



# TOWNE BANK



**2023 ANNUAL REPORT**

**TowneBank**  
**TABLE OF CONTENTS**

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GLOSSARY .....	2
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	4
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM .....	40
MANAGEMENT'S REPORT ON INTERNAL CONTROL .....	43
CONSOLIDATED FINANCIAL STATEMENTS AND NOTES .....	45
SHAREHOLDER INFORMATION .....	113

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# **TOWNEBANK**

## **GLOSSARY OF ACRONYMS AND DEFINED TERMS**

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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

# TOWNEBANK

## GLOSSARY OF ACRONYMS AND DEFINED TERMS

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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

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### 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.

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
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:

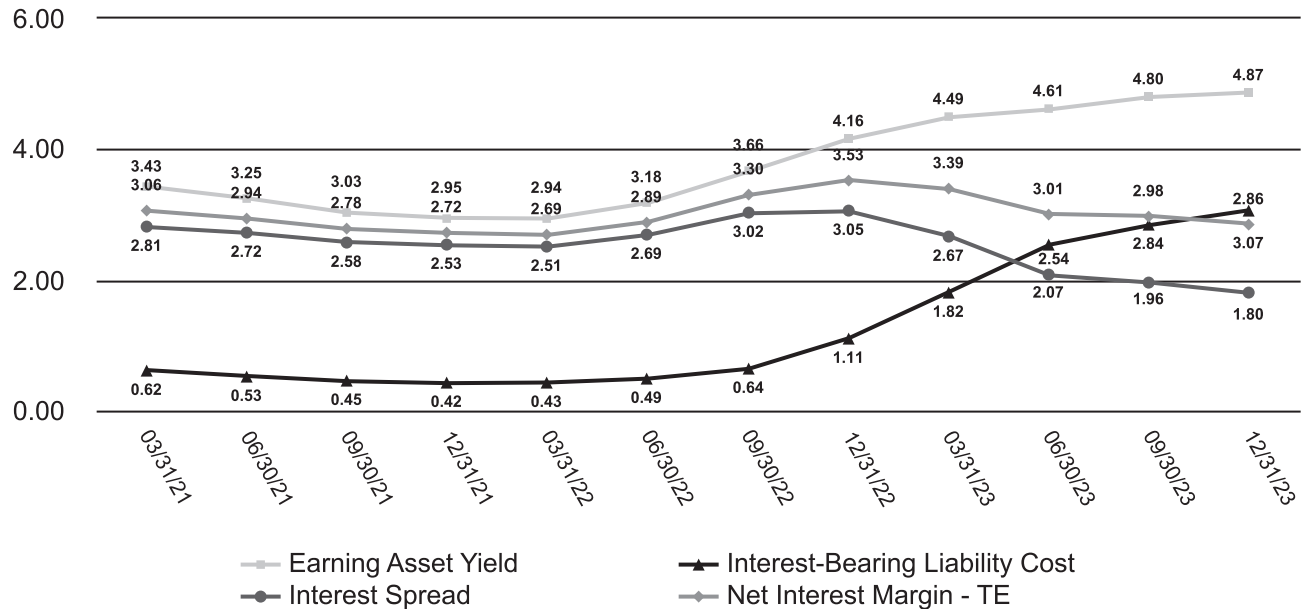
<i>(dollars in thousands, except per share data)</i>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Total revenue	\$ 694,122	\$ 686,935	\$ 680,330
Operating revenue (non-GAAP)	\$ 684,745	\$ 686,935	\$ 679,108
Diluted earnings per share	\$ 2.06	\$ 2.60	\$ 2.97
Return on average assets	0.92 %	1.16 %	1.40 %
Return 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.

**TOWNEBANK**  
**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.

**Twelve Quarter Margin Comparison**



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

# TOWNEBANK

## 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
<b>Assets:</b>									
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>		
<b>Liabilities and Equity:</b>									
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	
<b>Reconciliation of Non-GAAP Financial Measures:</b>									
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

## **TOWNEBANK**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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%.

