash flow, earnings, sources of financing, and existing lending relationships. The allowances established for expected losses on specific loans are based on a regular analysis and evaluation of classified loans.

Allowance for credit losses - off-balance-sheet credit exposures: The allowance for credit losses on off-balance-sheet credit exposures is a liability account representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if we have the unconditional right to cancel the obligation. The allowance is reported as a component of other liabilities in our Consolidated Balance Sheets. Adjustments to the allowance are reported in our Consolidated Statements of Income as a component of the provision for credit loss expense.

Loans acquired: Loans acquired through the completion of a transfer, including loans acquired in a business combination, which have evidence of more-than-insignificant deterioration of credit quality since origination, are initially recorded at the purchase price plus the allowance for credit losses expected at the time of acquisition. The Day 1 allowance for credit losses established for loans identified with more-than-insignificant deterioration in credit quality since origination has no income statement impact and is allocated to each individual loan regardless of whether the initial allowance was determined on an individual or collective basis at the time of acquisition. PCD loans are pooled based on similar risk characteristics unless individual assessment is required in the same manner as the Company's originated loans. Subsequent to the initial recording, PCD loans are evaluated each reporting period for credit losses in accordance with the Allowance for Credit Losses Policy, and the initial allowance is adjusted for any change in the estimate of expected credit losses and recognized immediately into net income through the provision for credit losses. The noncredit discount or premium determined at the acquisition date is allocated to each individual loan and accreted or amortized into income using the effective interest rate method or the cost recovery method when a reasonable expectation of the amount expected to be collected is unknown.

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Purchased loans not deemed PCD at acquisition are recorded at fair value. Non-PCD loans are aggregated and accounted for based on common risk characteristics in the same manner as the Company's originated loans for purposes of determining an allowance for credit loss. Any established allowance for credit loss is recognized in net income through the provision for credit losses at the initial and subsequent reporting dates. The noncredit discount or premium determined at the acquisition date is allocated to each individual loan and accreted or amortized into income using the effective interest rate method or the cost recovery method when a reasonable expectation of the amount expected to be collected is unknown.

Loan modifications: Effective January 1, 2023, ASC 326 eliminated the TDR accounting model for creditors that have already adopted CECL, replacing it with additional disclosures on loan modification as they apply to borrowers experiencing financial difficulty. The disclosures apply to the type of modification, the financial effect, and outcome, for borrowers that have benefited from the following adjustments: principal forgiveness, interest reduction, an other-than-insignificant payment delay, or a term extension.

Mortgage loans held for sale: Effective January 1, 2022, all loans originated and intended for sale in the secondary market are carried at estimated fair value. When the market is favorable, we sell mortgage loans under both "mandatory" and "best efforts" delivery programs. Prior to that date, loans originated and intended for sale in the secondary market using "best efforts" delivery are carried at the lower of cost or estimated fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Loans originated and intended for sale in the secondary market using "mandatory" delivery are carried at estimated fair value.

Premises and equipment: Premises and equipment are stated at cost, less accumulated depreciation. Leasehold improvements are amortized over the lives of the respective leases or the estimated useful life of the leasehold improvement, whichever is less.

For financial reporting purposes, depreciation is computed by the straight-line method over the estimated useful lives of the assets. For income tax purposes, the modified accelerated cost recovery system is used. Costs of maintenance and repairs are charged to expense as incurred. Costs of replacing structural parts of major units are considered individually and are expensed or capitalized as the facts dictate.

Fixed assets may be retired and disposed of by sale, trade, abandonment, or through a casualty loss such as a fire or storm. At retirement, the cost of the asset and its related accumulated depreciation are removed from the accounts. The type of disposal will determine the specific treatment of the asset.

Leases: The Company has operating and financing leases for certain office space, land, and equipment. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets; instead, the lease expenses for these leases are recognized over the lease term. The Company has elected the practical expedient of not separating lease components from non-lease components, and instead accounts for each separate lease component and the non-lease components associated with that lease as a single lease component.

Lease terms typically comprise contractual terms, but may include extension options reasonably certain of being exercised at lease inception. Lease agreements do not contain any material residual value guarantees or material restrictive covenants. As most of the Company's lease agreements do not provide for an implicit interest rate, payments are discounted using the rate the Company would pay to borrow amounts equal to the lease payments over the lease term (the Company's incremental borrowing rate). Most of the Company's lease agreements include periodic rate adjustments for inflation. Certain leases include one or more options to renew, with renewal terms that can extend the lease term up to 15 years. The exercise of lease renewal options is at the Company's sole discretion. When it is reasonably certain that the Company will exercise the option to renew or extend the lease term, that option is included in estimating the value of the right-of-use asset and lease liability. The depreciable life of assets and leasehold improvements are limited to the expected lease term.

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Right-of-use assets represent the Company's right to use an underlying asset during the lease term, and lease liabilities represent its obligation to make lease payments arising from the lease. The Company does not separate lease and non-lease components for contracts in which it is the lessee.

Operating leases in which the Company is the lessee are recorded as operating lease ROU assets and operating lease liabilities, and are included in other assets and other liabilities, respectively, on the Consolidated Balance Sheets. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are recognized as incurred. Common area maintenance and other executory costs are the main components of variable lease payments. Operating and variable lease expenses are recorded in net occupancy expense on the Consolidated Statements of Income.

Finance leases in which the Company is the lessee are recorded as finance lease ROU assets and finance lease liabilities and are included in other assets and other liabilities, respectively, on our Consolidated Balance Sheets. Finance lease expense comprises amortization of the ROU asset, which is recognized on a straight-line basis over the lease term and recorded in net occupancy expense on the Consolidated Statements of Income, and the implicit interest accreted on the lease liability, which is recognized using the effective interest method over the lease term and recorded in interest expense on our Consolidated Statements of Income.

Goodwill and other intangibles: Goodwill is not subject to amortization, but is subject to an annual assessment for impairment by applying a fair-value-based test as required by FASB ASC 350, *Goodwill and Other Intangible Assets*. Additionally, under ASC 350, acquired intangible assets are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful life.

Goodwill is tested for impairment at the reporting unit level on an annual basis as of August 31, or more often if events or circumstances indicate there may be impairment. In accordance with ASC 350, the Company may elect to assess qualitative factors to determine whether it is more likely than not the fair value of the reporting unit was less than its carrying amount. If the Company elects to bypass the qualitative analysis or concludes using a qualitative analysis that the carrying amount exceeds the implied fair value, based on the qualitative assessment, a quantitative one-step impairment test will then be applied. An impairment loss will be recognized for any excess of the carrying value over fair value of goodwill. Subsequent increases in goodwill are not recognized in the Consolidated Financial Statements. In 2023, the Company elected to utilize a quantitative approach to test goodwill for impairment.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, and incorporating general economic and market conditions. Selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings most representative of fair value.

Intangible assets are amortized or tested for impairment based on whether they have finite or indefinite lives. Intangibles that have finite lives are amortized on a straight-line basis over their useful life and tested for impairment whenever events or circumstances indicate the carrying amount of the assets may not be recoverable. Intangibles with indefinite lives are tested annually for impairment. Note 9 provides additional information related to goodwill and other intangible assets.

Other real estate owned: OREO, which is included in other assets on the Consolidated Balance Sheet, consists primarily of commercial and residential real estate that has been obtained in partial or full satisfaction of loan obligations. When transferred from the loan portfolio, OREO is adjusted to fair value less estimated selling costs, with any difference between the fair value of the property, less estimated selling costs, and the carrying value of the loan recorded through a charge to the allowance for credit losses. Subsequent write-downs required for

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declines in value are recorded through a valuation allowance, or taken directly to the asset, charged to other noninterest expense.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the asset has been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset, and (iii) the Company does not maintain effective control over the transferred asset.

Credit-related financial instruments: In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded. They are considered in calculating the provision for credit losses, and any reserve is recognized in other liabilities.

Interest rate lock commitments and TBA MBSs: The Company enters into rate lock commitments with its mortgage customers whereby the interest rate on the mortgage loan is determined prior to funding. The commitments are generally for periods of 60 days and are at market rates. The Company is also a party to sales of TBA MBSs. The rate lock commitment and MBS position are undesignated derivatives and marked to fair value through earnings. Both the rate lock commitment and the corresponding MBSs are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives are recorded in current earnings and included in net residential mortgage banking income in the Consolidated Statements of Income, and gains and losses are recorded as a component of gains on sales of mortgage loans held for sale in the Consolidated Statements of Cash Flows.

We sell mortgage loans under both "mandatory" and "best efforts" delivery programs. Under "best efforts," in order to mitigate risk from interest rate fluctuations, the Company enters into forward loan sale commitments on a loan-by-loan basis while the loan is in the pipeline. Effective January 1, 2022, the Company elected the fair value option on forward loan sales commitments on closed loans. Under the "mandatory" delivery system, loans with interest rate locks are paired with the sale of TBA MBSs bearing similar attributes. We commit to deliver loans to an investor at an agreed-upon price after the close of such loans.

Revenue recognition: ASC 606, *Revenue from Contracts with Customers*, requires the disaggregation of revenue from contracts with customers into categories that show how economic factors affect the nature, timing, and uncertainty of revenue and cash flows. Revenue recognized from contracts with customers is included in the Company's noninterest income.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from interest-earning assets such as loans, mortgage loans held for sale, and investment securities. Revenue earned on interest-earning assets is recognized based on the effective yield of the financial instrument. Interest income and certain other types of noninterest income are accounted for under other applicable accounting standards.

For revenue-generating transactions that are within the scope of ASC 606, suggested categories of disaggregation include but are not limited to: (1) type of good or service, (2) geographical region, (3) market or type of customer, (4) type of contract, (5) contract duration, (6) timing of the transfer of goods or services, and (7) sales channels. The Company disaggregates revenue from contracts by major product line or a type of good or service.

Descriptions of revenue-generating activities that are within the scope of ASC 606, which are presented in the Company's noninterest income, are as follows:

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- Investment management services - revenues are earned in the form of commissions and fees on performance obligations related to the referral of business to a third-party asset manager. Performance obligations are satisfied when a new customer enters into a contract with the third-party asset manager and when the manager collects a fee from the customer. Commissions are typically collected shortly after fees are collected by the third-party asset manager, which completes the revenue recognition process. In carrying out this performance obligation, TowneBank acts in the capacity of an agent.
- Insurance income - revenues are earned in the form of commissions received for selling insurance policies as an independent agent of external insurance companies who underwrite the insurance policies. The external insurance companies retain the risks associated with the insurance policies. Performance obligations are related to the referral of business to third-party insurance companies and are satisfied when a new customer enters into a contract with the third-party insurance company. Commissions are typically collected shortly thereafter and there is no material over time recognition of revenue. Contingent income is estimated and recorded at the time of the sale of the insurance policy to the extent it is probable that there will not be a material amount of the income reversed. In carrying out this performance obligation, TowneBank acts in the capacity of an agent.
- Property management income - revenue is mainly in the form of commission and fee income. The revenue is earned on residential properties and is recognized as commissions and fee income are received. TowneBank's performance obligation related to the resort property management business is to market the property, take reservations (including collection of rent), and provide facility management services. The performance obligation to take reservations is satisfied when a customer makes a booking. Facility management services obligations are ongoing until a customer vacates a property. Fees are typically collected half upon booking and half upon a customer vacating a property. Materially all of the value of the performance obligation is related to the booking of the reservation; therefore, the Company recognizes the commission at the time the reservation is confirmed via the receipt of deposit. TowneBank acts in the capacity of an agent.

The Company applies the practical expedient in ASC paragraph 606-10-50-14(a) and does not disclose information about remaining performance obligations that are part of a contract with an original expected duration of one year or less. The timing of revenue billings and cash collections may result in contract assets (the Company performing on its obligations prior to receiving payment unrelated to the passage of time) and contract liabilities (the Company receiving payment from a customer prior to performing on its obligation to that customer) on the Consolidated Balance Sheets. See Note 17 for additional information about revenue from contracts with customers.

Service charges on deposit accounts are recognized as charged. Credit-related fees, including letter of credit fees, are recognized in noninterest income when earned.

Income recognition on nonaccrual loans: Commercial loans are generally classified as nonaccrual when full collection of principal and interest becomes doubtful, or if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, whichever occurs first, unless such loans are well-secured and in the process of collection. Residential mortgage loans and other consumer loans are classified as nonaccrual when full collection of principal and interest becomes doubtful, or if they are past due as to maturity or payment of principal or interest for a period of more than 120 days, whichever occurs first, unless the debt is both well-secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as nonaccrual. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual, if repayment in full of principal and/or interest is unlikely.

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When loans are placed on nonaccrual status, interest receivable is reversed against interest income recognized in the current period, and any prior-year unpaid interest is charged off against the allowance for credit losses. Interest payments received thereafter are applied as a reduction of the remaining principal balance as long as doubt exists as to the ultimate collection of the principal. Loans are removed from nonaccrual status when they become current as to both principal and interest and when the collection of principal or interest is no longer doubtful.

When the probability of collecting the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Nonaccruing loans that are modified can be placed back on accrual status when both principal and interest are current, there is a sustained repayment performance of six months or longer, and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

Advertising costs: Advertising costs are expensed as incurred.

Segment information: Operating segments as defined by ASC 280, *Segment Reporting*, are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The accounting policies of operating segments are the same as those described elsewhere in this footnote. Revenue for all segments is derived from external sources. See Note 27 for further discussion of the Company's operating segments.

Mergers and acquisitions: Mergers and acquisitions are accounted for using the acquisition method, as required by ASC 805, *Business Combinations*. Under this method, the cost of the acquired entity will be allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. The excess of the cost over the fair value of the acquired net assets is recognized as goodwill, and any merger-related costs are expensed as incurred. See Note 2 for further discussion on the Company's mergers and acquisitions.

Variable Interest Entities: In the normal course of business, the Company is involved with various entities that are considered to be Variable Interest Entities. A VIE is an entity that has either a total equity investment which is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. In accordance with existing accounting guidance, we are required to consolidate any VIE of which we are determined to be the primary beneficiary. The primary beneficiary is the entity that has (i) the power to direct the activities of a VIE which most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses of the entity which could potentially be significant to the VIE, or the right to receive benefits from the entity which could potentially be significant to the VIE. We review all significant interests in the VIEs we are involved with, including the amounts and types of financial and other support, including equity investments, debt financing, and guarantees. We also consider the activities of the VIEs that most significantly impact the VIEs' economic performance and whether we have control over those activities. We assess whether or not we are the primary beneficiary of a VIE on an ongoing basis. To provide the necessary disclosures, we aggregate similar VIEs based on the nature and purpose of the entities.

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As part of its community reinvestment initiatives, the Company invests in low income housing partnerships within its footprint. These investments, in multi-family affordable housing developments, take the form of limited partnerships. The Company receives tax credits for its partnership investments. The Company has determined that these partnerships are VIEs when it does not own 100% of the entity, because the holders of the equity investment at risk do not have the power through voting rights or similar rights to direct the activities of the entity that most significantly impact the entity's economic performance. Accordingly, the Company's limited partner interests are variable interests that the Company evaluates for purposes of determining whether the Company is the primary beneficiary.

For each of the partnerships, the Company acts strictly in a limited partnership capacity. The Company has determined that it is not the primary beneficiary of these partnerships because the general partner of each limited partnership has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. The Company accounts for its limited partner interests in accordance with the accounting guidance for investments in affordable housing projects. Note 22 provides additional information on the Company's VIEs.

Income taxes: Current income tax expense represents the amounts expected to be reported on the Company's income tax returns, and deferred tax expense or benefit represents the change in net deferred tax assets and liabilities. The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. Valuation allowances are recorded as appropriate to reduce deferred tax assets to the amount considered likely to be realized. Note 23 provides additional information on the Company's income taxes.

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income or loss. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with the operating net income or loss, are components of comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on available-for-sale securities and actuarial gains and losses on our SERP and other postretirement benefit plans.

Share-based compensation: The Company has a share-based employee compensation plan, which is described in more detail in Note 15. The Company accounts for the plan using the fair value method, which requires that compensation cost relating to stock-based payment transactions be recognized in the financial statements over the vesting period. The compensation cost is measured based on the fair value of the instruments issued.

Earnings per share: Basic earnings per share are computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding for the year, less the average number of nonvested restricted stock awards. Diluted earnings per share reflect potential dilution from the issuance of additional shares of common stock caused by the exercise of stock options and restricted stock awards. See Note 28 for further discussion on the Company's earnings per share.

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Recent accounting pronouncements:

Accounting standards adopted in current year		
Standard	Summary of guidance	Effects on financial statements
Topic 326 - Financial Instruments - Credit Losses Subtopic 310-40 Troubled Debt Restructurings and Subtopic 326-20 Vintage Disclosures ASU 2022 - 02 Issued March 2022	Issue 1: Eliminates the accounting guidance for TDRs by creditors in Subtopic 310-40, while enhancing disclosure requirements for certain loan refinances and restructurings by creditors when a borrower is experiencing financial difficulty. Issue 2: Update requires disclosure of current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20.	Effective for interim and annual periods beginning after December 15, 2022. The Company adopted the provisions related to Issue 2: Subtopic 326-20, effective December 31, 2022, and the provisions related to Issue 1: Subtopic 310-40 effective January 1, 2023. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.
Accounting standards not yet adopted		
Standard	Summary of guidance	Effects on financial statements
Topic 280 - Segment Reporting - Improvements to Reportable Segment Disclosures ASU 2023-07 Issued November 2023	Improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. Enhancements include identification of title and position of chief operating decision maker ("CODM"), disclosure of segment expenses, and significant expense principles provided to the CODM. Requires that all annual disclosures currently required by Topic 280 be reported in interim periods.	Effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. This standard is to be applied on a retrospective basis for all prior periods presented based on the significant segment expense categories identified and disclosed in the period of adoption. The Company will comply with the new disclosure requirements and does not expect this pronouncement to have a material impact on its Consolidated Financial Statements.
Topic 323 - Investments - Equity Method and Joint Ventures - Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method ASU 2023-02 Issued March 2023	Permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met.	Effective for periods beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect this pronouncement to have a material impact on its Consolidated Financial Statements.

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Accounting standards not yet adopted		
Topic 740 - Income Taxes - Improvements to Income Tax Disclosures ASU 2023-09 Issued December 2023	Requires public business entities to increase both qualitative and quantitative disclosures as they relate to state and federal income tax. Requirements include a tabular reconciliation, using both percentages and reporting currency amounts, according to eight specifically named categories. Additionally, separate disclosure is required for specifically named reconciling items, greater than 5% of the amount computed by multiplying the income from continuing operations before income tax by the statutory income tax rate.	Effective for annual periods beginning after December 15, 2024. This standard is to be applied on a prospective basis; retrospective application is permitted. Early adoption is permitted for annual financial statements that have not yet been issued. The Company is currently evaluating the provisions of the standard and the impact on its disclosures in future Consolidated Financial Statements.
Topic 842 - Leases, Common Control Arrangements ASU 2023-01 Issued March 2023	Requires entities to classify and account for leases with related parties on the basis of legally enforceable terms and conditions of the arrangement.	Effective for periods beginning after December 15, 2023, including interim periods within those fiscal years. The Company is currently evaluating the provisions of the standard and the impact on its future Consolidated Financial Statements.

NOTE 2. MERGERS AND ACQUISITIONS

Farmers Bankshares, Inc.: On January 13, 2023, TowneBank completed its acquisition of Farmers and its wholly owned bank subsidiary, Farmers Bank, in an all-stock transaction. As part of the merger, Farmers and Farmers Bank merged with and into TowneBank. In connection with the Farmers acquisition, TowneBank acquired a majority interest in a full-service independent insurance agency, Manry-Rawls, LLC. On January 31, 2023, TowneBank completed the acquisition by purchasing the noncontrolling interest in Manry-Rawls, LLC.

In the merger with Farmers, each outstanding share of Farmers common stock was converted into the right to receive 0.605 shares of TowneBank common stock. TowneBank issued an aggregate of 1.90 million shares of its common stock to former Farmers shareholders. Based on the closing price of TowneBank's common stock on January 13, 2023, of \$31.42 per share, the aggregate consideration paid to former Farmers common shareholders and holders of equity awards to acquire Farmers common stock was approximately \$59.60 million.

The Farmers merger has been accounted for under the acquisition method of accounting. Under this guidance, an entity is required to recognize the assets acquired, liabilities assumed, and the consideration given at their fair value on the acquisition date. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the January 13, 2023, merger date. The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of \$5.53 million. Goodwill resulted from a combination of expected synergies, acquisition of expanded insurance capabilities, expansion into Isle of Wight and Southampton counties with the addition of five locations, and growth opportunities. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table presents the estimated fair values of the assets acquired and liabilities assumed for Farmers as of January 13, 2023 (dollars in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value of assets acquired:	
Cash and cash equivalents	\$ 26,109
Securities available for sale	244,892
Loans held for investment	277,890
Bank premises and equipment	8,921
OREO	89
Core deposit intangible	15,100
Other intangibles	14,100
Other assets	32,188
Total assets	619,289
Fair value of liabilities assumed:	
Deposits	\$ 514,572
Total borrowings	33,806
Other liabilities	9,860
Total liabilities	\$ 558,238
Net identifiable assets acquired	\$ 61,051
Less: noncontrolling interest	6,975
Goodwill	5,533
Purchase price	\$ 59,609
Purchase price:	
Company common shares issued	1,897,019
Purchase price per share of Company's common stock	\$ 31.42
Common stock issued	\$ 59,604
Cash exchanged for fractional shares	5
Fair value of total consideration transferred	\$ 59,609

During the quarter ended December 31, 2023, there were no significant adjustments made to the purchase price allocation. During the year ended December 31, 2023, adjustments were made to the purchase price allocations that resulted in an increase to deferred taxes and other assets of \$9.12 million and an increase in deferred tax liabilities and other liabilities of \$0.21 million, which resulted in an overall \$8.91 million increase in net identifiable assets acquired and a corresponding decrease to goodwill. The loans acquired in the Farmers merger were divided into loans with evidence of credit quality deterioration, or PCD, which are accounted for under ASC 326-10, and loans that do not meet this criteria (purchased performing). As of January 13, 2023, the estimated fair value of the Farmers purchased performing loans acquired was \$228.27 million, the related gross contractual amount was \$233.72 million, and the estimated contractual cash flows not expected to be collected were \$1.93 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents a reconciliation of the difference between the purchase price and the par value of PCD assets acquired at the acquisition date (dollars in thousands):

Purchase price of financial assets with credit deterioration	\$ 49,578
Allowance for credit losses at acquisition date based on our assessment	1,380
Discount attributable to other factors	575
Par value of financial assets with credit deterioration	<u>\$ 51,533</u>

Results of operations for Farmers prior to the acquisition date are not included in the Consolidated Statements of Income for the year ended December 31, 2023. The results of activities from former Farmers Bank operations that are included in the Consolidated Statements of Income from the date of acquisition through December 31, 2023, are broken out in the following table (dollars in thousands):

	Actual from Acquisition Date Through December 31, 2023
Revenues (net interest income plus noninterest income)	\$ 16,081
Net Income	\$ 672

NOTE 3. INVESTMENT SECURITIES

Available-for-sale debt securities

The Company elected not to measure an allowance for credit losses for accrued interest receivables because uncollectible accrued interest receivables are written off in a timely manner and, as such, the accrued interest receivable on AFS debt securities amounting to \$11.13 million as of December 31, 2023, and \$9.65 million as of December 31, 2022, was excluded from the estimate of expected credit loss and included in other assets.

As of December 31, 2023, we have recognized no credit losses on Company-held MBSs issued by GSEs, U.S. government sponsored agency securities, and U.S. Treasury securities because these securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. As such, the Company has excluded them, under the zero risk of loss expectation, from the impairment analysis under ASC 326-30.

Held-to-maturity debt securities

As of December 31, 2023, no credit losses on Company-held MBSs issued by GSEs, U.S. government sponsored agency securities, and U.S. Treasury securities have been recognized because these securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. As such, the Company has excluded them under the zero risk of loss exception in the allowance for credit losses under ASC 326-20.

For HTM debt securities not implicitly or explicitly guaranteed by the U.S. government, the Company measures expected credit losses on a collective basis, by major security type with each type sharing similar characteristics, utilizing published statistical information from annual default and recovery tables. Accrued interest receivable on HTM debt securities totaling \$2.64 million as of December 31, 2023, and \$2.44 million as of December 31, 2022, was included in other assets and excluded from the estimate of expected credit losses. At December 31, 2023, all

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HTM debt securities are current for both principal and interest. There were no in-scope collateral-dependent HTM debt securities at December 31, 2023.

Available-for-sale debt securities

The following table summarizes amortized cost and fair values of AFS debt securities as of the dates indicated (dollars in thousands):

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. agency securities	\$ 334,782	\$ 317	\$ (28,713)	\$ —	\$ 306,386
U.S. Treasury notes	28,559	—	(875)	—	27,684
Municipal securities	544,433	2,089	(36,388)	(280)	509,854
Trust preferred and other corporate securities	101,664	413	(16,066)	(1,218)	84,793
MBS issued by GSEs and GNMA	1,283,525	921	(83,821)	—	1,200,625
Total available-for-sale securities	<u>\$ 2,292,963</u>	<u>\$ 3,740</u>	<u>\$ (165,863)</u>	<u>\$ (1,498)</u>	<u>\$ 2,129,342</u>

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. agency securities	\$ 322,259	\$ 526	\$ (28,891)	\$ —	\$ 293,894
U.S. Treasury notes	27,891	—	(1,198)	—	26,693
Municipal securities	483,461	165	(52,327)	(351)	430,948
Trust preferred and other corporate securities	86,736	181	(8,481)	(735)	77,701
MBS issued by GSEs and GNMA	1,112,693	239	(101,266)	—	1,011,666
Total available-for-sale securities	<u>\$ 2,033,040</u>	<u>\$ 1,111</u>	<u>\$ (192,163)</u>	<u>\$ (1,086)</u>	<u>\$ 1,840,902</u>

There were no security sales in the years ended December 31, 2023 or 2022. For the year ended 2021, gross gains of \$1.25 million were recorded and sales proceeds totaled \$18.82 million.

Held-to-maturity debt securities

The following table summarizes amortized cost and fair values of HTM debt securities as of the dates indicated (dollars in thousands):

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
U.S. agency securities	\$ 101,850	\$ —	\$ (5,972)	\$ 95,878	\$ —
U.S. Treasury notes	362,593	—	(9,015)	353,578	—
Trust preferred and other corporate securities	2,172	101	—	2,273	(78)
Municipal securities	5,272	279	—	5,551	(6)
MBS issued by GSEs	5,705	—	(329)	5,376	—
Total held-to-maturity securities	<u>\$ 477,592</u>	<u>\$ 380</u>	<u>\$ (15,316)</u>	<u>\$ 462,656</u>	<u>\$ (84)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
U.S. agency securities	\$ 101,092	\$ —	\$ (8,897)	\$ 92,195	\$ —
U.S. Treasury notes	433,866	—	(20,462)	413,404	—
Trust preferred and other corporate securities	2,223	85	—	2,308	(75)
Municipal securities	5,181	235	—	5,416	(8)
MBS issued by GSEs	6,113	—	(443)	5,670	—
Total held-to-maturity securities	<u>\$ 548,475</u>	<u>\$ 320</u>	<u>\$ (29,802)</u>	<u>\$ 518,993</u>	<u>\$ (83)</u>

Maturities of debt securities

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The amortized cost and estimated fair value of debt securities are shown by contractual maturity (including MBSs) as of the dates indicated, in the following table (dollars in thousands):

December 31, 2023	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 7,244	\$ 7,126	\$ 264,966	\$ 263,000
Due after one year through five years	651,942	597,605	199,018	186,192
Due after five years through ten years	629,184	578,281	11,637	11,493
Due after ten years	1,004,593	946,330	1,971	1,971
	<u>\$ 2,292,963</u>	<u>\$ 2,129,342</u>	<u>\$ 477,592</u>	<u>\$ 462,656</u>

December 31, 2022	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 12,513	\$ 12,323	\$ 29	\$ 29
Due after one year through five years	337,797	308,058	532,759	503,684
Due after five years through ten years	897,849	808,611	13,623	13,216
Due after ten years	784,881	711,910	2,064	2,064
	<u>\$ 2,033,040</u>	<u>\$ 1,840,902</u>	<u>\$ 548,475</u>	<u>\$ 518,993</u>

The following table reflects the gross unrealized losses and fair values of AFS debt securities without an allowance for credit losses, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position as of the dates indicated (dollars in thousands):

December 31, 2023		Less than 12 months		12 months or more		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Description of Securities	Number						
U.S. agency securities	59	\$ 51,314	\$ (1,984)	\$ 193,273	\$ (26,729)	\$ 244,587	\$ (28,713)
U.S. Treasury notes	2	—	—	27,684	(875)	27,684	(875)
Municipal securities	56	4,153	(40)	192,163	(13,993)	196,316	(14,033)
MBSs issued by GSEs and GNMA	240	156,286	(1,904)	925,174	(81,917)	1,081,460	(83,821)
Total AFS securities	<u>357</u>	<u>\$ 211,753</u>	<u>\$ (3,928)</u>	<u>\$ 1,338,294</u>	<u>\$ (123,514)</u>	<u>\$ 1,550,047</u>	<u>\$ (127,442)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022		Less than 12 months		12 months or more		Total	
Description of Securities	Number	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agency securities	38	\$ 95,259	\$ (6,667)	\$ 132,595	\$ (22,224)	\$ 227,854	\$ (28,891)
U.S. Treasury notes	2	25,753	(1,134)	940	(64)	26,693	(1,198)
Municipal securities	57	114,781	(8,376)	38,381	(6,689)	153,162	(15,065)
MBSs issued by GSEs and GNMA	185	543,806	(41,783)	441,704	(59,483)	985,510	(101,266)
Total AFS securities	282	\$ 779,599	\$ (57,960)	\$ 613,620	\$ (88,460)	\$ 1,393,219	\$ (146,420)

The following table is a roll-forward of our allowance for credit losses on AFS debt securities as of the dates indicated (dollars in thousands):

Twelve Months Ended December 31, 2023	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Beginning balance	\$ 351	\$ 735	\$ 1,086
Provision for credit losses	(71)	483	412
Ending balance	\$ 280	\$ 1,218	\$ 1,498

Twelve Months Ended December 31, 2022	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Beginning balance	\$ 104	\$ 106	\$ 210
Provision for credit losses	247	629	876
Ending balance	\$ 351	\$ 735	\$ 1,086

Twelve Months Ended December 31, 2021	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Beginning balance	\$ 10	\$ 338	\$ 348
Provision for credit losses	94	(232)	(138)
Ending balance	\$ 104	\$ 106	\$ 210

We monitor the credit quality of HTM debt securities through the use of credit ratings. These ratings are updated on a monthly basis, and were last updated December 31, 2023. The following table reflects the credit ratings aggregated by investment category for HTM debt securities as of the dates indicated (dollars in thousands):

December 31, 2023	Credit Ratings						Total
	AAA	AA+	AA-	A+ to A-	BBB+ to BBB-	BB+ and below	
U.S. agency securities	\$ 101,850	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 101,850
U.S. Treasury notes	362,593	—	—	—	—	—	362,593
Municipal securities	1,821	3,196	255	—	—	—	5,272
Trust preferred and other corporate securities	—	—	—	—	2,172	—	2,172
Mortgage-backed securities issued by GSEs	5,705	—	—	—	—	—	5,705
Total	\$ 471,969	\$ 3,196	\$ 255	\$ —	\$ 2,172	\$ —	\$ 477,592

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022		Credit Ratings					
Description of Securities	AAA	AA+	AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Total
U.S. agency securities	\$ 101,092	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 101,092
U.S. Treasury notes	433,866	—	—	—	—	—	433,866
Municipal securities	1,747	3,180	254	—	—	—	5,181
Trust preferred and other corporate securities	—	—	—	—	2,223	—	2,223
Mortgage-backed securities issued by GSEs	6,113	—	—	—	—	—	6,113
Total	<u>\$ 542,818</u>	<u>\$ 3,180</u>	<u>\$ 254</u>	<u>\$ —</u>	<u>\$ 2,223</u>	<u>\$ —</u>	<u>\$ 548,475</u>

The following table provides a breakdown, by major security type and year of origination, for our HTM debt securities as of the dates indicated (dollars in thousands):

December 31, 2023							
Description of Securities	2023	2022	2021	2020	2019	Prior	Total
U.S. agency securities	\$ —	\$ 27,661	\$ 74,189	\$ —	\$ —	\$ —	\$ 101,850
U.S. Treasury notes	—	319,613	42,980	—	—	—	362,593
Municipal securities	—	—	—	—	—	5,272	5,272
Trust preferred and other corporate securities	—	—	—	—	1,672	500	2,172
Mortgage-backed securities issued by GSEs	—	—	—	—	—	5,705	5,705
Total	<u>\$ —</u>	<u>\$ 347,274</u>	<u>\$ 117,169</u>	<u>\$ —</u>	<u>\$ 1,672</u>	<u>\$ 11,477</u>	<u>\$ 477,592</u>

December 31, 2022							
Description of Securities	2022	2021	2020	2019	2018	Prior	Total
U.S. agency securities	\$ 27,320	\$ 73,772	\$ —	\$ —	\$ —	\$ —	\$ 101,092
U.S. Treasury notes	369,205	64,661	—	—	—	—	433,866
Municipal securities	—	—	—	—	—	5,181	5,181
Trust preferred and other corporate securities	—	—	—	1,723	—	500	2,223
Mortgage-backed securities issued by GSEs	—	—	—	—	—	6,113	6,113
Total	<u>\$ 396,525</u>	<u>\$ 138,433</u>	<u>\$ —</u>	<u>\$ 1,723</u>	<u>\$ —</u>	<u>\$ 11,794</u>	<u>\$ 548,475</u>

The following table is a roll-forward of our allowance for credit losses on HTM debt securities as of the dates indicated (dollars in thousands):

Twelve Months Ended December 31, 2023	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Beginning balance	\$ 8	\$ 75	\$ 83
Provision for credit losses	(2)	3	1
Ending balance	<u>\$ 6</u>	<u>\$ 78</u>	<u>\$ 84</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Twelve Months Ended December 31, 2022	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Beginning balance	\$ 10	\$ 84	\$ 94
Provision for credit losses	(2)	(9)	(11)
Ending balance	\$ 8	\$ 75	\$ 83

Twelve Months Ended December 31, 2021	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Beginning balance	\$ 12	\$ 85	\$ 97
Provision for credit losses	(2)	(1)	(3)
Ending balance	\$ 10	\$ 84	\$ 94

Equity securities

We hold certain securities that do not have a readily determinable fair value and are recognized using cost or other measurement principles. These equity securities include FHLB stock, private equity, and tax credit investments. At December 31, 2023, FHLB stock totaled \$21.37 million and other equity securities totaled \$13.79 million. At December 31, 2022, FHLB stock totaled \$9.62 million and other equity securities totaled \$6.42 million. No impairments or adjustments have been recorded on these investments.

The Company is required to maintain an investment in the capital stock of the FHLB. This stock is stated at cost, since it is a restricted security without readily determinable fair value. Based on the Company's review of the credit quality of the institution, the institution's ability to repurchase shares, and the Company's carrying value in the shares, the Company does not consider this investment impaired.

Pledged securities

At December 31, 2023, and December 31, 2022, the Company had investment securities with market values of \$715.45 million and \$440.60 million, respectively, pledged to secure federal, state, and municipal deposits. Additionally, the Company had \$5.73 million and \$8.26 million, respectively, in investment securities pledged to secure borrowings from the FHLB at December 31, 2023 or 2022. The Company also had \$72.05 million in investment securities pledged against repurchase agreements with commercial customers at December 31, 2023, compared to \$66.61 million at December 31, 2022.

NOTE 4. LOANS

The Company grants commercial, real estate, and consumer loans to customers throughout our lending area. Although the Company has a diversified loan portfolio, a substantial portion of the Company's debtors' abilities to honor their contracts is dependent upon the economic environment of the lending area.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents loan balances by major classification as of the date indicated (in thousands):

	December 31, 2023	December 31, 2022
Commercial Real Estate		
Construction and land development	\$ 1,249,735	\$ 1,428,376
Owner occupied	1,699,386	1,580,099
Non-owner occupied	3,117,071	2,830,620
Multi-family	583,209	496,190
Total Commercial Real Estate	6,649,401	6,335,285
Residential 1- 4 family	1,852,891	1,634,062
HELOC	382,979	395,526
Commercial and industrial business	1,265,169	1,256,697
Government	525,261	512,265
Indirect	558,789	568,190
Consumer loans and other	94,531	92,577
Loans, net of unearned income and deferred costs	\$ 11,329,021	\$ 10,794,602

The following table presents information related to our loan portfolio for the dates indicated (in thousands):

	December 31, 2023	December 31, 2022
Deferred loan costs in excess of unearned income	\$ 2,251	\$ 662
Unaccreted discount on PCD loans	(3,435)	(3,538)
Unaccreted discount on non-PCD loans	(5,550)	(2,434)
Nonaccrual loans ⁽¹⁾	6,843	6,273
Loans pledged as collateral to secure overnight borrowings with the FHLB	2,824	3,083

⁽¹⁾ Interest that would have been earned if interest on nonaccrual loans had been accrued:

	December 31, 2023	December 31, 2022
Year ended	\$ 475	\$ 36

Modifications to Debtors Experiencing Financial Difficulty

Effective January 1, 2023, the Company adopted the provisions of ASU 2022-02 that eliminate the accounting guidance for TDRs, while enhancing the disclosure requirements for certain loan refinance and restructure activities by creditors when a borrower is experiencing financial difficulty. The adoption was made on a prospective basis.

The Company has elected to exclude accrued interest from the calculation of loan modifications. The following table shows the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financial receivable and type of concession granted (dollars in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

Loan Classification	For the Year Ended December 31, 2023	
	Term Extension	
	Amortized Cost Basis	% of Total Class of Financing Receivable
Commercial Real Estate		
Construction and land development	\$ 916	0.07 %
Owner occupied	4,826	0.28 %
Non-owner occupied	3,001	0.10 %
Total Commercial Real Estate	8,743	
Residential 1-4 family	646	0.03 %
HELOC	392	0.10 %
Commercial and industrial business	2,284	0.18 %
Consumer loans and other	173	0.18 %
Total	\$ 12,238	0.11 %
Principal Deferral- Six Months Interest Only		
Loan Classification	Amortized Cost Basis	% of Total Class of Financing Receivable
Commercial Real Estate		
Owner occupied	\$ 1,289	0.08 %
Non-owner occupied	1,882	0.06 %
Total	\$ 3,171	0.03 %
Total of All Modifications		
Loan Classification	Amortized Cost Basis	% of Total Class of Financing Receivable
Commercial Real Estate		
Construction and land development	\$ 916	0.07 %
Owner occupied	6,115	0.36 %
Non-owner occupied	4,883	0.16 %
Total Commercial Real Estate	11,914	
Residential 1-4 family	646	0.03 %
HELOC	392	0.10 %
Commercial and industrial business	2,284	0.18 %
Consumer loans and other	173	0.18 %
Total	\$ 15,409	0.14 %

At December 31, 2023, \$95 thousand in accrued interest receivable has been excluded from loan modification calculations and is included in other assets.

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The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

Term Extension	
Loan Classification	Financial Effect
Commercial Real Estate	
Construction and land development	Extended interest-only period. The modification did not impact the weighted-average life of C&D loans.
Owner occupied	Reamortized balances and extended maturities to allow time for project completion or resolution and alternate financing. These modifications did not impact the weighted-average life of CRE-OO loans.
Non-owner occupied	Extended maturities and converted to interest only to reduce monthly payment amounts and/or allow time for sale of collateral. These modifications did not impact the weighted-average life of CRE-NOO loans.
Residential 1-4 family	Reamortized balances and extended maturities, which reduced monthly payment amounts for borrowers. These modifications did not impact the weighted-average life of Residential 1-4 family loans.
HELOC	Extended line maturities to allow borrowers time to obtain financing or sell property. These modifications did not impact the weighted-average life of HELOC loans.
Commercial and industrial business	Processed forbearance agreements, reamortized balances, and extended maturities, which reduced monthly payment amounts for borrowers. These modifications did not impact the weighted-average life of C&I loans.
Consumer loans and other	Renewed lines and extended maturities to allow borrowers additional time to pay off balances. These modifications did not impact the weighted-average life of consumer loans.

The following table provides the amortized cost basis of financing receivables that had a payment default during the period and were modified in the 12 months before default to borrowers experiencing financial difficulty (dollars in thousands).

Amortized Cost Basis of Modified Financing Receivables that Subsequently Defaulted					
Loan Classification	Interest Rate Reduction	Term Extension	Principal Forgiveness	Combination-Term Extension and Principal Forgiveness	Combination-Term Extension and Interest Rate Reduction
Defaults as of December 31, 2023					
CRE owner occupied (1)	\$ —	\$ 157	\$ —	\$ —	\$ —
HELOC (2)	—	392	—	—	—
Total Defaults	\$ —	\$ 549	\$ —	\$ —	\$ —

(1) Default totaling \$72 thousand in first quarter 2023, subsequently brought current.