# TOWNEBANK

## 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
<b>Assets:</b>						
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)
<b>Total earning assets</b>	<b>28,588</b>	<b>160,279</b>	<b>188,867</b>	<b>40,235</b>	<b>34,651</b>	<b>74,886</b>
<b>Liabilities and Equity:</b>						
<b>Interest-bearing deposits:</b>						
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)
<b>Total interest-bearing deposits</b>	<b>8,619</b>	<b>170,542</b>	<b>179,161</b>	<b>(1,407)</b>	<b>15,113</b>	<b>13,706</b>
<b>Borrowings</b>						
Subordinated debt	(3,939)	(1,611)	(5,550)	4,726	(2,106)	2,620
<b>Total interest-bearing liabilities</b>	<b>11,742</b>	<b>179,149</b>	<b>190,891</b>	<b>1,250</b>	<b>14,237</b>	<b>15,487</b>
<b>Net interest income (tax-equivalent basis)(2)</b>	<b>\$ 16,846</b>	<b>\$ (18,870)</b>	<b>\$ (2,024)</b>	<b>\$ 38,985</b>	<b>\$ 20,414</b>	<b>\$ 59,399</b>

(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.

**TOWNEBANK**  
**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)
<b>Total provision for credit losses</b>	<b>\$ 18,679</b>	<b>\$ 8,606</b>	<b>\$ (16,774)</b>

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.

## TOWNEBANK 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

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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)	Increase/(Decrease)	Increase/(Decrease)
	Amount	Amount	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 %
<b>Other expenses</b>							
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 %
<b>Total noninterest expense</b>	<b>\$ 489,222</b>	<b>\$ 441,279</b>	<b>\$ 417,272</b>	<b>\$ 47,943</b>	<b>10.86 %</b>	<b>\$ 24,007</b>	<b>5.75 %</b>

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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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%.

## **TOWNEBANK**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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.

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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
<b>Revenue</b>							
Net interest income	\$ 456,071	\$ 455,881	\$ 391,751	\$ 190	0.04 %	\$ 64,130	16.37 %
<b>Noninterest income</b>							
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 %
<b>Provision for credit losses</b>							
Provision for credit losses	19,273	8,559	(15,859)	10,714	125.18 %	24,418	153.97 %
<b>Expenses</b>							
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	\$ 135,032	\$ 176,968	\$ 169,512	\$ (41,936)	(23.70)%	\$ 7,456	4.40 %

**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

## **TOWNEBANK**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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.

**TOWNEBANK**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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
<b>Revenue</b>							
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)%
<b>Total revenue</b>	<b>103,670</b>	<b>117,109</b>	<b>184,456</b>	<b>(13,439)</b>	<b>(11.48)%</b>	<b>(67,347)</b>	<b>(36.51)%</b>
Provision for credit losses	(594)	47	(915)	(641)	N/M	962	105.14 %
<b>Expenses</b>							
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)%
<b>Total expenses</b>	<b>100,122</b>	<b>114,646</b>	<b>121,664</b>	<b>(14,524)</b>	<b>(12.67)%</b>	<b>(7,018)</b>	<b>(5.77)%</b>
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 %
<b>Net income (loss) attributable to TowneBank</b>	<b>\$ (129)</b>	<b>\$ (2,082)</b>	<b>\$ 36,149</b>	<b>\$ 1,953</b>	<b>(93.80)%</b>	<b>\$ (38,231)</b>	<b>(105.76)%</b>

## TOWNEBANK MANAGEMENT'S DISCUSSION AND ANALYSIS

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
<b>Key data</b>							
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.

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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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).