(2) Default totaling \$392 thousand in second quarter 2023, subsequently brought current.

We closely monitor the performance of loans that are modified for borrowers experiencing financial difficulty to understand the effectiveness of our modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months (in thousands).

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Loan Classification	Payment Status (Amortized Cost Basis)		
	Current	30 - 89 Days Past Due	90+ Days Past Due
Commercial Real Estate	\$ —	\$ —	\$ —
Construction and land development	916	—	—
Owner occupied	6,030	85	—
Non-owner occupied	4,883	—	—
Residential 1-4 family	646	—	—
HELOC	392	—	—
Commercial and industrial business	2,284	—	—
Consumer loans and other	173	—	—
	<u>\$ 15,324</u>	<u>\$ 85</u>	<u>\$ —</u>

The nature and extent of impairment of modified loans, including those which have experienced a subsequent payment default, are considered in the determination of an appropriate level of the ACL.

Troubled Debt Restructure ("TDR")- Pre-ASU 2022-02

As it relates to presentation through December 31, 2022, a TDR loan was a loan that had been modified, for reasons related to a borrower's financial difficulties, which the Company would not otherwise consider modifying. A loan was a TDR if both of the following conditions were met: (1) a creditor had granted a concession to the debtor, and (2) the debtor was experiencing financial difficulty. Loan modifications were utilized when there was a reasonable chance that an appropriate modification would allow a borrower to continue servicing their debt. Loan terms that were modified or restructured due to a borrower's financial situation included, but were not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, or deferral of interest payments.

At December 31, 2022, nonaccruing TDRs, which are included in nonperforming loans, totaled \$0.13 million and accruing TDRs totaled \$10.11 million. Nonaccruing loans that are modified could be placed back on accrual status when both principal and interest are current, there was a sustained repayment performance of six months or longer, and it was probable that we would be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

For the year ended December 31, 2022, the Company had one owner occupied commercial real estate loan, with a pre- and post-modification balance of \$1.28 million, modified as a TDR. There were no loans restructured that subsequently defaulted in 2022. Restructured loans generally included terms to reduce the interest rate and extend payments.

NOTE 5. ALLOWANCE FOR CREDIT LOSSES ON LOANS

Accrued interest receivable on loans excluded from the estimate of ECL and included in other assets was \$36.43 million and \$30.11 million as of December 31, 2023 and 2022, respectively. Individually assessed loans totaled \$19.68 million at December 31, 2023, compared to \$22.31 million at December 31, 2022. Specific reserves for individually assessed loans were zero at both year ends.

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The following table presents a roll-forward of the allowance for our on-balance-sheet credit losses on our loans held for investment, at amortized cost, for the years ended December 31, 2023, 2022 and 2021(in thousands):

Twelve Months Ended December 31, 2023

	Balance, Beginning of Period	Provision (Benefit)	Initial Allowance for PCD Assets	Writeoffs	Recoveries	Balance, End of Period
Commercial Real Estate						
Construction and land development	\$ 20,218	\$ (1,688)	\$ 145	\$ —	\$ 61	\$ 18,736
Owner occupied	10,625	3,246	199	(2)	10	14,078
Non-owner occupied	16,478	5,462	63	—	95	22,098
Multi-family	1,909	1,222	2	—	—	3,133
Residential 1-4 family	27,688	4,425	94	(1)	157	32,363
HELOC	16,766	8	8	(2)	544	17,324
Commercial and industrial	6,912	2,946	357	(3,751)	1,605	8,069
Government	3,176	(85)	1	—	—	3,092
Indirect	4,172	1,712	1	(1,358)	267	4,794
Consumer loans and other	2,872	(107)	510	(687)	186	2,774
Total	<u>\$ 110,816</u>	<u>\$ 17,141</u>	<u>\$ 1,380</u>	<u>\$ (5,801)</u>	<u>\$ 2,925</u>	<u>\$ 126,461</u>

Twelve Months Ended December 31, 2022

	Balance, Beginning of Period	Provision (Benefit)	Writeoffs	Recoveries	Balance, End of Period
Commercial Real Estate					
Construction and land development	\$ 18,337	\$ 1,868	\$ —	\$ 13	\$ 20,218
Owner occupied	12,760	(2,168)	(2)	35	10,625
Non-owner occupied	25,487	(9,240)	—	231	16,478
Multi-family	1,828	81	—	—	1,909
Residential 1-4 family	18,014	9,629	(10)	55	27,688
HELOC	14,550	2,141	(50)	125	16,766
Commercial and industrial	6,935	3,103	(3,380)	254	6,912
Government	3,458	(282)	—	—	3,176
Indirect	2,133	2,145	(398)	292	4,172
Consumer loans and other	2,557	243	(34)	106	2,872
Total	<u>\$ 106,059</u>	<u>\$ 7,520</u>	<u>\$ (3,874)</u>	<u>\$ 1,111</u>	<u>\$ 110,816</u>

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Twelve Months Ended December 31, 2021

	Balance, Beginning of Period	Provision (Benefit)	Writeoffs	Recoveries	Balance, End of Period
Commercial Real Estate					
Construction and land development	\$ 23,681	\$ (5,255)	\$ (173)	\$ 84	\$ 18,337
Owner occupied	16,158	(3,409)	(23)	34	12,760
Non-owner occupied	27,567	(1,673)	(469)	62	25,487
Multi-family	2,054	(226)	—	—	1,828
Residential 1-4 family	13,779	3,944	(132)	423	18,014
HELOC	15,240	(1,237)	(36)	583	14,550
Commercial and industrial	11,056	(4,038)	(295)	212	6,935
Government	2,334	1,124	—	—	3,458
Indirect	2,901	(661)	(482)	375	2,133
Consumer loans and other	5,387	(2,840)	(60)	70	2,557
Total	<u>\$ 120,157</u>	<u>\$ (14,271)</u>	<u>\$ (1,670)</u>	<u>\$ 1,843</u>	<u>\$ 106,059</u>

The following table presents a roll-forward of the allowance for off-balance-sheet exposure for the years ended December 31, 2023, 2022 and 2021, related to loans held for investment, which is carried in other liabilities on our Consolidated Balance Sheets (in thousands):

	Twelve Months Ended December 31, 2023			Twelve Months Ended December 31, 2022			Twelve Months Ended December 31, 2021		
	Balance, Beginning of Period	Provision (Benefit)	Balance, End of Period	Balance, Beginning of Period	Provision (Benefit)	Balance, End of Period	Balance, Beginning of Period	Provision (Benefit)	Balance, End of Period
Commercial Real Estate									
Construction and land development	\$ 648	\$ 650	\$ 1,298	\$ 640	\$ 8	\$ 648	\$ 1,535	\$ (895)	\$ 640
Owner occupied	277	75	352	341	(64)	277	212	129	341
Non-owner occupied	284	95	379	331	(47)	284	265	66	331
Multi-family	31	80	111	40	(9)	31	40	—	40
Residential 1-4 family	—	—	—	—	—	—	—	—	—
HELOC	2,960	87	3,047	2,568	392	2,960	2,686	(118)	2,568
Commercial and industrial	1,285	199	1,484	1,434	(149)	1,285	2,903	(1,469)	1,434
Government	—	—	—	—	—	—	—	—	—
Indirect	—	—	—	—	—	—	—	—	—
Consumer loans and other	1,619	(62)	1,557	1,528	91	1,619	1,603	(75)	1,528
Total	<u>\$ 7,104</u>	<u>\$ 1,124</u>	<u>\$ 8,228</u>	<u>\$ 6,882</u>	<u>\$ 222</u>	<u>\$ 7,104</u>	<u>\$ 9,244</u>	<u>\$ (2,362)</u>	<u>\$ 6,882</u>

Our provision for credit losses on funded and unfunded loan exposures was an expense of \$18.27 million in the year ended December 31, 2023, compared to \$7.74 million in the year ended December 31, 2022, and a provision benefit of \$16.63 million in the year ended December 31, 2021.

For the year ended December 31, 2023, our ACL increased in response to an acquisition, loan growth, adjustments in the economic forecasts, and portfolio changes. Total loans have increased \$0.53 billion, compared to December 31, 2022. Economic forecasting includes the use of models to consider various scenarios in evaluating economic risks. The primary factors considered were:

- the economic outlook both nationally and for the metropolitan areas within our footprint;
- current industry and regulatory conditions, including the continuing potential for a government shutdown;
- stabilization of the Fed funds rate and its long-term impact on targeted inflation;
- the continued strength of the U.S. dollar in global markets;

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- the continued decline in risks associated with the recent pandemic;
- the potential impact of current geopolitical situations;
- the decline in the price of oil;
- changes in unemployment; and
- changes in Gross Domestic Product.

In general, the macroeconomic forecast scenarios utilized in the current quarter models showed improvement from the prior year. Additional factors considered were changes in interest rates, loan risk ratings, charge-off activities, and inherent risks within specific loan groups.

Credit quality indicators

For commercial credits, the Company's internal credit risk grading analysis assesses the capability of the borrower to repay contractual obligations of the loan agreements as scheduled, or at all. The Company's internal credit risk grading system is based on numerous factors, including management's experiences with similarly graded loans. Credit risk is inherent in the business of extending loans and leases to borrowers and is monitored by management and reflected within the allowance for credit losses for loans.

Credit risk grades are refreshed on an ongoing basis and affirmed at least semiannually. At affirmation, management analyzes the resulting scores, as well as external statistics and factors, to track loan performance. On an as-needed basis, credit risk grades may be updated between review periods if new information arises related to the customer's ability to repay the loan. The Company differentiates its loan segments based on shared risk characteristics for which expected credit loss is measured on a pool basis.

The Company's internally assigned risk grades are as follows:

Pass - Several pass credit grades comprise loans in this category, which are assigned based on varying levels of risk, ranging from credits that are secured by cash or marketable securities, to management attention credits, which have all the characteristics of an acceptable credit risk but warrant a more than normal level of monitoring.

Special Mention - These assets are characterized by well-defined credit weaknesses and carry the distinct possibility that the Company will sustain some loss if such weakness or deficiency is not corrected.

Substandard - The borrower's ability to repay is threatened by a clearly defined weakness, related to the capacity of the obligor, which jeopardizes ultimate repayment of the loan according to terms.

Doubtful - The borrower's ability to repay in full, on the basis of currently existing facts, conditions, and values, is highly questionable and improbable. Some loss of principal and income is likely; however, the total amount of such loss cannot be determined at the present time. Loans in this category are immediately placed on nonaccrual status with all payments applied to principal until such time as the potential loss exposure is eliminated.

For consumer-related credits, the Company utilizes credit scores calculated and maintained by one of three credit bureaus. Credit scores range between 300 and 850, with a lower score indicating a potentially higher risk. Credit scores are updated semi-annually, with the last update in August 2023.

In the table below, for the year ended December 31, 2023, the Company incorporated the gross loan write-offs that were taken in the period, by loan type and year of origination. The following tables provide a breakdown of the Company's loans held for investment by credit score or risk grade and year of origination at December 31, 2023, and December 31, 2022 (in thousands):

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December 31, 2023

	Term Loans By Origination									
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term	Total	
CRE - Construction and Development										
Pass	\$ 608,244	\$ 409,873	\$ 162,271	\$ 15,320	\$ 5,531	\$ 11,202	\$ 32,372	\$ 2,949	\$ 1,247,762	
Special Mention	1,682	—	—	—	—	30	—	—	1,712	
Substandard	—	182	79	—	—	—	—	—	261	
	\$ 609,926	\$ 410,055	\$ 162,350	\$ 15,320	\$ 5,531	\$ 11,232	\$ 32,372	\$ 2,949	\$ 1,249,735	
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
CRE - Owner Occupied										
Pass	\$ 277,443	\$ 339,047	\$ 388,453	\$ 248,442	\$ 146,817	\$ 234,309	\$ 16,484	\$ 249	\$ 1,651,244	
Special Mention	7,150	7,218	1,723	9,203	1,197	935	1,935	—	29,361	
Substandard	1,038	696	4,101	3,140	7,659	2,147	—	—	18,781	
	\$ 285,631	\$ 346,961	\$ 394,277	\$ 260,785	\$ 155,673	\$ 237,391	\$ 18,419	\$ 249	\$ 1,699,386	
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 2	
CRE - Non-Owner Occupied										
Pass	\$ 601,491	\$ 771,722	\$ 728,198	\$ 401,776	\$ 247,135	\$ 287,725	\$ 16,100	\$ —	\$ 3,054,147	
Special Mention	11,289	13,026	26,617	—	6,679	835	800	—	59,246	
Substandard	901	—	—	—	—	2,777	—	—	3,678	
	\$ 613,681	\$ 784,748	\$ 754,815	\$ 401,776	\$ 253,814	\$ 291,337	\$ 16,900	\$ —	\$ 3,117,071	
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
CRE - Multi-Family										
Pass	\$ 68,616	\$ 214,651	\$ 115,457	\$ 99,615	\$ 40,356	\$ 37,663	\$ 6,523	\$ —	\$ 582,881	
Special Mention	—	—	—	—	—	—	—	—	—	
Substandard	—	—	216	—	—	112	—	—	328	
	\$ 68,616	\$ 214,651	\$ 115,673	\$ 99,615	\$ 40,356	\$ 37,775	\$ 6,523	\$ —	\$ 583,209	
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Commercial and Industrial										
Pass	\$ 198,311	\$ 225,213	\$ 144,312	\$ 62,196	\$ 42,534	\$ 37,385	\$ 538,050	\$ 533	\$ 1,248,534	
Special Mention	1,402	1,577	1,414	270	341	420	6,354	445	12,223	
Substandard	1,466	244	448	1,211	560	151	332	—	4,412	
	\$ 201,179	\$ 227,034	\$ 146,174	\$ 63,677	\$ 43,435	\$ 37,956	\$ 544,736	\$ 978	\$ 1,265,169	
Gross Writeoffs	\$ 580	\$ —	\$ —	\$ —	\$ —	\$ 191	\$ —	\$ 2,980	\$ 3,751	

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	Term Loans By Origination											
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term	Total			
Government												
Pass	\$ 48,949	\$ 107,621	\$ 15,029	\$ 182,185	\$ 20,755	\$ 138,385	\$ 12,337	\$ —	\$ 525,261			
Special Mention	—	—	—	—	—	—	—	—	—			
Substandard	—	—	—	—	—	—	—	—	—			
	\$ 48,949	\$ 107,621	\$ 15,029	\$ 182,185	\$ 20,755	\$ 138,385	\$ 12,337	\$ —	\$ 525,261			
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —			
Residential 1 - 4 Family												
Credit Score:												
>= 750	\$ 248,344	\$ 494,434	\$ 360,703	\$ 157,223	\$ 84,588	\$ 175,933	\$ 3,962	\$ 775	\$ 1,525,962			
650 - 749	44,301	107,382	70,021	35,589	11,140	44,383	—	—	312,816			
450 - 649	839	6,059	596	672	302	5,645	—	—	14,113			
300 - 449	—	—	—	—	—	—	—	—	—			
	\$ 293,484	\$ 607,875	\$ 431,320	\$ 193,484	\$ 96,030	\$ 225,961	\$ 3,962	\$ 775	\$ 1,852,891			
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ —			
HELOC												
Credit Score:												
>= 750	\$ 3,964	\$ 2,517	\$ 852	\$ 336	\$ 86	\$ 774	\$ 282,852	\$ 261	\$ 291,642			
650 - 749	845	431	426	—	951	899	80,723	358	84,633			
450 - 649	252	128	301	49	26	849	4,655	310	6,570			
300 - 449	—	—	—	—	—	—	134	—	134			
	\$ 5,061	\$ 3,076	\$ 1,579	\$ 385	\$ 1,063	\$ 2,522	\$ 368,364	\$ 929	\$ 382,979			
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ —	\$ —			
Indirect												
Credit Score:												
>= 750	\$ 112,832	\$ 119,961	\$ 56,695	\$ 9,511	\$ 4,080	\$ 1,987	\$ —	\$ —	\$ 305,066			
650 - 749	67,133	101,540	53,166	13,920	4,185	2,488	—	—	242,432			
450 - 649	481	2,616	2,307	2,820	1,629	1,420	—	—	11,273			
300 - 449	—	—	—	—	18	—	—	—	18			
	\$ 180,446	\$ 224,117	\$ 112,168	\$ 26,251	\$ 9,912	\$ 5,895	\$ —	\$ —	\$ 558,789			
Gross Writeoffs	\$ 88	\$ 655	\$ 438	\$ 101	\$ 38	\$ 38	\$ —	\$ —	\$ 1,358			
Consumer and Other												
Credit Score:												
>= 750	\$ 13,280	\$ 11,607	\$ 7,110	\$ 5,325	\$ 2,581	\$ 2,973	\$ 34,760	\$ 702	\$ 78,338			
650 - 749	3,392	3,694	2,015	684	501	227	4,932	2	15,447			
450 - 649	123	159	21	63	67	48	255	10	746			
300 - 449	—	—	—	—	—	—	—	—	—			
	\$ 16,795	\$ 15,460	\$ 9,146	\$ 6,072	\$ 3,149	\$ 3,248	\$ 39,947	\$ 714	\$ 94,531			
Gross Writeoffs	\$ —	\$ 422	\$ 236	\$ 11	\$ 12	\$ 6	\$ —	\$ —	\$ 687			

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	Term Loans By Origination						Revolving Loans	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
Grand Total	\$ 2,323,768	\$ 2,941,598	\$ 2,142,531	\$ 1,249,550	\$ 629,718	\$ 991,702	\$ 1,043,560	\$ 6,594	\$ 11,329,021
Total Gross Writeoffs	\$ 668	\$ 1,077	\$ 674	\$ 112	\$ 52	\$ 238	\$ —	\$ 2,980	\$ 5,801

December 31, 2022

	Term Loans By Origination								Revolving Loans Converted to Term	
	2022	2021	2020	2019	2018	Prior	Revolving Loans			Total
CRE - Construction and Development										
Pass	\$ 908,741	\$ 339,800	\$ 96,320	\$ 6,082	\$ 4,388	\$ 12,803	\$ 59,217	\$ 229	\$ 1,427,580	
Special Mention	—	—	—	—	—	480	—	—	480	
Substandard	125	83	—	15	1	92	—	—	316	
	\$ 908,866	\$ 339,883	\$ 96,320	\$ 6,097	\$ 4,389	\$ 13,375	\$ 59,217	\$ 229	\$ 1,428,376	
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
CRE - Owner Occupied										
Pass	\$ 328,731	\$ 437,416	\$ 273,172	\$ 161,966	\$ 78,558	\$ 245,660	\$ 10,364	\$ —	\$ 1,535,867	
Special Mention	9,985	7,392	6,523	265	—	4,992	2,798	162	32,117	
Substandard	959	—	514	7,857	258	2,527	—	—	12,115	
	\$ 339,675	\$ 444,808	\$ 280,209	\$ 170,088	\$ 78,816	\$ 253,179	\$ 13,162	\$ 162	\$ 1,580,099	
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 2	
CRE - Non-Owner Occupied										
Pass	\$ 783,897	\$ 767,735	\$ 448,563	\$ 314,564	\$ 131,138	\$ 336,639	\$ 9,725	\$ —	\$ 2,792,261	
Special Mention	2,587	26,412	—	—	7,690	—	800	—	37,489	
Substandard	—	—	696	—	—	174	—	—	870	
	\$ 786,484	\$ 794,147	\$ 449,259	\$ 314,564	\$ 138,828	\$ 336,813	\$ 10,525	\$ —	\$ 2,830,620	
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
CRE - Multi-Family										
Pass	\$ 146,146	\$ 147,562	\$ 107,153	\$ 42,966	\$ 14,918	\$ 33,597	\$ 1,268	\$ —	\$ 493,610	
Special Mention	—	224	—	—	2,158	—	—	—	2,382	
Substandard	—	—	—	—	—	198	—	—	198	
	\$ 146,146	\$ 147,786	\$ 107,153	\$ 42,966	\$ 17,076	\$ 33,795	\$ 1,268	\$ —	\$ 496,190	
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Commercial and Industrial										
Pass	\$ 320,534	\$ 188,134	\$ 104,397	\$ 56,832	\$ 30,293	\$ 27,253	\$ 511,362	\$ 2,765	\$ 1,241,570	
Special Mention	906	1,958	503	640	461	—	5,416	—	9,884	
Substandard	482	1,488	1,762	544	182	25	760	—	5,243	
	\$ 321,922	\$ 191,580	\$ 106,662	\$ 58,016	\$ 30,936	\$ 27,278	\$ 517,538	\$ 2,765	\$ 1,256,697	
Gross Writeoffs	\$ 379	\$ 65	\$ 28	\$ —	\$ 26	\$ 11	\$ 2,871	\$ —	\$ 3,380	