**TOWNEBANK**  
**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)
<b>Securities Available for Sale:</b>									
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	<u>2,292,963</u>	<u>2,129,342</u>	<u>3.11 %</u>	<u>2,033,040</u>	<u>1,840,902</u>	<u>2.59 %</u>	<u>1,788,853</u>	<u>1,806,183</u>	<u>1.82 %</u>
<b>Securities Held to Maturity:</b>									
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	<u>477,592</u>	<u>462,656</u>	<u>1.70 %</u>	<u>548,475</u>	<u>518,993</u>	<u>1.69 %</u>	<u>154,221</u>	<u>155,676</u>	<u>1.24 %</u>
<b>Total Portfolio</b>	<u>\$ 2,770,555</u>	<u>\$ 2,591,998</u>	<u>2.87 %</u>	<u>\$ 2,581,515</u>	<u>\$ 2,359,895</u>	<u>2.40 %</u>	<u>\$ 1,943,074</u>	<u>\$ 1,961,859</u>	<u>1.77 %</u>

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

**TOWNEBANK**  
**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)
<b>U.S. Treasury notes</b>						
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	—	—	— %	—	—	— %
<b>U.S. agency securities</b>						
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 %	—	—	— %
<b>Municipal securities</b>						
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 %	—	—	— %
<b>Mortgage-backed securities</b>						
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 %
<b>Trust preferred corporate securities</b>						
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 %
<b>Total Portfolio</b>	<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

## TOWNEBANK

### 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
<b>Commercial Real Estate</b>		
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
<b>Total Commercial Real Estate</b>	<b>6,649,401</b>	<b>6,335,285</b>
<b>Residential 1-4 family</b>	<b>1,852,891</b>	<b>1,634,062</b>
<b>HELOC</b>	<b>382,979</b>	<b>395,526</b>
<b>Commercial and industrial business</b>	<b>1,265,169</b>	<b>1,256,697</b>
<b>Government</b>	<b>525,261</b>	<b>512,265</b>
<b>Indirect</b>	<b>558,789</b>	<b>568,190</b>
<b>Consumer loans and other</b>	<b>94,531</b>	<b>92,577</b>
<b>Loans, net of unearned income and deferred costs</b>	<b>\$ 11,329,021</b>	<b>\$ 10,794,602</b>
Year Ended December 31,	2023	2022
<b>Commercial Real Estate</b>		
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 %
<b>Total Commercial Real Estate</b>	<b>58.69 %</b>	<b>58.69 %</b>
<b>Residential 1-4 family</b>	<b>16.36 %</b>	<b>15.14 %</b>
<b>HELOC</b>	<b>3.38 %</b>	<b>3.66 %</b>
<b>Commercial and industrial business</b>	<b>11.17 %</b>	<b>11.64 %</b>
<b>Government</b>	<b>4.64 %</b>	<b>4.75 %</b>
<b>Indirect</b>	<b>4.93 %</b>	<b>5.26 %</b>
<b>Consumer loans and other</b>	<b>0.83 %</b>	<b>0.86 %</b>
<b>Loans, net of unearned income and deferred costs</b>	<b>100.00 %</b>	<b>100.00 %</b>

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):

# TOWNEBANK

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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	—
<b>Construction and land development</b>	<b>\$ 1,249,735</b>	<b>100.00 %</b>	<b>\$ 676,542</b>	<b>\$ 573,193</b>	<b>\$ 261</b>
<b>Percentage of Consolidated</b>			<b>54.13 %</b>	<b>45.87 %</b>	<b>0.02 %</b>
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
<b>Owner occupied</b>	<b>\$ 1,699,386</b>	<b>100.00 %</b>	<b>\$ 1,196,156</b>	<b>\$ 503,230</b>	<b>\$ 18,790</b>
<b>Percentage of Consolidated</b>			<b>70.39 %</b>	<b>29.61 %</b>	<b>1.11 %</b>
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
<b>Non-owner occupied</b>	<b>\$ 3,117,071</b>	<b>100.00 %</b>	<b>\$ 2,085,626</b>	<b>\$ 1,031,445</b>	<b>\$ 3,691</b>
<b>Percentage of Consolidated</b>			<b>66.91 %</b>	<b>33.09 %</b>	<b>0.12 %</b>
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
<b>Multi-family</b>	<b>\$ 583,209</b>	<b>100.00 %</b>	<b>\$ 315,281</b>	<b>\$ 267,928</b>	<b>\$ 328</b>
<b>Percentage of Consolidated</b>			<b>54.06 %</b>	<b>45.94 %</b>	<b>0.06 %</b>
<b>Total Commercial Real Estate</b>	<b>\$ 6,649,401</b>		<b>\$ 4,273,605</b>	<b>\$ 2,375,796</b>	<b>\$ 23,070</b>
<b>Percentage of Consolidated Total Commercial Real Estate</b>			<b>64.27 %</b>	<b>35.73 %</b>	<b>0.35 %</b>

(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.