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	Term Loans By Origination										
	2022	2021	2020	2019	2018	Prior	Revolving Loans	Revolving Loans Converted to Term	Total		
Government											
Pass	\$ 81,994	\$ 26,577	\$ 189,199	\$ 21,930	\$ 22,926	\$ 167,496	\$ 2,143	\$ —	\$ 512,265		
Special Mention	—	—	—	—	—	—	—	—	—		
Substandard	—	—	—	—	—	—	—	—	—		
	\$ 81,994	\$ 26,577	\$ 189,199	\$ 21,930	\$ 22,926	\$ 167,496	\$ 2,143	\$ —	\$ 512,265		
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —		
Residential 1 - 4 Family											
Credit Score:											
>= 750	\$ 506,297	\$ 352,946	\$ 175,943	\$ 92,712	\$ 53,118	\$ 156,984	\$ 2,602	\$ 1,896	\$ 1,342,498		
650 - 749	100,710	71,128	43,192	10,784	19,237	31,737	—	—	276,788		
450 - 649	6,170	629	904	577	825	5,671	—	—	14,776		
300 - 449	—	—	—	—	—	—	—	—	—		
	\$ 613,177	\$ 424,703	\$ 220,039	\$ 104,073	\$ 73,180	\$ 194,392	\$ 2,602	\$ 1,896	\$ 1,634,062		
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10	\$ —	\$ —	\$ 10		
HELOC											
Credit Score:											
>= 750	\$ 2,180	\$ 1,078	\$ 506	\$ 102	\$ 112	\$ 1,094	\$ 304,879	\$ 96	\$ 310,047		
650 - 749	524	451	—	992	228	1,924	74,387	1	78,507		
450 - 649	427	341	49	119	98	953	4,985	—	6,972		
300 - 449	—	—	—	—	—	—	—	—	—		
	\$ 3,131	\$ 1,870	\$ 555	\$ 1,213	\$ 438	\$ 3,971	\$ 384,251	\$ 97	\$ 395,526		
Gross Writeoffs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 50	\$ —	\$ —	\$ 50		
Indirect											
Credit Score:											
>= 750	\$ 171,384	\$ 86,018	\$ 16,607	\$ 9,133	\$ 6,626	\$ 1,984	\$ —	\$ —	\$ 291,752		
650 - 749	139,074	79,233	22,937	8,255	6,334	1,390	—	—	257,223		
450 - 649	4,280	3,396	4,710	3,059	2,759	987	—	—	19,191		
300 - 449	—	—	—	24	—	—	—	—	24		
	\$ 314,738	\$ 168,647	\$ 44,254	\$ 20,471	\$ 15,719	\$ 4,361	\$ —	\$ —	\$ 568,190		
Gross Writeoffs	\$ 82	\$ 239	\$ 13	\$ 20	\$ 36	\$ 8	\$ —	\$ —	\$ 398		
Consumer and Other											
Credit Score:											
>= 750	\$ 17,244	\$ 12,467	\$ 6,107	\$ 5,087	\$ 1,242	\$ 3,002	\$ 34,443	\$ 48	\$ 79,640		
650 - 749	2,616	1,826	1,019	806	581	114	5,001	—	11,963		
450 - 649	231	82	113	122	6	81	333	6	974		
300 - 449	—	—	—	—	—	—	—	—	—		
	\$ 20,091	\$ 14,375	\$ 7,239	\$ 6,015	\$ 1,829	\$ 3,197	\$ 39,777	\$ 54	\$ 92,577		
Gross Writeoffs	\$ —	\$ —	\$ 17	\$ —	\$ 16	\$ 1	\$ —	\$ —	\$ 34		

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	Term Loans By Origination						Revolving Loans		Revolving Loans Converted to Term	Total
	2022	2021	2020	2019	2018	Prior	Revolving Loans			
Grand Total	\$ 3,536,224	\$ 2,554,376	\$ 1,500,889	\$ 745,433	\$ 384,137	\$ 1,037,857	\$ 1,030,483	\$	5,203	\$ 10,794,602
Total Gross Writeoffs	\$ 461	\$ 304	\$ 58	\$ 20	\$ 78	\$ 82	\$ 2,871	\$	—	\$ 3,874

Through our loan portfolio evaluation process, we have identified certain loans for which the primary source of loan repayment is no longer a viable option, necessitating identifying these loans as CDAs. In most cases, these are loans in which the borrower is experiencing financial difficulty that we believe will necessitate the operation or sale of the underlying collateral to provide substantially all of the repayment.

In estimating ECL, ASC 326 prescribes that if foreclosure is probable, a CDA is required to be measured at the fair value of collateral. If foreclosure is not probable, the borrower is experiencing difficulty and repayment is expected to be repaid by operation of collateral, the Company uses the fair value of collateral less selling costs to determine the ACL. At December 31, 2023 and 2022, CDA loans measured at the fair value of collateral totaled \$10.39 million and \$7.98 million, respectively. There were no specific reserves associated with these balances at either year end.

The following table provides a breakdown between loans identified as CDAs and non-CDAs, by type and securing collateral, as well as collateral coverage for those loans at December 31, 2023, and December 31, 2022 (in thousands):

December 31, 2023	Type of Collateral and Extent to Which Collateral Secures Financial Assets			Financial Assets Not Considered Collateral Dependent	Total
	Residential Property	Investment Property	Commercial Property		
Commercial Real Estate					
Construction and development	\$ —	\$ 2,028	\$ —	\$ 1,247,707	\$ 1,249,735
Owner occupied	—	—	10,812	1,688,574	1,699,386
Non-owner occupied	—	59,643	—	3,057,428	3,117,071
Multi-family	—	329	—	582,880	583,209
Residential 1-4 family	4,296	—	—	1,848,595	1,852,891
HELOC	755	—	—	382,224	382,979
Commercial and industrial	—	—	—	1,265,169	1,265,169
Government	—	—	—	525,261	525,261
Indirect	—	—	—	558,789	558,789
Consumer and other	—	—	—	94,531	94,531
Total, amortized cost	\$ 5,051	\$ 62,000	\$ 10,812	\$ 11,251,158	\$ 11,329,021
Collateral value	\$ 12,769	\$ 111,203	\$ 30,083		

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December 31, 2022	Type of Collateral and Extent to Which Collateral Secures Financial Assets			Financial Assets Not Considered Collateral Dependent	Total
	Residential Property	Investment Property	Commercial Property		
Commercial Real Estate					
Construction and development	\$ —	\$ 953	\$ —	\$ 1,427,423	\$ 1,428,376
Owner occupied	—	—	2,732	1,577,367	1,580,099
Non-owner occupied	—	40,252	—	2,790,368	2,830,620
Multi-family	—	2,580	—	493,610	496,190
Residential 1-4 family	4,896	—	—	1,629,166	1,634,062
HELOC	2,205	—	—	393,321	395,526
Commercial and industrial	—	—	—	1,256,697	1,256,697
Government	—	—	—	512,265	512,265
Indirect	—	—	—	568,190	568,190
Consumer and other	—	—	—	92,577	92,577
Total, amortized cost	\$ 7,101	\$ 43,785	\$ 2,732	\$ 10,740,984	\$ 10,794,602
Collateral value	\$ 14,189	\$ 73,886	\$ 6,790		

Nonaccrual and Past Due Loans

Loans are placed on nonaccrual status when management determines that the full repayment of principal and collection of interest according to contractual terms is no longer likely; generally when the loan becomes 90 days or more past due. However, some loans that are 90 days or more past due as to interest and principal are still accruing because they are (1) well-secured and in the process of collection, or (2) real estate loans or loans exempt under regulatory rules from being classified as nonaccrual.

The following table is an aging analysis at amortized cost of the Company's loans held for investment portfolio at December 31, 2023, and December 31, 2022 (in thousands):

		Days Past Due						Accruing Loans Over 90 Days Past Due
December 31, 2023	Current	30-59	60-89	Over 90	Total Past Due	Total Loans		
Commercial Real Estate								
Construction and development	\$ 1,249,507	\$ 46	\$ —	\$ 182	\$ 228	\$ 1,249,735	\$ —	
Owner occupied	1,698,288	690	—	408	1,098	1,699,386	—	
Non-owner occupied	3,116,874	197	—	—	197	3,117,071	—	
Multi-family	582,993	—	—	216	216	583,209	—	
Residential 1-4 family	1,849,469	1,487	638	1,297	3,422	1,852,891	—	
HELOC	380,849	1,113	188	829	2,130	382,979	309	
Commercial and industrial	1,265,035	11	—	123	134	1,265,169	—	
Government	525,261	—	—	—	—	525,261	—	
Indirect	552,324	4,264	835	1,366	6,465	558,789	421	
Consumer and other	94,399	21	25	86	132	94,531	5	
Total	\$ 11,314,999	\$ 7,829	\$ 1,686	\$ 4,507	\$ 14,022	\$ 11,329,021	\$ 735	

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December 31, 2022		Days Past Due				Total Past Due	Total Loans	Accruing Loans Over 90 Days Past Due						
		Current	30-59	60-89	Over 90									
Commercial Real Estate														
Construction and development	\$	1,427,238	\$	1,046	\$	—	\$	92	\$	1,138	\$	1,428,376	\$	—
Owner occupied		1,579,599		69		—		431		500		1,580,099		—
Non-owner occupied		2,829,724		896		—		—		896		2,830,620		—
Multi-family		496,190		—		—		—		—		496,190		—
Residential 1-4 family		1,630,510		1,855		21		1,676		3,552		1,634,062		—
HELOC		393,519		684		858		465		2,007		395,526		275
Commercial and industrial		1,256,338		28		121		210		359		1,256,697		—
Government		512,265		—		—		—		—		512,265		—
Indirect		564,563		2,367		621		639		3,627		568,190		49
Consumer and other		92,515		62		—		—		62		92,577		—
Total	\$	10,782,461	\$	7,007	\$	1,621	\$	3,513	\$	12,141	\$	10,794,602	\$	324

The following table presents the amortized cost basis of loans on nonaccrual status as of the beginning of the reporting period and the end of the reporting period, and the amortized cost basis of nonaccrual loans without specific reserves for the years ended December 31, 2023, and December 31, 2022. Nonaccrual loans, less than \$1 million, and not in process of foreclosure, are not subject to individual assessment and are included in collectively evaluated pools for which an ACL has been recorded. It also shows interest income recognized on nonaccrual loans (in thousands):

	Nonaccrual Financial Assets		Financial Assets 90 Days or More Past Due, Not on Nonaccrual Status as of 12/31/2023	Nonaccrual Financial Assets With No Specific Reserve as of 12/31/2023	Interest Income Recognized as of 12/31/2023
	As of 12/31/2022	As of 12/31/2023			
Commercial Real Estate					
Construction and development	\$ 93	\$ 185	\$ —	\$ 185	\$ 8
Owner occupied	565	521	—	521	1
Non-owner occupied	—	—	—	—	—
Multi-family	—	216	—	216	—
Residential 1-4 family	2,416	2,778	—	2,778	23
HELOC	457	698	309	698	34
Commercial and industrial	2,079	1,217	—	1,217	99
Government	—	—	—	—	—
Indirect	663	1,228	421	1,228	17
Consumer and other	—	—	5	—	—
Total	\$ 6,273	\$ 6,843	\$ 735	\$ 6,843	\$ 182

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Nonaccrual Financial Assets		Financial Assets 90 Days or More Past Due, Not on Nonaccrual Status as of	Nonaccrual Financial Assets With No Specific Reserve as of	Interest Income Recognized as of
	As of 12/31/2021	As of 12/31/2022	12/31/2022	12/31/2022	12/31/2022
Commercial Real Estate					
Construction and development	\$ —	\$ 93	\$ —	\$ 93	\$ —
Owner occupied	607	565	—	565	—
Non-owner occupied	—	—	—	—	—
Multi-family	—	—	—	—	—
Residential 1-4 family	1,839	2,416	—	2,416	125
HELOC	481	457	275	457	8
Commercial and industrial	2,433	2,079	—	2,079	35
Government	—	—	—	—	—
Indirect	613	663	49	663	18
Consumer and other	—	—	—	—	—
Total	<u>\$ 5,973</u>	<u>\$ 6,273</u>	<u>\$ 324</u>	<u>\$ 6,273</u>	<u>\$ 186</u>

NOTE 6. FORECLOSED PROPERTY

The table below presents a summary of the activity related to foreclosed property (in thousands):

	Year Ended December 31,	
	2023	2022
Beginning balance	\$ 560	\$ 4,584
Acquisitions	2,171	—
Additions and capital improvements	5,427	2,371
Sales	(7,448)	(6,991)
Net change in valuation allowance	—	—
Gain on sale and write-downs, net	198	596
Ending balance	<u>\$ 908</u>	<u>\$ 560</u>

As of December 31, 2023, the Company's recorded investment in OREO collateralized by residential real estate was \$175 thousand. As of December 31, 2023, the Company's recorded investment in mortgage loans collateralized by residential real estate that are in the process of foreclosure was \$694 thousand.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment is as follows (dollars in thousands):

	Useful Life	December 31,	
		2023	2022
Land and improvements	—	\$ 54,964	\$ 51,251
Buildings and improvements	10 to 45 years	251,309	222,892
Autos	3 to 5 years	8,893	8,391
Computer equipment	2 to 5 years	22,154	18,878
Equipment	5 to 10 years	48,357	39,785
Furniture and fixtures	5 to 20 years	77,655	74,124
Leasehold improvements	Lesser of lease term or 10 years	35,613	37,039
Construction in progress	—	20,258	15,892
		519,203	468,252
Less accumulated depreciation		(181,605)	(163,450)
Net premises and equipment		\$ 337,598	\$ 304,802

Depreciation and leasehold amortization expense for the years ended December 31, 2023, 2022, and 2021, was \$19.74 million, \$17.48 million, and \$16.98 million, respectively.

NOTE 8. LEASES

At December 31, 2023, there were no significant leases that had not yet commenced for which TowneBank had created a right-of-use asset and a lease liability. Lease assets are included in other assets, and lease liabilities are included in other liabilities in our Consolidated Balance Sheets.

The following table presents a summary of the lease assets and liabilities as of the dates indicated:

(In thousands)	Leases	
	December 31, 2023	December 31, 2022
Assets		
Finance lease assets	\$ 26,405	\$ 28,620
Operating lease assets	49,074	49,505
Total lease assets	\$ 75,479	\$ 78,125
Liabilities		
Finance lease liabilities	\$ 29,397	\$ 28,886
Operating lease liabilities	53,358	53,289
Total lease liabilities	\$ 82,755	\$ 82,175

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The following table presents a summary of activity related to leases for the years ended December 31, 2023 and 2022:

<i>(In thousands)</i>	Lease Cost	
	Year Ended December 31,	
	2023	2022
Finance lease cost:		
Amortization of right-of-use assets	\$ 628	\$ 69
Interest on lease liabilities	2,097	197
Operating lease cost (1) included in occupancy expense	13,587	13,813
Variable lease cost included in occupancy expense	905	817
Sublease income included in occupancy expense	(207)	(299)
Net lease cost	\$ 17,010	\$ 14,597

(1) Includes short-term leases, which are immaterial.

The following table presents operating lease liability maturities, by year, as of December 31, 2023:

<i>(In thousands)</i>	Maturity of Lease Liabilities
	Operating Leases (1)
2024	\$ 10,079
2025	8,514
2026	7,196
2027	6,646
2028	6,066
Thereafter	38,898
Total lease payments	\$ 77,399
Less: interest	24,041
Present value of lease liabilities	\$ 53,358

(1) Operating lease payments include \$28.98 million related to options to extend lease terms that are reasonably certain of being exercised.

Note: Minimum lease payments exclude payments to landlords for real estate taxes and common area maintenance.

TowneBank has one financing lease that commenced in 2022 with an estimated purchase option that was expected to be executed prior to the end of 2023. In the third quarter of 2023, the seller exercised the option to extend the closing date to June 30, 2024. The related financing lease liability was \$29.40 million at December 31, 2023. The purchase option is expected to be \$30.80 million.

The following table presents the lease term and discount rate as of the dates indicated:

	Lease Term and Discount Rate	
	Year Ended December 31,	
	2023	2022
Weighted - average remaining lease term - finance leases (in years)	0.50	1.00
Weighted - average remaining lease term - operating leases (in years)	13.52	13.84
Weighted - average discount rate - finance leases	9.39%	6.43%
Weighted - average discount rate - operating leases	5.30%	4.94%

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The following table presents other information with regard to leases as of the dates indicated:

<i>(In thousands)</i>	Other Information	
	Year Ended December 31,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	\$ 11,662	\$ 12,393
Related Party Transactions (1)		
Rent expense included in occupancy expense	\$ 2,297	\$ 2,848

(1) The Company rents space for various financial centers from companies associated with its directors.

Rental income for the year ended December 31, 2023, was \$1.56 million, compared to \$1.35 million for 2022, and \$3.89 million for 2021. Future minimum rental income by year and in the aggregate, under noncancellable operating leases, was as follows at December 31, 2023 (in thousands):

2024	\$ 1,878
2025	1,869
2026	1,094
2027	483
2028	398
Thereafter	231
	<u>\$ 5,953</u>

NOTE 9. GOODWILL AND INTANGIBLE ASSETS

The gross carrying amount and accumulated amortization for the Company's intangible assets (in thousands):

	December 31,			
	2023		2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization				
Core deposit intangible	\$ 38,121	\$ 22,152	\$ 30,921	\$ 25,161
Non-compete agreements	1,115	1,017	1,143	906
Customer lists	81,881	42,885	72,113	43,058
Total intangible assets subject to amortization	121,117	66,054	104,177	69,125
Intangible assets not subject to amortization				
Trade names	6,340	—	4,880	—
Contractual agreements	3,231	—	3,231	—
Total intangible assets not subject to amortization	9,571	—	8,111	—
Total intangible assets	<u>\$ 130,688</u>	<u>\$ 66,054</u>	<u>\$ 112,288</u>	<u>\$ 69,125</u>

The aggregate amortization expense for intangible assets with finite lives for the year ended December 31, 2023, was \$14.16 million, compared to \$10.62 million for 2022, and \$11.13 million for 2021. The estimated aggregate annual amortization expense for each of the five years subsequent to December 31, 2023, is as follows: 2024, \$12.19 million; 2025, \$10.92 million; 2026, \$9.56 million; 2027, \$7.15 million; and 2028, \$6.17 million.

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During 2023, the Company recorded an increase of \$10.12 million to goodwill and a \$15.10 million increase in intangible assets related primarily to the completion of the acquisition of Farmers Bank and Manry-Rawls, LLC. The Company also recorded a decrease to goodwill of \$12.24 million related to the sale of majority ownership in BHHS Towne Realty. During 2022, the Company recorded an increase of \$1.29 million to goodwill and a decrease of \$7.21 million in intangible assets. The increase in goodwill represents an insurance acquisition. The intangible assets acquired are finite-lived, consisting primarily of customer list purchases.

Effective April 27, 2023, the Company transferred its ownership interest in BHHS Towne Realty, which was formerly a subsidiary of TowneBank, to BHHS RW Towne Realty, LLC, in exchange for a minority interest in that company, which is accounted for as an equity method investment. The transaction, which resulted in a \$12.24 million decrease in goodwill, included the combination of the contributing companies' mortgage, title, and property management lines of business.

Changes in the carrying amount of goodwill related to each of the Company's segments are as follows (in thousands):

	Bank	Realty	Insurance	Consolidated Totals
Balance at December 31, 2021	\$ 344,713	\$ 32,526	\$ 79,948	\$ 457,187
Acquisitions	—	—	1,320	1,320
Other adjustments	—	(25)	—	(25)
Balance at December 31, 2022	\$ 344,713	\$ 32,501	\$ 81,268	\$ 458,482
Acquisitions	3,109	4,582	2,425	10,116
Sale of BHHS Towne Realty	—	(12,241)	—	(12,241)
Other adjustments	—	—	(22)	(22)
Balance at December 31, 2023	\$ 347,822	\$ 24,842	\$ 83,671	\$ 456,335

NOTE 10. BANK-OWNED LIFE INSURANCE POLICIES

The total carrying amount of bank-owned life insurance as of December 31, 2023 and 2022, was \$277.45 million and \$258.07 million, respectively. The Company recognized BOLI income, included in noninterest income, of \$7.40 million, \$7.14 million, and \$7.27 million for the years ended December 31, 2023, 2022, and 2021, respectively.

NOTE 11. DEPOSITS

A summary of time deposits by maturity at December 31, 2023, is shown in the following chart (dollars in thousands):

Maturity	Total
2024	\$ 1,981,232
2025	288,108
2026	10,584
2027	7,597
2026 and thereafter	168,873
	<u>\$ 2,456,394</u>

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At year-end 2023, TowneBank had a total of \$183.94 million in no-penalty time deposits as compared to \$260.97 million at December 31, 2022. The aggregate amount of time deposits of \$250,000 or more was \$934.83 million and \$574.27 million at December 31, 2023 and 2022, respectively.

Some of the Company's officers and directors, and the respective companies in which the officers and directors have a financial interest, have deposit relationships with the Company. Related party deposits amounted to approximately \$121.30 million and \$105.81 million at December 31, 2023 and 2022, respectively.

NOTE 12. BORROWINGS

TowneBank is a member of the FHLB and may borrow funds based on criteria established by the FHLB. The FHLB may call these borrowings if the adjusted collateral balance falls below the borrowing level. The borrowing arrangements available from the FHLB could be either short- or long-term, depending on our related cost and needs.

Advances from the FHLB for the years ended December 31 are summarized as follows (dollars in thousands):

	2023	2022
Balance outstanding at end of year	\$ 203,958	\$ 29,674
Average balance outstanding	\$ 348,026	\$ 65,786
Maximum outstanding at any month-end	\$ 954,393	\$ 229,850
Average interest rate during the year	5.10 %	1.41 %
Average interest rate at end of year	5.41 %	0.81 %

The scheduled maturity dates, call dates, and related fixed interest rates on advances from the FHLB at December 31, 2023, are summarized as follows (dollars in thousands):

Maturity Date	Interest Rate	Call/Reset Date	Outstanding Amount
11/15/2028	3.43%	—	\$ 2,321
12/01/2028	2.83%	—	1,637
01/30/2024	5.45%	—	200,000
			<u>\$ 203,958</u>

Information concerning securities sold under agreements to repurchase and federal funds purchased is summarized as follows (dollars in thousands):

	2023	2022
Balance outstanding at end of year	\$ 32,826	\$ 40,412
Average balance outstanding	\$ 49,637	\$ 57,946
Maximum outstanding at any month-end	\$ 59,143	\$ 89,583
Average interest rate during the year	0.52 %	0.12 %
Average interest rate at end of year	0.74 %	0.09 %

REPOs totaled \$32.83 million at December 31, 2023, and \$40.41 million at December 31, 2022. All REPOs are overnight short-term investments and are not insured by the FDIC. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. Collateral pledging requirements with REPOs are monitored daily. At December 31, 2023, the market value of securities pledged as collateral for REPOs was \$72.05 million and consisted primarily of MBS issued by GSEs and GNMA. The market value of securities pledged could decline. Due to the overnight short-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

term nature of REPOs, potential risk due to a decline in the value of the pledged collateral is low. The carrying amount of repurchase agreements and other borrowings approximates fair value due to the short-term nature of these instruments

In addition, federal funds lines with other financial institutions of \$150.00 million were available at December 31, 2023, for short-term funding needs. Federal funds purchased are overnight, unsecured borrowings.

At December 31, 2023 and 2022, the Company had an unused line of credit with the FHLB totaling \$4.63 billion and \$4.58 billion, respectively, subject to collateral requirements. FHLB advances are secured by a blanket floating lien on certain 1-4 family residential, multi-family, HELOCs, second mortgages, commercial mortgages, and securities with carrying values of \$2.83 billion at December 31, 2023.

Further, the Company had loan participation lines and reverse repurchase agreements with various financial institutions available at December 31, 2023 and 2022, which provide potential additional funding, but had zero outstanding in both periods.

With the January 2023 acquisition of Farmers, the Company assumed two issues of capital notes with an aggregate carrying value of \$8.50 million at acquisition. The first issue, with a carrying value of \$2.69 million at acquisition, bears a 3.00% fixed annual rate and matures August 14, 2025. The second issue, with a carrying value of \$5.82 million at acquisition, bears a 3.25% fixed annual rate and matures August 14, 2027. At December 31, 2023, the carrying value of these notes was \$7.76 million.

On February 9, 2022, the Company issued \$250.00 million of fixed-to-floating-rate subordinated notes due February 15, 2032, in a public offering. The Company received \$246.90 million in net proceeds after deducting discounts and issuance costs. The subordinated notes accrue interest at a fixed rate of 3.125% for the first five years until February 15, 2027. From and including this date and for the remaining five years of the subordinated notes' term, interest will accrue at a floating rate of three-month SOFR plus 1.68%. The Company may redeem the subordinated notes, in whole or in part, on or after February 15, 2027. At December 31, 2023, the carrying value of the notes totaled \$248.04 million compared to \$247.42 million at December 31, 2022.

On August 1, 2022, the Company redeemed its \$250.00 million of fixed-to-floating-rate subordinated notes due July 30, 2027, in full satisfaction of their outstanding principal and interest.

NOTE 13. COMMITMENTS

TowneBank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk, which have not been recognized in the balance sheet. The contract amount of these instruments reflects the extent of the Company's involvement or "credit risk."

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Unless noted otherwise, collateral or other security is required to support financial instruments with credit risk. At December 31, 2023 and 2022, our allowance for credit losses from off-balance-sheet credit exposures, included in other liabilities was \$8.23 million and \$7.10 million, respectively.

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Our contractual amounts are as follows (in thousands):

December 31,	2023	2022
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 4,503,104	\$ 4,438,951
Standby letters of credit	174,707	173,232
	<u>\$ 4,677,811</u>	<u>\$ 4,612,183</u>

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, income-producing commercial properties, and real estate.

Standby letters of credit are conditional commitments issued to guarantee performance of a customer to a third party. The letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is similar to the risk involved in extending loan facilities to customers. Collateral supporting those commitments is generally held, if deemed necessary. The Company provides an allowance for estimated losses from such provisions that management considered adequate at December 31, 2023. Management does not anticipate any material losses will arise from additional disbursements of the aforementioned lines or standby letters of credit.

Additionally, the Company had \$1.21 billion in mortgage loans sold to investors with estimated recourse and warranty reserves totaling \$18.51 million as of December 31, 2023.

NOTE 14. RETIREMENT PLANS

Defined Contribution Plans

The Company has a defined contribution 401(k) plan. All employees who are at least 18 years of age and have completed one month of service are eligible to participate. Under the plan, employees may contribute a percentage of their annual salary, subject to statutory limitations, and the Company will make a discretionary match of the employees' contributions up to 6% of their salary. The Company matched employee contributions up to 3% in 2023, 2022, and 2021. The Company may also make an additional discretionary contribution; there were no discretionary contributions for the years ended December 31, 2023, 2022, or 2021. The Company made matching contributions of \$5.65 million, \$5.67 million, and \$5.76 million for the years ended December 31, 2023, 2022, and 2021, respectively.

The Company has a non-qualified deferred compensation plan that allows certain executives, senior officers, and other employees to defer payment of up to 100% of their base salary and annual bonus. The Company has the option to match an employee's combined non-qualified deferred compensation and 401(k) deferrals up to a maximum of 6% of his or her salary. The Company does not match contributions made by employees who are participants in the SERP, described below.

Funds for the non-qualified deferred compensation plan are held in a rabbi trust and invested in certificates of deposit, which are included in interest-bearing deposits on the balance sheet. Changes in the obligation are recorded in compensation expense, which resulted in an increase in expenses of \$1.36 million, \$0.96 million, and

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\$0.52 million for the years ended December 31, 2023, 2022, and 2021, respectively. The Company did not make matching contributions to the plan for the years ended December 31, 2023, 2022, or 2021.

Retirement Plans

The Company has a noncontributory, unfunded SERP for certain officers and key employees. The SERP is intended to provide retirement benefits and postretirement health benefits to individuals covered under the plan. The SERP agreements with the officers provide that upon attainment of retirement age, generally at 65, the participating officer will be entitled to receive a retirement benefit equal to either (i) a designated percentage, ranging from 30% to 50% of their base salary depending on their level of seniority, with an annual 4% increase until retirement, or (ii) a fixed targeted benefit amount. The retirement benefit is payable over a 10-year, 15-year, or 20-year period, beginning upon the later of separation of service or the attainment of contractual retirement age. The SERP agreements provide for an annual vesting schedule until the participating officer reaches retirement age. In the case of a participating officer's voluntary termination of employment, disability, or termination for cause, the annual amount payable under the SERP is equal to the amount of the vested benefit earned as of the date of termination of employment. In the case of involuntary termination without cause or termination of employment for good reason by the participating officer, the participating officer becomes fully vested in the full retirement benefit. Upon termination of employment, payment of the retirement benefit generally does not begin until the participating officer reaches the designated retirement age set forth in the SERP agreement. In the event of death, the full amount of the retirement benefit is payable. We also provide postretirement benefits other than pensions for certain employees, which include health care, dental care, Medicare Part B reimbursement, and life insurance benefits. Benefits under this plan are accounted for under the guidance of ASC 715, *Compensation - Retirement Benefits*.

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The following table sets forth changes in benefit obligations and financial data relative to the retirement plans. The accrued liability is recorded on the Consolidated Balance Sheets as a component of other liabilities (in thousands):

December 31,	SERP		Other Postretirement Benefits	
	2023	2022	2023	2022
<i>Change in benefit obligation</i>				
Benefit obligation, beginning of year	\$ 44,493	\$ 53,823	\$ 654	\$ 1,365
Service cost	3,434	2,885	—	—
Interest cost	2,526	2,215	32	41
Net amortization	(1,388)	774	(253)	(15)
Benefits paid	(2,232)	(1,413)	(52)	(22)
Prior service cost	(501)	(684)	55	(154)
Net actuarial (gain) loss	638	(13,107)	115	(561)
Benefit obligation, end of year	<u>\$ 46,970</u>	<u>\$ 44,493</u>	<u>\$ 551</u>	<u>\$ 654</u>
<i>Change in plan assets</i>				
Fair value of plan assets, beginning of year	\$ —	\$ —	\$ —	\$ —
Employer contributions	2,232	1,413	52	22
Benefits paid	(2,232)	(1,413)	(52)	(22)
Fair value of plan assets, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status, end of year	<u>\$ (46,970)</u>	<u>\$ (44,493)</u>	<u>\$ (551)</u>	<u>\$ (654)</u>
Accumulated benefit obligation, end of year	<u>\$ 46,970</u>	<u>\$ 44,493</u>	<u>\$ 551</u>	<u>\$ 654</u>
<i>Amounts recognized in other comprehensive income, pre-tax</i>				
Prior service cost	\$ (501)	\$ (684)	\$ (52)	\$ (145)
Net actuarial (gain) loss	<u>\$ 638</u>	<u>\$ (13,107)</u>	<u>\$ 115</u>	<u>\$ (561)</u>

The components of the net periodic benefit cost are as follows (in thousands):

	SERP			Other Postretirement Benefits		
	2023	2022	2021	2023	2022	2021
Service cost	\$ 3,434	\$ 2,885	\$ 3,931	\$ —	\$ —	\$ —
Interest cost	2,526	2,215	1,364	32	41	37
Prior service cost	717	684	684	(55)	(9)	—
Net amortization	(2,105)	90	166	(198)	(15)	34
Net periodic benefit cost	<u>\$ 4,572</u>	<u>\$ 5,874</u>	<u>\$ 6,145</u>	<u>\$ (221)</u>	<u>\$ 17</u>	<u>\$ 71</u>

The service cost component of net periodic benefit costs is included in salaries and employee benefits. All other components of net periodic benefit costs are included in other expenses.

Amounts recognized as a component of accumulated other comprehensive income that have not yet been recognized as a component of net periodic benefit cost consist of the following (in thousands):

December 31,	SERP		Other Postretirement Benefits	
	2023	2022	2023	2022
Prior service cost	\$ 2,135	\$ 2,636	\$ (90)	\$ (145)
Net actuarial (gain) loss	(11,854)	(12,491)	(502)	(617)
Deferred tax benefit (expense)	2,117	2,181	129	169
Amounts included in accumulated other comprehensive income (loss), net of tax	<u>\$ (7,602)</u>	<u>\$ (7,674)</u>	<u>\$ (463)</u>	<u>\$ (593)</u>

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Pre-tax amounts recorded in accumulated other comprehensive income as of December 31, 2023, that are expected to be recognized as a component of our net periodic benefit cost in 2024 consist of the following (in thousands):

	SERP	Other Postretirement Benefits
Net actuarial (gain) loss	\$ (1,731)	\$ (56)
Prior service cost	\$ 717	\$ (55)

The Company used certain weighted average assumptions to determine benefit obligations and net benefit costs, including discount rate and rate of increase in future compensation levels. The discount rate used to determine net periodic benefit cost and benefit obligation of the SERP was 6.01% in 2023, 5.51% in 2022, and 2.77% in 2021. The rate of increase in future compensation levels used was 4.0% in 2023, 2022, and 2021. The discount rate used to determine net periodic benefit cost and benefit obligation of other postretirement benefits was 6.01% in 2023, 5.51% in 2022, and 2.77% in 2021. When estimating the discount rate, we review yields available on high-quality, fixed-income debt instruments and use a yield curve model from which the discount rate is derived by applying the projected benefit payments under the plan to points on a published yield curve.

The following table sets forth expected future benefit payments, which include expected future service, for the periods indicated (in thousands):

Year	SERP	Other Postretirement Benefits
2024	\$ 3,587	\$ 41
2025	3,648	42
2026	3,707	45
2027	4,555	47
2028	4,731	50
2029-2033	26,502	315

In conjunction with its acquisition of Paragon, the Company assumed the liabilities related to Paragon's existing non-qualifying supplemental retirement contractual agreements with several key executives. The executives were fully vested in their benefits prior to the acquisition. The agreements typically require a fixed retirement benefit paid over a 20-year period following retirement. In conjunction with its acquisition of Farmers, the Company assumed liabilities related to Farmer's existing non-qualifying supplemental retirement contractual agreements with two fully vested retired executives. These agreements are for lifetime payments.

The agreements are accounted for under ASC 710, *Compensation - General*. The following table sets forth changes in benefit obligations and financial data relative to the retirement plans. The accrued liability is recorded on the Consolidated Balance Sheets as a component of other liabilities (in thousands):

December 31,	2023	2022
Benefit obligation, beginning of year	\$ 4,053	\$ 4,376
Accrued liability assumed at acquisition	1,870	—
Service cost	(45)	(438)
Interest cost	346	237
Benefits paid	(244)	(122)
Benefit obligation, end of year	\$ 5,980	\$ 4,053

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The discount rate used to determine net periodic benefit costs was 6.01% in 2023, 5.51% in 2022, and 2.77% in 2021.

NOTE 15. SHARE-BASED COMPENSATION

The Company maintains a share-based compensation plan that provides for the granting of incentive and non-statutory stock options and awards of restricted common stock. In May 2017, shareholders approved the TowneBank 2017 Stock Incentive Plan ("2017 Plan"), which became effective May 24, 2017 and has a termination date of April 30, 2027. The 2017 Plan replaced the TowneBank 2008 Stock Incentive Plan ("2008 Plan") and no additional awards were made under the 2008 Plan after the effective date of the 2017 Plan.

The 2017 Plan is administered by the Compensation Committee of the Board of Directors ("Compensation Committee"). The maximum aggregate number of shares that may be issued under the 2017 Plan may not exceed 2.50 million. The Company has a policy of using authorized and unissued common shares to satisfy share option exercises and vesting of restricted stock awards. At December 31, 2023, approximately 864.52 thousand common shares were available for issuance under the 2017 Plan.

Stock options: For stock options granted under the 2017 Plan, the stock option price cannot be less than the fair market value of the stock on the date granted. The Compensation Committee determines the exercise price for certain awards, and it can be based on future service. An option's maximum contractual term is 10 years from the date of grant. Options granted under the 2017 Plan are subject to vesting requirements ranging from two to 10 years.

There was no option activity to report in 2023 or 2022. The following tables summarize our stock option activity and related information for the year ended December 31, 2021:

For the Year Ended December 31,	2021	
	Number of Shares	Weighted- Average Exercise Price
Options outstanding, beginning balance	1,287	\$ 14.12
Granted	—	—
Exercised	(1,287)	14.12
Expired	—	—
Forfeited	—	—
Options outstanding, ending balance	—	\$ 14.12
Options exercisable, ending balance	—	\$ 14.12

For the years ended December 31, 2023, 2022, and 2021, there were no stock options granted and no unvested stock options. The total intrinsic value of options exercised was \$0.01 million for the year ended December 31, 2021.

For the years ended December 31, 2023, 2022, and 2021, the tax benefit on cash paid for stock options exercised and compensation expense related to stock options was immaterial. As of December 31, 2023, there was no unrecognized compensation cost related to unvested stock option awards.

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Restricted stock awards ("RSAs") and restricted stock units ("RSUs"): Under the 2017 Plan, recipients of RSAs have full voting rights and are generally entitled to dividends on the common stock. RSAs issued under the 2008 Plan are also entitled to dividends as they are paid. Under the 2017 Plan, dividends on RSAs are accumulated and retained for the grantee by the Company until the stock vests. The accumulated cash and stock dividends on restricted stock awards are distributed with the award at vesting. Recipients of RSUs are entitled to receive shares of common stock after the applicable restrictions lapse. Recipients of RSUs are not entitled to receive cash dividends related to the underlying common stock during the period the RSUs are outstanding, and are not entitled to voting rights. RSAs granted under the Plan are generally subject to vesting requirements ranging from two to 10 years. The shares are subject to forfeiture if vesting and other contractual provision requirements are not met. Generally, the value of RSAs and RSUs will equal the fair value of our common stock on the date of grant, and the expense is recognized over the vesting period.

The following chart shows a summary of activity for RSAs and RSUs, assuming the weighted-average price being the weighted-average fair value at the date of grant for the year ended December 31, 2023:

	Restricted Stock Awards		Restricted Stock Units	
	Number of Shares	Weighted- Average Price	Number of Units	Weighted- Average Price
Unvested, beginning balance	144,772	\$ 28.12	579,379	\$ 28.09
Granted	18,270	30.33	256,472	28.08
Vested	(49,679)	28.22	(161,826)	27.14
Forfeited	—	—	(23,334)	29.81
Unvested, ending balance	113,363	\$ 28.44	650,691	\$ 28.26

Compensation expense related to awards for the years ended December 31, 2023, 2022, and 2021, was \$7.02 million, \$5.22 million, and \$5.63 million, respectively. The total fair value of RSAs vested during 2023, 2022, and 2021 was \$1.40 million, \$3.37 million, and \$4.32 million, respectively. The total fair value of RSUs vested during 2023, 2022, and 2021 was \$4.39 million, \$2.29 million, and \$1.20 million, respectively. As of December 31, 2023, there was \$2.46 million of total unrecognized compensation cost related to unvested RSAs; that cost is expected to be recognized over a period of 2.83 years. As of December 31, 2023, there was \$13.80 million of total unrecognized compensation cost related to unvested RSUs; that cost is expected to be recognized over a period of 2.98 years.

The Company has a directors' deferred compensation plan whereby the directors may elect to defer up to 100% of their directors' fees. All deferred compensation is invested in the Company's common stock and is held in a rabbi trust. The stock is held in the nominee name of the trustee, and the principal and earnings of the trust are held separate and apart from other funds of the Company, and are used exclusively for the uses and purposes of the deferred compensation agreement. The accounts of the trust have been consolidated in the financial statements of the Company, with common stock reported separately in a manner similar to treasury stock (that is, changes in fair value are not recognized) and a corresponding deferred compensation obligation reflected in additional paid-in capital of \$20.81 million and \$18.97 million at December 31, 2023 and 2022, respectively.

NOTE 16. STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN, AND DIVIDEND RESTRICTIONS

The Company has a Member Stock Purchase and Dividend Reinvestment Plan to raise additional capital by providing a convenient and cost-effective way for shareholders, customers, and employees to purchase shares of TowneBank common stock. In connection with the member stock purchase component of the plan for the year

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ended December 31, 2023, the Company entered the open market and acquired 80,488 shares at an average price of \$25.82 per share. In connection with the dividend reinvestment component of the plan for the year ended December 31, 2023, the Company entered the open market and acquired 238,714 shares at an average price of \$25.63 per share.

In connection with the member stock purchase component of the plan for the year ended December 31, 2022, the Company entered the open market and acquired 72,054 shares at an average price of \$30.07 per share. In connection with the dividend reinvestment component of the plan for the year ended December 31, 2022, the Company entered the open market and acquired 187,991 shares at an average price of \$29.81 per share.

TowneBank, as a Virginia banking corporation, may pay cash dividends only out of retained earnings. In February 2023, the Company declared a quarterly cash dividend of \$0.23 per common share. In May, August, and November 2023, the Company declared quarterly cash dividends of \$0.25 per common share. In February 2022, the Company declared a quarterly cash dividend of \$0.20 per common share. In June, August, and November 2022, the Company declared quarterly cash dividends of \$0.23 per common share. In February 2021, the Company declared a quarterly cash dividend of \$0.18 per common share. In June, August, and November 2021, the Company declared a quarterly cash dividend of \$0.20 per common share. The quarterly dividends were paid on January 11, 2021; April 9, 2021; July 9, 2021; October 12, 2021; January 12, 2022; April 8, 2022; July 12, 2022; October 14, 2022; January 12, 2023; April 12, 2023; July 14, 2023; October 13, 2023; and January 12, 2024.

Declaration of future cash dividends will depend on our earnings, our capital position, and other factors. All dividends paid are limited by the requirement to meet capital guidelines issued by regulatory authorities, and future declarations are subject to financial performance and regulatory requirements.

NOTE 17. REVENUE

The Company disaggregates revenue from contracts by major product line or a type of good or service. The following table presents certain selected financial information for the periods indicated (dollars in thousands):

For the year ended December 31,	2023	2022	2021
Revenue from Contracts with Customers:			
(1) Investment management income			
Investment commissions, net	\$ 8,962	\$ 9,249	\$ 10,160
Total	\$ 8,962	\$ 9,249	\$ 10,160
(2) Insurance income			
Property and casualty insurance income, net	\$ 75,636	\$ 61,485	\$ 53,738
Benefit insurance income, net	14,225	12,114	11,061
Total	\$ 89,861	\$ 73,599	\$ 64,799
(3) Real estate and property management income			
Real estate brokerage income, net	\$ 3,530	\$ 11,253	\$ 13,290
Real estate property management income, net	47,791	44,246	42,175
Total	\$ 51,321	\$ 55,499	\$ 55,465
Provision expense (release) for credit losses on future reservation receivables	\$ 40	\$ (127)	\$ 243
Provision expense (release) for credit losses on property and casualty insurance receivables	\$ 338	\$ 453	\$ 289

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- (1) Investment management services are provided by TWM, which are included in the line item other income in the Banking segment of TowneBank. TWM markets services to our customers on behalf of RJFS, a broker-dealer and investment advisory firm registered with the SEC and a member of the Financial Industry Regulatory Authority. RJFS provides our customers brokerage and investment advisory services for the purchase and sale of nondeposit investment and/or insurance products.
- (2) Insurance revenue is included in the Insurance segment. The Insurance segment's performance obligation is related to the referral of business to third-party insurance companies. Contingent income is estimated and recorded at the time of the sale of the insurance policy to the extent it is probable that there will not be a material amount of the income reversed.
- (3) Property management revenues fall within the Realty segment. Performance obligations for resort property management revenues are generally satisfied at the time a reservation is confirmed via the receipt of deposit. See Note 1 for additional discussion.

Effective April 27, 2023, the Company transferred its ownership interest in BHHS Towne Realty, which was formerly a subsidiary of TowneBank, to BHHS RW Towne Realty, LLC, in exchange for a minority interest in that company which is accounted for as an equity method investment. The transaction also included the combination of the contributing companies' respective mortgage, title, and property management lines of business.

Prior to the sale of BHHS Towne Realty, the Company provided real estate services and residential and title insurance. Revenue was mainly in the form of commission and title income. The revenue was earned on both residential and commercial properties. Real estate revenues fell within the Realty segment. Revenue was recognized as commissions and title income were received. Performance obligations were satisfied with the receipt of commissions and fee income, which completed the revenue recognition process.

Remaining performance obligations related to ASC 606 application to the above revenue streams represent performance obligations with an original contract term greater than one year, which are fully or partially unsatisfied at the end of the period. The Company had no material contract assets or contract liabilities recorded on the Consolidated Balance Sheets as of December 31, 2023.

This disclosure includes only revenue from contracts with third-party customers. See Note 27 for additional information regarding other revenue streams, primarily from revenue between the Company's consolidated subsidiaries and lines of business, in addition to those included in the table above.

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NOTE 18. OTHER EXPENSES

The following chart shows a summary of other expenses (in thousands):

Year Ended December 31,	2023	2022	2021
Acquisition-related expense	\$ 9,594	\$ 1,065	\$ 1,022
Bank franchise tax/SCC fees	10,141	9,072	8,841
Charitable contributions	11,804	12,674	13,611
Directors' expense	3,442	2,418	2,145
FDIC and other insurance	16,229	5,875	5,449
Foreclosed property expense	142	310	357
Other	17,791	22,443	17,759
Stationery and office supplies	3,239	2,670	2,701
Telephone and postage	6,293	6,570	6,975
Travel/Meals/Entertainment	4,795	3,338	1,867
	<u>\$ 83,470</u>	<u>\$ 66,435</u>	<u>\$ 60,727</u>

NOTE 19. REGULATORY CAPITAL REQUIREMENTS

The Company is subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

In July 2013, the FDIC and other federal bank regulatory agencies approved final rules known as the "Basel III Capital Rules," which substantially revised the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions, including the Company. The Basel III Capital Rules, which became fully phased in on January 1, 2019, require banking organizations to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%); (iii) a minimum ratio of total capital (that is, Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5%); and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to adjusted average quarterly assets.

In addition, the Federal Deposit Insurance Act as amended requires, among other things, the federal bank regulatory agencies to take "prompt corrective action" against depository institutions that do not meet minimum capital requirements. The Federal Deposit Insurance Act includes the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized."

In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization is required to have at least an 8% total risk-based capital ratio, a 6% Tier 1 risk-based capital ratio, a 4.5% CET1 risk-based capital ratio, and a 4% Tier 1 leverage ratio. To be well-capitalized, a banking organization is required

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to have at least a 10% total risk-based capital ratio, an 8% Tier 1 risk-based capital ratio, a 6.5% CET1 risk-based capital ratio, and a 5% Tier 1 leverage ratio. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

A summary of our required and actual capital components follow (dollars in thousands):

As of December 31, 2023	Actual		Minimum Capital Requirements Including Conservation Buffer (1)		To Be Well Capitalized Under Prompt Action Provisions	
	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %
Common equity Tier 1						
(to risk-weighted assets)	\$ 1,653,541	12.18 %	\$ 950,311	7.00 %	\$ 882,432	6.50 %
Tier 1 capital						
(to risk-weighted assets)	\$ 1,669,448	12.29 %	\$ 1,154,622	8.50 %	\$ 1,086,703	8.00 %
Total risk-based capital						
(to risk-weighted assets)	\$ 2,045,304	15.06 %	\$ 1,426,009	10.50 %	\$ 1,358,104	10.00 %
Tier 1 leverage ratio						
(to average assets)	\$ 1,669,448	10.17 %	\$ 656,617	4.00 %	\$ 820,771	5.00 %
As of December 31, 2022						
Common equity Tier 1						
(to risk-weighted assets)	\$ 1,529,538	11.92 %	\$ 898,219	7.00 %	\$ 834,060	6.50 %
Tier 1 capital						
(to risk-weighted assets)	\$ 1,544,335	12.04 %	\$ 1,090,270	8.50 %	\$ 1,026,136	8.00 %
Total risk-based capital						
(to risk-weighted assets)	\$ 1,897,992	14.80 %	\$ 1,346,548	10.50 %	\$ 1,282,427	10.00 %
Tier 1 leverage ratio						
(to average assets)	\$ 1,544,335	9.87 %	\$ 625,870	4.00 %	\$ 782,338	5.00 %

(1) Basel III Capital Rules require banking organizations to maintain a minimum CET1 ratio of 4.5%, plus a 2.5% capital conservation buffer; a minimum Tier 1 capital ratio of 6.0%, plus a 2.5% capital conservation buffer; a minimum, total risk-based capital ratio of 8%, plus a 2.5% conservation buffer; and a minimum Tier 1 leverage ratio of 4.0%.

NOTE 20. FAIR VALUE DISCLOSURES

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level valuation hierarchy was established for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Valuation is based on observable inputs, other than Level 1 prices, which are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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Level 3 Valuation is based on unobservable inputs that are supported by little or no market activity and which are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis.

Securities available for sale: Fair values are based on published market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The fair value of certain corporate securities is based on a discounted cash flow model that utilizes Level 3, or unobservable inputs, the most significant of which are a discount rate and weighted-average life. At December 31, 2023, the discount rate utilized was between 10.01% and 12.77%, and the weighted-average life was between 5.96 and 8.24 years. At December 31, 2022, the discount rate utilized was between 8.15% and 8.50%, and the weighted-average life was between 6.96 and 9.21 years.

Loans held for sale: TowneBank elects to carry loans held for sale at fair value. Fair values of loans held for sale are based on commitments on hand from investors or, if commitments have not yet been obtained, prevailing market rates. Best efforts delivery transactions set the sale price with the investor on a loan-by-loan basis at the time each loan is locked with the respective borrower. Intent to sell on the mandatory market is established for mortgage loans held for sale when TowneBank enters into a loan commitment or interest lock with the customer. For additional information about loans held for sale, refer to Note 21.

Derivative financial instruments: Interest rate lock commitments, related to the origination of mortgage loans held for sale, are recorded at estimated fair value based on the value of the underlying loan, which in turn is based on quoted prices for similar loans in the secondary market. However, this value is adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close. This factor, the fall-out rate, is derived from the Company's internal data and is adjusted using significant management judgment. The fall-out rate is largely dependent on the processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. As such, interest rate lock commitments are classified as recurring Level 3. For the years ended December 31, 2023 and 2022, the Company used weighted average fall-out rates of 13.53% and 14.07%, respectively.

Forward loan sale commitments: Loan sale agreements are evaluated to determine whether they meet the definition of a derivative because facts and circumstances may differ significantly. The Company has made the determination that the best efforts contracts do not meet the definition of derivative instruments and has elected the fair value option for the forward loan sale commitments. Forward loan sale commitments that economically hedge the closed loan inventory are recognized at fair value in the Consolidated Balance Sheet in other assets or other liabilities, with changes in their fair values recorded as a component of mortgage banking activities in the Consolidated Statements of Income. The Company estimated the fair value of its forward sale commitments using a methodology similar to that used for derivative loan commitments.

To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into either a forward sale contract to sell loans to investors when using best efforts or a TBA mortgage-backed security under mandatory delivery. The forward sale contracts lock in a price for the sale loans with similar characteristics to the specific rate lock commitments. The Company has not formally designated these derivatives as a qualifying hedge relationship; accordingly, changes to fair value are recorded to earnings each period. These valuations fall into a Level 2 category.

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The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis (in thousands):

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	\$ —	\$ 306,386	\$ —	\$ 306,386
U.S. Treasury notes	27,684	—	—	27,684
Municipal securities	—	509,854	—	509,854
Mortgage-backed securities issued by GSEs	—	1,200,625	—	1,200,625
Trust preferred and other corporate securities	—	56,683	28,110	84,793
Loans held for sale	—	149,987	—	149,987
Forward loan commitment asset	—	24	—	24
Forward loan commitment liability	—	376	—	376
Derivative assets	—	306	895	1,201
Derivative liabilities	—	1,982	—	1,982

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	\$ —	\$ 293,894	\$ —	\$ 293,894
U.S. Treasury notes	26,693	—	—	26,693
Municipal securities	—	430,948	—	430,948
Mortgage-backed securities issued by GSEs	—	1,011,666	—	1,011,666
Trust preferred and other corporate securities	—	48,395	29,306	77,701
Loans held for sale	—	102,339	—	102,339
Forward loan commitment asset	—	261	—	261
Forward loan commitment liability	—	127	—	127
Derivative assets	—	549	482	1,031
Derivative liabilities	—	1,004	—	1,004

TowneBank elects the fair value option for loans held for sale. This election allows for a more effective offset of the changes in fair values of the loans, the forward loan commitments, and mandatory delivery derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting.

At December 31, 2023, and December 31, 2022, the aggregate fair value of mortgage loans held for sale accounted for under the fair value option was \$149.99 million and \$102.34 million, respectively, and the unpaid principal balance of those loans was \$145.64 million and \$100.86 million, respectively.

Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest income on mortgage loans held for sale in the Consolidated Statements of Income. The following table details net gains and losses resulting from changes in fair value of these loans, which were recorded in residential mortgage banking income, net in the Consolidated Statements of Income for the periods presented.

(in thousands)	Net Gains (Losses) Resulting from Changes in Fair Value	
	Year Ended	
	December 31, 2023	December 31, 2022
Mortgage loans held for sale, at fair value	\$ 1,508	\$ (100)

TOWNEBANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at year-end, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets (in thousands):

December 31, 2023	Level 1	Level 2	Level 3	Total
Other real estate owned and other nonperforming assets	\$ —	\$ —	\$ 908	\$ 908
December 31, 2022	Level 1	Level 2	Level 3	Total
Other real estate owned and other nonperforming assets	\$ —	\$ —	\$ 560	\$ 560

The following is a description of valuation methodologies used for assets measured on a nonrecurring basis.

Loans: Loans for which repayment of the loan is expected to be provided solely by the value of the underlying collateral are considered collateral-dependent and are valued based on the fair value of such collateral. Collateral values are estimated using inputs based on observable market data or inputs based on customized discounting criteria. In cases where such inputs were unobservable, specifically, discounts applied to appraisal values to adjust such values to current market conditions or to reflect net realizable value, the loan balance is reflected within Level 3 of the hierarchy.

Other real estate owned and other nonperforming assets: The fair value of foreclosed property is measured at fair value on a nonrecurring basis (upon initial recognition or subsequent impairment) and is classified within Level 3 of the valuation hierarchy. When transferred from the loan portfolio, OREO is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is generally determined using an external appraisal process and is discounted based on internal criteria when deemed necessary.

HTM trust preferred and other corporate securities: The fair value of certain corporate securities is based on a discounted cash flow model that utilizes Level 3, or unobservable inputs, the most significant of which were a discount rate and weighted-average life. At December 31, 2023, the discount rate utilized was 6.67% and the weighted-average life was 25.35 years. At December 31, 2022, the discount rate utilized was 7.22% and the weighted-average life was 26.35 years.

The following methods and assumptions were used in estimating fair value for the remaining classes of our financial instruments.

Cash and due from banks, interest-bearing deposits in financial institutions, and federal funds sold: The carrying amount approximates fair value.

Securities held to maturity: Fair values are based on published market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans: For loan receivables with short-term and/or variable characteristics, the total receivable outstanding approximates fair value. The fair value of other loans is estimated by discounting the future cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

TOWNEBANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deposits: The carrying amount of noninterest-bearing deposits and deposits with no defined maturity is estimated by discounting the future cash flows using the alternative borrowing curve, estimated maturities, and servicing cost. The fair value of certificates of deposit is estimated by discounting the future cash flows using the alternative borrowing curve.

Advances from the FHLB: The fair value of advances from the FHLB is determined using the discounted cash flow method with the discount rate being equal to the rate currently offered on similar products.

Subordinated debt, net: Fair values are based on published market prices or dealer quotes.

Commitments to extend and standby letters of credit: These financial instruments are generally not sold or traded. The estimated fair values of off-balance-sheet credit commitments, including standby letters of credit and guarantees written, are immaterial and are not included in the following table.

The estimated fair values of our financial instruments required to be disclosed under ASC 825, *Financial Instruments*, and the level within the fair value hierarchy at which such assets and liabilities are measured, are as follows (in thousands):

December 31, 2023	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Cash and due from banks	\$ 85,584	\$ 85,584	\$ 85,584	\$ —	\$ —
Interest-bearing deposits at FRB-Richmond	\$ 939,356	\$ 939,356	\$ 939,356	\$ —	\$ —
Interest-bearing deposits in financial institutions	\$ 103,417	\$ 103,417	\$ 103,417	\$ —	\$ —
Securities available for sale, net	\$ 2,129,342	\$ 2,129,342	\$ —	\$ 2,101,232	\$ 28,110
Securities held to maturity, net	\$ 477,592	\$ 462,656	\$ —	\$ 461,628	\$ 1,028
Other equity securities	\$ 13,792	\$ 13,792	\$ —	\$ 13,792	\$ —
Net loans	\$ 11,329,021	\$ 10,780,066	\$ —	\$ —	\$ 10,780,066
Interest receivable	\$ 51,314	\$ 51,314	\$ —	\$ 51,314	\$ —
Time deposits	\$ 2,456,394	\$ 2,447,645	\$ —	\$ 2,447,645	\$ —
Advances from the FHLB	\$ 203,958	\$ 203,706	\$ —	\$ 203,706	\$ —
Subordinated debt, net	\$ 255,796	\$ 212,645	\$ —	\$ 212,645	\$ —

December 31, 2022	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Cash and due from banks	\$ 55,381	\$ 55,381	\$ 55,381	\$ —	\$ —
Interest-bearing deposits at FRB-Richmond	\$ 1,000,205	\$ 1,000,205	\$ 1,000,205	\$ —	\$ —
Interest-bearing deposits in financial institutions	\$ 97,244	\$ 97,244	\$ 97,244	\$ —	\$ —
Securities available for sale, net	\$ 1,840,902	\$ 1,840,902	\$ —	\$ 1,811,596	\$ 29,306
Securities held to maturity, net	\$ 548,475	\$ 518,993	\$ —	\$ 518,002	\$ 991
Other equity securities	\$ 6,424	\$ 6,424	\$ —	\$ 6,424	\$ —
Net loans	\$ 10,794,602	\$ 10,369,326	\$ —	\$ —	\$ 10,369,326
Interest receivable	\$ 42,821	\$ 42,821	\$ —	\$ 42,821	\$ —
Time deposits	\$ 1,468,975	\$ 1,439,514	\$ —	\$ 1,439,514	\$ —
Advances from the FHLB	\$ 29,674	\$ 29,013	\$ —	\$ 29,013	\$ —
Subordinated debt, net	\$ 247,420	\$ 221,190	\$ —	\$ 221,190	\$ —

In accordance with disclosure guidance related to fair values of financial instruments, the Company did not include assets and liabilities that are not financial instruments, such as goodwill, other purchased intangibles, premises and equipment, deferred taxes, and other assets and liabilities. Additionally, receivables and

TOWNEBANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

payables due in one year or less and deposits with no defined or contractual maturities are excluded.

NOTE 21. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into interest rate lock commitments with its mortgage customers. The Company is also a party to forward mortgage sales contracts to sell loans servicing-released and sales of TBA MBSs. When the interest rate is locked with the borrower, the rate lock commitment, mandatory forward sales contract, and mortgage-backed security position are undesignated derivatives and marked to fair value through earnings. The fair value of the rate lock derivative is based on quoted prices for similar loans in the secondary market, adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close. Both the rate lock commitment and the corresponding forward sales contracts are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives during the commitment period are recorded in current earnings and included in net residential mortgage banking income in the Consolidated Statements of Income.

When the market is favorable, we sell mortgage loans under both "mandatory" and "best efforts" delivery programs. Under the mandatory delivery system, loans with interest rate locks with respective borrowers are paired with the sales of TBA MBSs bearing similar attributes. We commit to deliver loans to an investor at an agreed-upon price upon the closing of such loans.

The following table reflects the amount and market value of mortgage banking derivatives included in the Consolidated Balance Sheets as of the period end (in thousands):

	December 31, 2023		December 31, 2022	
	Notional	Fair	Notional	Fair
	Amount	Value	Amount	Value
Interest rate contracts included in other assets	\$ 151,785	\$ 1,201	\$ 167,022	\$ 1,031
Interest rate contracts included in other liabilities	\$ 173,302	\$ 1,982	\$ 89,471	\$ 1,004

Gains and losses from mortgage banking derivatives are included in residential mortgage banking income, net on the Consolidated Statements of Income. For the years ended December 31, 2023, December 31, 2022, and December 31, 2021 the Company recognized a gain of \$1.51 million, and losses of \$2.39 million, and \$8.69 million, respectively.

NOTE 22. VARIABLE INTEREST ENTITIES

The following table provides key information regarding the Company's investment in Low Income Housing Tax Credit partnerships:

<i>(dollars in thousands)</i>	December 31, 2023	December 31, 2022
Partnership assets not included in the Consolidated Balance Sheets	\$ 706,950	\$ 453,431
Carrying value of limited partner interest (1)	248,041	163,378
Maximum exposure to loss from limited partner investments	253,032	163,420
Funding commitments dependent on contractual milestones	117,576	148,513
Unfunded short-term construction loan commitments	9	4,958

(1) Included in other assets in the Consolidated Balance Sheets

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023, a tax benefit totaling \$4.30 million, net of amortization of \$22.03 million, was recognized as a component of income tax expense. For the years ended December 31, 2022 and 2021, tax benefits totaling \$3.75 million and \$2.55 million, and net of amortization of \$16.64 million and \$12.04 million, respectively, were recognized as a component of income tax expense.

NOTE 23. INCOME TAXES

The provision for income taxes charged to operations is listed in the following chart (in thousands):

For the Year Ended December 31,	2023	2022	2021
Current income tax expense			
Federal	\$ (31,461)	\$ (32,392)	\$ (49,397)
State	(2,943)	(3,824)	(5,258)
Total current tax expense	(34,404)	(36,216)	(54,655)
Deferred income tax (expense) benefit			
Federal	3,865	(9,499)	455
State	(546)	(866)	(598)
Total deferred income tax (expense) benefit	3,319	(10,365)	(143)
Income tax expense	<u>\$ (31,085)</u>	<u>\$ (46,581)</u>	<u>\$ (54,798)</u>

Differences between income tax expense calculated at the statutory rate and shown on the Consolidated Statements of Income are summarized as follows (dollars in thousands):

For the Year Ended December 31,	2023		2022		2021	
	\$	Rate	\$	Rate	\$	Rate
Federal income tax expense at statutory rate	\$ (38,808)	(21.00)%	\$ (49,469)	(21.00)%	\$ (56,738)	(21.00)%
State income tax expense, net of federal benefit	(3,202)	(1.73)%	(3,884)	(1.65)%	(4,108)	(1.52)%
Tax advantaged income	6,160	3.33 %	4,537	1.93 %	4,037	1.49 %
Low income housing tax credit, net of amortization	4,301	2.33 %	3,750	1.59 %	2,547	0.94 %
Prior year adjustments	633	0.34 %	(297)	(0.13)%	611	0.23 %
Other	(169)	(0.09)%	(1,218)	(0.51)%	(1,147)	(0.42)%
Income tax expense	<u>\$ (31,085)</u>	<u>(16.82)%</u>	<u>\$ (46,581)</u>	<u>(19.77)%</u>	<u>\$ (54,798)</u>	<u>(20.28)%</u>

TOWNEBANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant components of deferred tax assets and deferred tax liabilities follow (in thousands):

Year Ended December 31,	2023	2022
Deferred tax assets:		
Allowance for credit losses	\$ 30,464	\$ 26,354
Stock-based compensation	1,107	905
Accrued expenses	2,323	1,054
Retirement plan	12,289	11,579
Deferred compensation	13,812	14,362
Operating lease liabilities	17,796	17,783
Assets acquired in acquisitions	9,855	1,230
Basis differences due to tax credits and partnerships	—	1,274
Unrealized loss on securities available for sale	35,294	42,279
Other	322	128
Total deferred tax assets	123,262	116,948
Deferred tax liabilities:		
Depreciation	24,946	23,793
Noncompete and intangibles	8,236	5,407
Basis differences due to tax credits and partnerships	1,052	—
Operating lease right-of-use assets	16,198	16,888
Other	875	644
Total deferred tax liabilities	51,307	46,732
Net deferred tax assets	\$ 71,955	\$ 70,216

As of December 31, 2023, and December 31, 2022, the Company did not have any unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months. The Company recognizes interest and penalties related to unrecognized tax benefits as "Interest Expense" and "Other Expense," respectively, and not as part of the tax provision. The Company is no longer subject to examination for federal and state purposes for tax years prior to 2020.

NOTE 24. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the components of accumulated other comprehensive income (loss) at December 31, 2023, 2022, and 2021, and changes during the years then ended. The amounts reclassified from accumulated other comprehensive income for the securities available for sale are included in gain (loss) on investment securities, net on the Consolidated Statements of Income, while the amounts reclassified from

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

accumulated other comprehensive income for the defined benefit retirement plan are a component of salaries and employee benefits expense and other expense in the Consolidated Statements of Income.

<i>(in thousands)</i>	Unrealized Gains (Losses) on Securities (a)	Pension and Postretirement Plans (b)	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance, December 31, 2020	\$ 45,452	\$ (4,268)	\$ 41,184
Other comprehensive income (loss) before reclassifications, net of tax	(30,845)	559	(30,286)
Amounts reclassified from AOCI, net of tax	(989)	688	(301)
Net change	(31,834)	1,247	(30,587)
Balance, December 31, 2021	13,618	(3,021)	10,597
Other comprehensive income (loss) before reclassifications, net of tax	(162,390)	10,704	(151,686)
Amounts reclassified from AOCI, net of tax	—	584	584
Net change	(162,390)	11,288	(151,102)
Balance, December 31, 2022	(148,772)	8,267	(140,505)
Other comprehensive income (loss) before reclassifications, net of tax	21,945	1,044	22,989
Amounts reclassified from AOCI, net of tax	—	(1,246)	(1,246)
Net change	21,945	(202)	21,743
Balance, December 31, 2023	\$ (126,827)	\$ 8,065	\$ (118,762)

(a) For additional information about investment securities, refer to Note 3.

(b) For additional information about retirement plans, refer to Note 14.

NOTE 25. LEGAL CONTINGENCIES

Various legal actions arise from time to time in the normal course of our business. There were no significant asserted claims or assessments at December 31, 2023. Management was not aware of any unasserted claims or assessments that may be probable of assertion at December 31, 2023.

NOTE 26. OTHER RELATED PARTY TRANSACTIONS

Loans are made to the Company's executive officers and directors and their associates during the ordinary course of business. The aggregate amount of loans to such related parties totaled \$535.64 million, \$491.40 million, and \$454.01 million as of December 31, 2023, 2022, and 2021, respectively. During 2023, new advances on all commitments to such parties totaled \$503.28 million, and repayments amounted to \$497.88 million. Included in the loans to related parties, at December 31, 2023, we had \$178.45 million in unfunded commitments to extend credit to such related parties.

The Company rents space for various financial centers from companies associated with its directors. Rent expense related to these leases was \$2.30 million, \$2.89 million, and \$2.73 million for the years ended December 31, 2023, 2022, and 2021, respectively.

In the ordinary course of business, the Company acquired certain goods and services from companies associated with its directors and employees, including purchases of automobiles, construction of Company-owned facilities, and maintenance and furnishing of Company facilities. Amounts paid to these companies during the years ended December 31, 2023, 2022, and 2021, approximated \$3.40 million, \$15.73 million, and \$6.50 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27. SEGMENT REPORTING

The Company has three reportable segments: Banking, Realty, and Insurance. The Banking segment provides loan and deposit services to retail and commercial customers. The Realty segment provides residential resort property management services and originations of a variety of mortgage loans. Prior to the sale of BHHS Towne Realty in the second quarter of 2023, the segment also offered residential real estate services and commercial and residential title insurance. Mortgage loans are originated and sold principally in the secondary market through purchase commitments from investors. The Insurance segment provides full-service commercial and retail insurance and employee benefit services.

All the segments are service-based. The Banking segment offers a distribution and referral network for the Realty and Insurance segments, and the Realty and Insurance segments offer a similar network for the Banking segment due largely to overlapping geographic markets. A major distinction is the source of income. The Realty and Insurance segments are fee-based, while the Banking segment is driven principally by net interest income.

Segment profit and loss is measured by net income after income tax. Inter-segment transactions are recorded at cost and eliminated as part of the consolidation process. Because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities.

Effective April 27, 2023, the Company transferred its ownership interest in BHHS Towne Realty, which was formerly a subsidiary of TowneBank, to BHHS RW Towne Realty, LLC, in exchange for a minority interest in that company which is accounted for as an equity method investment. The transaction is also included in the combination of the contributing companies' respective mortgage, title and property management lines of business.

TOWNEBANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information about reportable segments and reconciliation of such information to the Consolidated Financial Statements follows (dollars in thousands):

For the Year Ended December 31, 2023

	Bank	Realty	Insurance	Consolidated Totals
Net interest income	\$ 456,071	\$ 1,708	\$ 1	\$ 457,780
Provision for credit losses	19,273	(594)	—	18,679
Net interest income after provision for credit losses	436,798	2,302	1	439,101
Residential mortgage banking income, net	(1,872)	41,287	—	39,415
Insurance commissions and other title fees and income, net	—	443	89,862	90,305
Property management income, net	—	47,791	—	47,791
Real estate commission income, net	—	3,530	—	3,530
Gain (loss) on sale of equity investments	—	8,833	544	9,377
Other noninterest income	45,330	78	516	45,924
Noninterest expense	326,175	100,122	62,925	489,222
Income before income tax, corporate allocation, and noncontrolling interest	154,081	4,142	27,998	186,221
Corporate allocation	4,817	(2,152)	(2,665)	—
Income before income tax provision and noncontrolling interest	158,898	1,990	25,333	186,221
Income tax provision	23,866	698	6,521	31,085
Net income (loss)	135,032	1,292	18,812	155,136
Noncontrolling interest	—	(1,421)	—	(1,421)
Net income (loss) attributable to TowneBank	\$ 135,032	\$ (129)	\$ 18,812	\$ 153,715
Net income (loss) as percentage of total	87.84 %	(0.08)%	12.24 %	100.00 %
Assets	\$ 15,767,432	\$ 452,989	\$ 614,618	\$ 16,835,039

TOWNEBANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2022

	Bank	Realty	Insurance	Consolidated Totals
Net interest income	\$ 455,881	\$ 5,484	\$ —	\$ 461,365
Provision for credit losses	8,559	47	—	8,606
Net interest income after provision for credit losses	447,322	5,437	—	452,759
Residential mortgage banking income, net	(4,633)	51,783	—	47,150
Insurance commissions and other title fees and income, net	—	1,981	73,598	75,579
Property management income, net	—	44,246	—	44,246
Real estate commission income, net	—	11,253	—	11,253
Gain (loss) on sale of equity investments	—	—	—	—
Other noninterest income	44,238	2,362	742	47,342
Noninterest expense	272,396	114,646	54,237	441,279
Income before income tax, corporate allocation, and noncontrolling interest	214,531	2,416	20,103	237,050
Corporate allocation	4,381	(3,202)	(1,179)	—
Income before income tax provision and noncontrolling interest	218,912	(786)	18,924	237,050
Income tax provision	41,944	(186)	4,823	46,581
Net income	176,968	(600)	14,101	190,469
Noncontrolling interest	—	(1,482)	—	(1,482)
Net income attributable to TowneBank	\$ 176,968	\$ (2,082)	\$ 14,101	\$ 188,987
Net income as percentage of total	93.64 %	(1.10)%	7.46 %	100.00 %
Assets	\$ 14,904,863	\$ 440,664	\$ 499,740	\$ 15,845,267

For the Year Ended December 31, 2021

	Bank	Realty	Insurance	Consolidated Totals
Net interest income	\$ 391,751	\$ 10,618	\$ —	\$ 402,369
Provision for credit losses	(15,859)	(915)	—	(16,774)
Net interest income after provision for credit losses	407,610	11,533	—	419,143
Residential mortgage banking income, net	(3,851)	113,155	—	109,304
Insurance commissions and other title fees and income, net	215	2,527	64,799	67,541
Property management income, net	—	42,175	—	42,175
Real estate commission income, net	—	13,290	—	13,290
Gain (loss) on sale of equity investment	(30)	—	—	(30)
Other noninterest income	42,128	2,691	862	45,681
Noninterest expense	244,013	121,664	51,595	417,272
Income before income tax, corporate allocation, and noncontrolling interest	202,059	63,707	14,066	279,832
Corporate allocation	5,041	(4,000)	(1,041)	—
Income before income tax provision and noncontrolling interest	207,100	59,707	13,025	279,832
Income tax provision	37,584	13,911	3,303	54,798
Net income	169,516	45,796	9,722	225,034
Noncontrolling interest	(4)	(9,647)	—	(9,651)
Net income attributable to TowneBank	\$ 169,512	\$ 36,149	\$ 9,722	\$ 215,383
Net income as percentage of total	78.70 %	16.78 %	4.52 %	100.00 %
Assets	\$ 15,227,519	\$ 692,308	\$ 441,560	\$ 16,361,387

TOWNEBANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the change in net income and total assets for each segment, comparing the years ended December 31, 2023 and 2022 (dollars in thousands):

	Banking	Realty	Insurance	Consolidated
Net income attributable to TowneBank (\$)	\$ (41,936)	\$ 1,953	\$ 4,711	\$ (35,272)
Net income attributable to TowneBank (%)	(23.70)%	93.80 %	33.41 %	(18.66)%
Total assets (\$)	\$ 862,569	\$ 12,325	\$ 114,878	\$ 989,772
Total assets (%)	5.79 %	2.80 %	22.99 %	6.25 %

NOTE 28. EARNINGS PER SHARE

The following chart summarizes information related to the computation of basic and diluted earnings per share (dollars in thousands, except per share data):

Year Ended December 31,	2023	2022	2021
Basic			
Net income available to common shareholders	\$ 153,715	\$ 188,987	\$ 215,383
Weighted average common shares outstanding	74,645,906	72,556,546	72,479,236
Basic earnings per common share	<u>\$ 2.06</u>	<u>\$ 2.60</u>	<u>\$ 2.97</u>
Diluted			
Net income available to common shareholders	\$ 153,715	\$ 188,987	\$ 215,383
Weighted average common shares outstanding	74,645,906	72,556,546	72,479,236
Effect of dilutive securities:			
Stock compensation plans (1)	15,670	21,397	83,841
Weighted average diluted shares outstanding	74,661,576	72,577,943	72,563,077
Diluted earnings per common share	<u>\$ 2.06</u>	<u>\$ 2.60</u>	<u>\$ 2.97</u>

(1) There were no anti-dilutive stock options or restricted stock shares to be excluded from the computation of diluted earnings per share during 2023, 2022, and 2021, respectively.

TOWNEBANK

SHAREHOLDER INFORMATION

Market Information

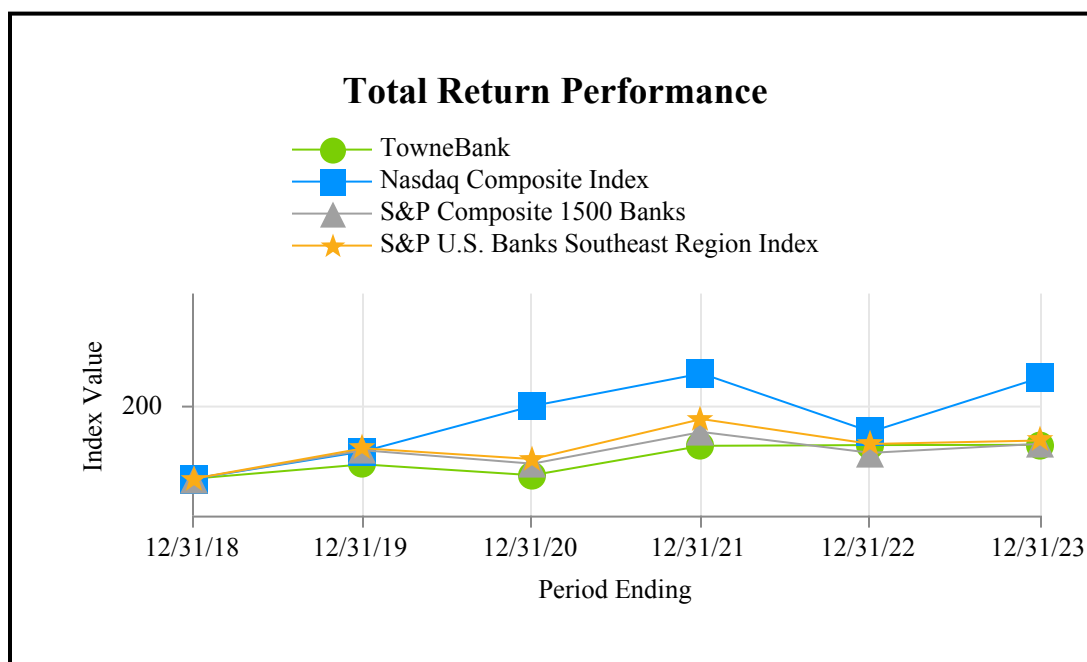
Our common stock is listed on the Nasdaq Global Select Market under the symbol TOWN.

Holders

As of December 31, 2023, we had issued and outstanding 74,893,462 shares of common stock. These shares were held by approximately 9,105 shareholders of record.

Stock Performance Graph

The following stock performance graph presents the cumulative total return comparison through December 31, 2023, of stock appreciation for our common stock, the Nasdaq Composite Index measuring all Nasdaq domestic and international-based common type stocks listed on the Nasdaq Stock Market ("Nasdaq Composite Index"), the S&P Securities Index including the Composite 1500 Banks Index ("S&P Bank Composite 1500 Index"), and the S&P Securities Index including only banks in the Southeast ("S&P Southeast Bank Index"). Returns assume an initial investment of \$100 at the market close of December 31, 2018, and reinvestment of dividends.



Index	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
TowneBank	\$ 100.00	\$ 119.23	\$ 104.60	\$ 144.31	\$ 145.28	\$ 145.66
Nasdaq Composite Index	100.00	136.69	198.10	242.03	163.28	236.17
S&P Composite 1500 Banks	100.00	138.32	120.15	163.04	134.81	146.97
S&P U.S. Banks Southeast Region Index	100.00	140.94	126.37	180.49	146.81	151.44

TOWNEBANK

SHAREHOLDER INFORMATION

Executive Officers

G. Robert Aston, Jr.	Executive Chairman, TowneBank	William B. Littreal	SEVP and Chief Financial Officer
R. Lee Clark	SEVP and Chief Operating Officer	William T. Morrison	President and Chief Executive Officer, Towne Financial Services Group
Matthew C. Davis	President and Regional Banking Director, North Carolina	Ernest Piccioli	SEVP and Chief Risk Officer
Denys J. Diaz	SEVP and Chief Information Officer	Phillip M. Rudisill	SEVP and Chief Credit Officer
Kevin L. Fly	SEVP and Chief Accounting Officer	Brian K. Skinner	President and Regional Banking Director, Virginia and Northeastern North Carolina
William I. Foster III	President and Chief Executive Officer, TowneBank	George P. Whitley	SEVP and Chief Legal Officer
Dawn S. Glynn	President, Corporate Services Group and Chief Experience Officer		

Board of Directors

G. Robert Aston, Jr.	Executive Chairman, TowneBank	W. Ashton Lewis	Lewis Gibbs Corporation and Treasurer, First Team Automotive Group
Jacqueline B. Amato	Consultant, TowneBank Mortgage (retired)	Dr. Stephanie J. Marioneaux	Ophthalmologist, Stephanie Marioneaux, M.D., PC.
Jeffrey F. Benson	Partner of Overton Family Partnership, L.P.	Dr. Juan M. Montero, II, M.D.	General and Thoracic Surgeon (retired)
Richard S. Bray	President of Beazley Foundation, Inc. (retired)	R. Scott Morgan	President and Chief Credit Officer, TowneBank (retired)
Bradford L. Cherry	Cherry Carpet President, Cherry Properties	William T. Morrison	President and Chief Executive Officer, Towne Financial Services Group
Douglas D. Ellis	President, Ellis-Gibson Development Group	Thomas K. Norment, Jr	Virginia State Senator and Attorney, Kaufman and Canoles
John W. Failes	CPA, Cherry Bekaert, LLP (retired)	Robert M. Oman	President, Oman Funeral Homes, Inc. (retired)
Andrew S. Fine	President, Runnymede Corporation	R.V. Owens, III	President and CEO, R.V. Owens Enterprises, LLC
William I. Foster III	President and Chief Executive Officer, TowneBank	Christopher Perry	CEO, Suburban Capital
Robert C. Hatley	President & CEO, Paragon, a Division of TowneBank (retired)	Elizabeth Robertson	CFO, Monument Restaurants, LLC (retired)
Howard Jung	Chairman, ACE Hardware Stores, Inc (retired)	Dwight C. Schaubach	President & CEO, Schaubach Companies of Virginia, Inc.
John R. Lawson, II	Executive Chairman, W.M. Jordan Company	Richard B. Thurmond	Southeast Regional Chairman, Howard Hannah Real Estate Services
Aubrey Layne	EVP of Governance and External Affairs, Sentara Healthcare	Alan S. Witt	CEO & Managing Partner, PB Mares, LLP (retired)
Harry T. Lester	President Emeritus, Eastern Virginia Medical School		

TOWNEBANK

SHAREHOLDER INFORMATION

ANNUAL MEETING

TowneBank intends to hold its 2024 Annual Meeting of Shareholders at 11:30 a.m. on Wednesday, May 22, 2024, at the Virginia Beach Convention Center, 1000 19th Street in Virginia Beach, Virginia.

COMMON STOCK

The Company's common stock is listed on the Nasdaq Global Select Market under the symbol TOWN.

INVESTOR RELATIONS

Our Annual Report, Form 10-K, and other corporate publications are available to shareholders on request, without charge, by writing:

TowneBank
6001 Harbour View Boulevard
Suffolk, Virginia 23435
email: investor.relations@townebank.net

These reports are also available on our website at http://www.townebank.com/investor_relations.

INDEPENDENT AUDITORS

FORVIS, LLP
4350 Congress Street, Suite 900
Charlotte, North Carolina 28209

TRANSFER AGENT

Computershare Shareholder Services
PO Box 43006
Providence, RI 02940
833-869-6399
www.computershare.com/us/investor-inquiries

CORPORATE COUNSEL

Williams Mullen
200 South 10th Street, Suite 1600
Richmond, Virginia 23219

Troutman Pepper Hamilton Sanders LLP
222 Central Park Avenue, Suite 2000
Virginia Beach, Virginia 23462

TOWNEBANK
EXECUTIVE CHAIRMAN, CHIEF EXECUTIVE OFFICER,
EXECUTIVE OFFICERS and SENIOR FINANCIAL OFFICERS
CODE OF ETHICAL CONDUCT

Preface

The honesty, integrity, and sound judgment of the Executive Chairman, Chief Executive Officer ("CEO"), executive officers and senior financial officers are fundamental to the reputation and success of TowneBank. While all employees, officers, and directors are required to adhere to the TowneBank ***Standards of Conduct***, the professional and ethical conduct of the Executive Chairman, CEO, executive officers and senior financial officers is essential to the proper function and success of TowneBank as a leading financial services provider.

The Executive Chairman, CEO, executive officers and senior financial officers hold an important and elevated role in corporate governance. These individuals are key members of the management team, who are uniquely capable and empowered to ensure that the interests of stakeholders (including shareholders, clients, employees, suppliers, and citizens of the communities in which TowneBank operates) are appropriately balanced, protected, and preserved. The Executive Chairman, CEO, executive officers and senior financial officers fulfill this responsibility by prescribing and enforcing the policies and procedures employed in TowneBank's financial operations.

Code of Ethical Conduct

General standards of ethical behavior

The CEO, executive officers and senior financial officers of TowneBank performing accounting, audit, financial management, or similar functions must:

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships.
- Provide colleagues with information that is accurate, complete, objective, relevant, timely, and understandable.
- Comply with applicable laws, rules, and regulations of federal, state, and local governments (both United States and foreign) and other appropriate private and public regulatory agencies.
- Act in good faith, with due care, competence, and diligence, without misrepresenting material facts or allowing independent judgment to be subordinated.
- Respect the confidentiality of information acquired in the course of employment.
- Share knowledge and maintain skills necessary and relevant to TowneBank's needs.

- Proactively promote ethical and honest behavior within the workplace.
- Assure responsible use of and control of all assets, resources, and information in possession of TowneBank.
- Keep management informed of financial information of importance, including departures from sound policy, practice and accounting norms.

Standards regarding financial records and reporting

The Executive Chairman, CEO, executive officers and senior financial officers of TowneBank performing accounting, audit, financial management, or similar functions must:

- Establish systems and procedures to ensure business transactions are recorded in accordance with Generally Accepted Accounting Principles, company policy and appropriate regulatory pronouncements and guidelines.
- Protect and maintain accounting records and information as required by applicable law, regulation, or regulatory guidelines.
- Inform the Board of Directors and the Audit Committee of any material information that affects the disclosures made by the Bank in its public filings.
- Report to the Board of Directors and the Audit Committee concerning (a) significant deficiencies in the design and operation of internal controls or (b) any fraud involving management or other employees with a significant role in the Bank's financial reporting, disclosures or internal controls.
- In addition, the Executive Chairman, CEO, CFO, Executive officers and other Senior Financial officers are expected to provide the Board of Directors and Audit Committee, on a timely basis, with such information relating to the financial status of the Company, relevant business environment and other pertinent matters which are considered essential for the Board of Directors to fulfill its obligations.

The Executive Chairman, CEO, executive and senior financial officers are expected to adhere to both the TowneBank ***Standards of Conduct*** and the ***TowneBank Chief Executive Officer and Senior Financial Officers Code of Ethical Conduct*** at all times. The board of directors shall have the sole and absolute discretionary authority to approve any deviation or waiver from the ***Code of Ethical Conduct***. Any waiver and the grounds for such waiver for the Executive Chairman, CEO, executive or senior financial officers shall be promptly disclosed through a filing with the Federal Deposit Insurance Corporation on Form 8-K. Additionally, any change of this ***Code of Ethical Conduct*** shall be promptly disclosed to stockholders.

The policy is applicable to executive officers for purposes of Regulation O, any person Executive Vice President and above in Corporate Accounting and the Chief Audit Executive.

TOWNEBANK
CHIEF EXECUTIVE OFFICER, EXECUTIVE OFFICERS and SENIOR FINANCIAL OFFICERS
CODE OF ETHICAL CONDUCT

Please indicate that you have received, read and will abide by the *TowneBank Chief Executive Officer, Executive Officers and Senior Financial Officers Code of Ethical Conduct* by signing your name and dating the attached acknowledgment and returning it promptly to the Chairman and CEO of TowneBank.

ACKNOWLEDGMENT

I certify that I have received and read and that I will abide by the *TowneBank Chief Executive Officer, Executive Officers and Senior Financial Officers Code of Ethical Conduct* distributed to me on this _____ day of _____, 20____.

OFFICER

DATE

Subsidiaries of TowneBank
as of December 31, 2023

Subsidiary

TowneBank Investment Corporation	Virginia
Towne Investments, LLC	Virginia
Towne 1031 Exchange, LLC	Virginia
TowneBank Woodview Investment Co., LLC	Virginia
TowneBank Woodview Investment Co. II, LLC	Virginia
TowneBank Heritage Forest, LLC	Virginia
TowneBank Cromwell House Affordable Housing, LLC	Virginia
TowneBank Pavilion Place Affordable Housing, LLC	Virginia
TowneBank Westbury Cottages Affordable Housing, LLC	Virginia
TowneBank Catalina Crossing Affordable Housing, LLC	Virginia
Hamilton Place Towne I, LLC	Virginia
Hamilton Place Towne II, LLC	Virginia
TowneBank VCDC Fund 18, LLC	Virginia
TowneBank VCDC Fund 19, LLC	Virginia
TB Affordable Housing Equity Fund XX, LLC	Virginia
TB Affordable Housing Equity Fund XXI, LLC	Virginia
TB Affordable Housing Equity Fund XXII, LLC	Virginia
Affordable Housing Equity Fund XXIII, LLC	Virginia
TB Forrest Landing II Affordable Housing, LLC	Virginia
TB Foundry Affordable Housing, LLC	Virginia
TB HFHC, LLC	Virginia
TB Lake View Affordable Housing, LLC	Virginia
TB Lake View Phase II Affordable Housing, LLC	Virginia
TB NC Affordable Housing Equity Fund XXIII, LLC	Virginia
NC Affordable Housing Equity Fund XXIV, LLC	Virginia
NC Affordable Housing Equity Fund XXVI, LLC	Virginia
TB 288 Lofts Affordable Housing, LLC	Virginia
TB 288 Lofts Phase II Affordable Housing, LLC	Virginia
TB 7000 Carnation Affordable Housing, LLC	Virginia
TB 925 Apts. I Affordable Housing, LLC	Virginia
TB 925 Apts. II. Affordable Housing, LLC	Virginia
TB Arbors at 29 North Affordable Housing, LLC	Virginia
TB Arbors at Hull Street Affordable Housing, LLC	Virginia
TB Arbors at Birchwood Affordable Housing, LLC	Virginia
TB Blaine Landing Affordable Housing, LLC	Virginia
TB Arbors at Pembroke Affordable Housing, LLC	Virginia
TB Arlington Trace Affordable Housing, LLC	Virginia

Subsidiaries of TowneBank (continued)

Subsidiary

TB Blaine Landing Phase II Affordable Housing, LLC	Virginia
TB Block 19 Affordable Housing, LLC	Virginia
TB Block 20 Affordable Housing, LLC	Virginia
TB Curlew Apartments I, LLC	Virginia
TB Curlew Apartments II, LLC	Virginia
TB Dale II Affordable Housing, LLC	Virginia
TB Dillehay Courts Affordable Housing, LLC	Virginia
TB Dillehay Courts Affordable Housing Managing Member, LLC	Virginia
TB NMF Affordable Housing, LLC	Virginia
TB Renaissance I Affordable Housing, LLC	Virginia
TB Renaissance II Affordable Housing, LLC	Virginia
TB Townsend Trace Affordable Housing, LLC	Virginia
TB Sunset Hampton Affordable Housing, LLC	Virginia
TB York Senior Affordable Housing, LLC	Virginia
TB Suffolk Senior Affordable Housing, LLC	Virginia
TB Market Heights Affordable Housing, LLC	Virginia
TB Market Heights Affordable Housing 4%, LLC	Virginia
TB PABP Affordable Housing, LLC	Virginia
TB PABP II Affordable Housing, LLC	Virginia
Affordable Housing Equity Fund XXIV, LLC	Virginia
Affordable Housing Equity Fund XXVI, LLC	Virginia
TB Farrington Trace Senior Affordable Housing, LLC	Virginia
TB Oak Grove Affordable Housing, LLC	Virginia
TB Old Hundred Trace VA Affordable Housing, LLC	Virginia
TB Princedale Apts. Affordable Housing, LLC	Virginia
Towne Financial Services Group, LLC	Virginia
GSH Residential Real Estate Corporation	Virginia
Towne Oak Island RE, LLC	Virginia
Towne Vacations Oak Island, LLC, d/b/a Oak Island Accommodations	Virginia
Oak Island Sales, LLC	Virginia
Towne Vacations, LLC, t/a Beach Properties of Hilton Head	Virginia
Towne Vacations Venture Resorts, LLC d/b/a Cabins of Pigeon Forge, Cabins of the Smoky Mountains, Gatlinburg Falls Resort	Virginia
Great Mountain Realty, LLC	Virginia
Towne Vacations Venture Resorts RE, LLC	Virginia
Towne Vacations Deep Creek, LLC t/a Railey Mountain Lake Vacations, Railey Vacations	Virginia
Towne Deep Creek RE, LLC	Virginia
Towne Vacations Wrightsville Beach, LLC	Virginia
Towne Realty LLC	Virginia

Subsidiaries of TowneBank (continued)

Subsidiary

Towne Insurance Agency, LLC	Virginia
The Frieden Agency LLC, d/b/a Towne Benefits, TFA Benefits	Virginia
Benefit Design Group, LLC	Virginia
Beneflex Management, LLC	Virginia
Many-Rawls, LLC	Virginia
Many-Rawls Properties, LLC	Virginia
Towne Insurance Agency of North Carolina, LLC	North Carolina
TowneBank Commercial Mortgage, LLC	Virginia
Towne Hall, LLC	Virginia
Towne Security, LLC	Virginia
Coastal Towne Mortgage, LLC	Virginia
Advance Financial Group, LLC d/b/a RW Towne Mortgage	Virginia
Towne First Mortgage, LLC	Virginia
Franklin Service Corporation	Virginia
Homesale Mortgage, LLC	Virginia
PCB Trustee, INC.	North Carolina
Reality Holdings, LLC	Virginia
Reality I, LLC	Virginia
Southeastern Virginia Investment Properties, LLC	Virginia
Southeastern Virginia Coastal Properties 1, LLC	Virginia
Southeastern Virginia Properties, LLC	Virginia
Towne Mortgage of the Carolinas, LLC	North Carolina
Northeastern North Carolina Properties, LLC	Virginia
Towne Asset Management Corp.	Virginia
Virginia Hotel Properties, LLC	Virginia
Virginia Properties Apartment and Land, LLC	Virginia
CPF Partners, LLC	Virginia
TBNCT, LLC	North Carolina
TBVAT, LLC	Virginia
West Suffolk Properties, LLC	Virginia
TB Travel Services, LLC	Virginia
Monarch Investment, LLC	Virginia
FB Properties of Virginia, LLC	Virginia

TOWNE BANK

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William I. Foster III, President and Chief Executive Officer, certify that:

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

February 28, 2024

Date

/s/ William I. Foster III

William I. Foster III

President and Chief Executive Officer

TOWNE BANK

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William B. Littreal, Senior Executive Vice President and Chief Financial Officer, certify that:

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

February 28, 2024

Date

/s/ William B. Littreal

William B. Littreal

Senior Executive Vice President/CFO

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted By
Section 906 of The Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. §1350, as adopted by §906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of TowneBank (the "Bank"), do hereby certify, to such officer's knowledge, that:

1. Our Annual Report on Form 10-K for the year ended December 31, 2023 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report presents fairly, in all material respects, our financial condition and results of operations as of and for the period covered by the Report.

February 28, 2024

Date

/s/ William I. Foster III

William I. Foster III

President and Chief Executive Officer

February 28, 2024

Date

/s/ William B. Littreal

William B. Littreal

Senior Executive Vice President/CFO

A signed original of this written statement required by Section 906 has been provided to TowneBank and will be retained by TowneBank and furnished to the Federal Deposit Insurance Corporation or its staff upon request.



Incentive Compensation Clawback Policy

August 23, 2023

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1.0 Scope

The **Incentive Compensation Clawback Policy** applies to all Incentive Based Compensation received by Executive Officers and Covered Employees (as defined below) of TowneBank, its divisions, subsidiaries and affiliates (the “Company”).

For purposes of this Policy, the following definitions will apply:

“Covered Employee” means any recipient of Incentive-Based Compensation from the Company or a subsidiary who is not an Executive Officer.

“Detrimental Conduct” means, with respect to any Executive Officer, conduct that violates any law or written policy of the Company and that causes, or is reasonably likely to cause, serious reputational harm to the Company, any affiliate of the Company, or any client or former client of the Company.

“Excess Compensation” means any amount of Incentive-Based Compensation received by an Executive Officer or Covered Employee that exceeds the amount of Incentive-Based Compensation that otherwise would have been received had it been determined based on the restated financial information or properly calculated financial measure.

“Executive Officer” means an individual who was a Senior Executive Vice President of the Company or an “executive officer” of the Company (as defined in Section 16 of the Securities Exchange Act of 1934 (the “Exchange Act”)), during any portion of the performance period of the Incentive-Based Compensation.

“Incentive-Based Compensation” means any incentive compensation (whether in the form of cash or equity) granted, earned or vested, the amount of which was calculated based wholly or in part on the attainment of any financial reporting measure(s) based on: (i) accounting principles using the Company’s financial statements (e.g., net income, earnings per share, return measures, etc.) and any measures derived wholly or in part from such measures; (ii) stock price; or (iii) total shareholder return. A financial reporting measure need not be presented within the financial statements or included in a filing with the Federal Deposit Insurance Corporation or Securities and Exchange Commission (“SEC”). Incentive-Based Compensation does not include retirement compensation and does not include salary or other compensation earned solely based upon: (i) discretion; (ii) subjective standards; (iii) period of service; or (iv) the satisfaction of one or more strategic or operational measures.

2.0 Policy Statement

The Board of Directors believes that it is in the best interests of the Company and its shareholders to maintain a culture that emphasizes integrity and accountability and that reinforces the Company’s “pay for performance” compensation philosophy by adopting this Policy. This Policy provides for the adjustment or recovery of certain incentive-based compensation awards paid to current or former executive officers and other covered employees if (i) the Company must prepare an accounting restatement due to its material noncompliance with any financial reporting requirements under the federal securities laws, (ii) a financial measure used to determine the amount or vesting of incentive-based compensation was materially miscalculated, or (iii) an executive officer engages in certain conduct that is detrimental to the Company.

2.1 Clawback Due to Accounting Restatement or Miscalculation of Performance Measure

If the Board determines, or a court, regulator or other legally authorized body directs the Company, that an accounting restatement is required to be filed to correct a material non-compliance with any financial reporting requirements under applicable securities law, or if the Board determines that (ii) a financial measure used to determine the amount or vesting of Incentive-Based Compensation was materially miscalculated, the Company will recover Excess Compensation received during the three completed fiscal years preceding such determination (or when such determination should have reasonably occurred) or direction. For purposes of this Policy, Incentive-Based Compensation is received during the fiscal year in which the applicable financial reporting measure upon which the payment is based is achieved, even if payment occurs after the end of such period. Retrospective changes to financial statements or recalculations of financial measures not considered material under this Policy requiring a clawback would include, but are not limited to: (i) application of a change in accounting principle; (ii) revisions to reportable segment information due to a change in internal organization; (iii) reclassification due to a discontinued operation; (iv) application of a change in reporting entity, such as from a reorganization of entities under common control; (v) adjustments to provisional amounts in connection with a prior business combination; and (vi) revisions for stock splits.

The Board will determine, approve and recover Excess Compensation from: (1) any person serving as an Executive Officer (current or former) at any time during the performance period of the Incentive-Based Compensation, regardless of whether the Executive Officer engaged in misconduct or was otherwise directly or indirectly responsible, in whole or in part, for the accounting restatement or miscalculation of a performance measure; and (2) any Covered Employee who the Board determines engaged in misconduct or was otherwise directly responsible for the accounting restatement or miscalculation of a performance measure. If the Board cannot determine the Excess Compensation from the information in the accounting restatement or from the recalculated financial measure, then it will make its determination based on a reasonable estimate of the effect of the accounting restatement or recalculation. The Board's determination will be final and binding. All amounts subject to recovery will be calculated on a pre-tax basis.

2.2 Clawback Due to Detrimental Conduct

If the Board determines that an Executive Officer has engaged in Detrimental Conduct, the Company may recover any Incentive-Based Compensation received by the Executive Officer during the three completed fiscal years preceding such determination. The Board's determination as to whether Detrimental Conduct has occurred and whether Incentive-Based Compensation should be recovered will be final and binding.

2.3 Repayment

The Company will make all reasonable attempts to recover promptly any amounts due under this Policy by way of direct payment from the Executive Officer or Covered Employee, recovery through payment or other plans over time, the forfeiture or reduction of future pay or awards, or any other method that will provide for recovery within a reasonable manner and without undue delay. The Board may, however, determine that repayment is not required in instances where the cost of recovery would exceed the amount of the Excess Compensation or Incentive-Based Compensation to be recovered. Any such determination must be preceded by a reasonable attempt to recover the Excess Compensation, documentation of such attempt, and providing such documentation to the Company's stock exchange. With respect to recovery of Incentive-Based Compensation triggered by Detrimental Conduct, the Board may determine that repayment is not required because it would be contrary to the best interests of the Company. Any recoupment of compensation will be in addition to any other remedies that may be available under applicable law, including termination of employment.

3.0 Roles and Responsibilities of Stakeholders

The following are specific roles that have the primary responsibility of ensuring the Company's *Incentive Compensation Clawback Policy* is properly executed:

Board of Directors

The Board is responsible for annual approval of this Policy. The Board is responsible for approving any exceptions to this Policy. The Board is responsible for oversight of this Policy.

Compensation Committee

The Compensation Committee is responsible for enforcing this Policy when creating and approving compensation packages and incentive compensation plans.

Chief Legal Officer

The Chief Legal Officer is responsible for working with the Compensation Committee and Executive Management to implement this Policy and ensure compliance of this Policy. The Chief Legal Officer is also responsible for overseeing annual review of this Policy.

Associate Legal Counsel

Associate Legal Counsel is responsible for working with the Chief Legal Officer to review this Policy annually.

The Legal Department works with the Board and Compensation Committee to ensure the appropriate mitigating controls and oversight exist to support and demonstrate compliance with this Policy. Additionally, the Legal Department is responsible for the regular review and approval of this policy in accordance with the Company's Policy & Procedure Guidance Statement.

4.0 "Incentive Compensation Clawback Policy" Management

This Policy will be enforced, and appropriate proxy disclosures and exhibit filings will be made in accordance with the SEC's clawback rules and applicable exchange listing standards. The Board shall be responsible for monitoring the application of this Policy or, if so designated by the Board, the Compensation Committee, in which case references herein to the Board shall be deemed references to the Compensation Committee. The Board has the sole authority to construe, interpret and implement this Policy and make any determinations necessary or advisable in administering this Policy. Any determination made by the Board shall be final and binding on all affected individuals.

In the event of any conflict or inconsistency between this Policy and any other policies, plans, or other materials of the Company, this Policy shall govern. However, to the extent another policy, plan or agreement calls for adjustment or recovery of an Incentive-Based Compensation award when this Policy would not require such adjustment or recovery, this Policy will not interfere with application of such other policy, plan or agreement.

This Policy is designed to comply with Section 10D of the Exchange Act. This Policy will be deemed to be automatically updated to incorporate any requirement of law or SEC or exchange listing standard, rule or regulation applicable to the Company.

5.0 Miscellaneous**5.1 Policy Maintenance**

The Chief Legal Officer and/or Associate Legal Counsel shall review this Policy at least annually and complete any required updates. The Policy shall be approved by the Board on an annual basis.

5.2 No Indemnification

The Company shall not indemnify or pay for insurance coverage on behalf of any Executive Officer or Covered Employee against the loss of any Incentive-Based Compensation recovered or forfeited pursuant to this Policy.

6.0 Contact Information

For all inquiries, please contact the TowneBank Legal Department.