## TOWNEBANK MANAGEMENT'S DISCUSSION AND ANALYSIS

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
<b>Commercial Real Estate</b>							
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
<b>Residential 1- 4 family</b>	63,989	335,760	268,847	1,184,295	1,852,891	1,199,737	589,165
<b>HELOC</b>	29,086	32,359	23,052	298,482	382,979	10,876	343,017
<b>Commercial and industrial business</b>	530,928	437,836	295,841	564	1,265,169	599,344	134,897
<b>Government</b>	12,057	55,532	142,153	315,519	525,261	346,050	167,154
<b>Indirect</b>	19,003	361,720	178,066	—	558,789	539,786	—
<b>Consumer loans and other</b>	43,355	32,049	17,418	1,709	94,531	32,146	19,030
<b>Loans, net of unearned income and deferred costs</b>	<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

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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 %
<b>Total</b>	<b>\$ 126,461</b>	<b>100.00 %</b>	<b>\$ 110,816</b>	<b>100.00 %</b>

**TOWNEBANK**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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	<u>\$ 7,751</u>	<u>\$ 6,833</u>
Loans past due 90 days accruing interest	<u>\$ 735</u>	<u>\$ 324</u>
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	<u>\$ 5,801</u>	<u>\$ 2,925</u>	<u>\$ 3,874</u>	<u>\$ 1,111</u>

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.

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

## TOWNEBANK

### 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>\$</u>	<u>934,827</u>	<u>\$</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

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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):

<b>Liquidity Sources</b>	<b>December 31, 2023</b>
<b>Available Liquid Funds:</b>	
Cash and cash equivalents	\$ 1,128,357
Unencumbered investment securities	1,665,603
<b>Availability of Borrowings:</b>	
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.

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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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

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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:

<u>Change in Prime Rate</u>	<u>% Change in Net Interest Income</u>
+ 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:

<u>Change in Prime Rate</u>	<u>Change in Net Market Value (in thousands)</u>
+ 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

## **TOWNEBANK**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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;

## **TOWNEBANK**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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.

**TOWNEBANK**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(dollars in thousands)*

<b>Year Ended December 31,</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
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>

## TOWNEBANK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

## **TOWNEBANK**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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

# FORV/S

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.

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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

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### 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**

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*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



William I. Foster III  
President and Chief Executive Officer



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

**TOWNEBANK**  
**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)  
December 31, 2023 and 2022

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
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
<b>Total Cash and Cash Equivalents</b>	<b>1,128,357</b>	<b>1,152,830</b>
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
<b>Total Securities</b>	<b>2,642,014</b>	<b>2,405,335</b>
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)
<b>Net Loans</b>	<b>11,202,560</b>	<b>10,683,786</b>
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
<b>TOTAL ASSETS</b>	<b>\$ 16,835,039</b>	<b>\$ 15,845,267</b>
<b>LIABILITIES AND EQUITY</b>		
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
<b>Total Deposits</b>	<b>13,893,206</b>	<b>13,294,223</b>
Advances from the FHLB	203,958	29,674
Subordinated debt, net	255,796	247,420
Repurchase agreements and other borrowings	32,826	40,918
<b>Total Borrowings</b>	<b>492,580</b>	<b>318,012</b>
Other liabilities	393,375	344,275
<b>TOTAL LIABILITIES</b>	<b>14,779,161</b>	<b>13,956,510</b>
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)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>2,039,972</b>	<b>1,873,960</b>
Noncontrolling interest	15,906	14,797
<b>TOTAL EQUITY</b>	<b>2,055,878</b>	<b>1,888,757</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 16,835,039</b>	<b>\$ 15,845,267</b>

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
<b>INTEREST INCOME:</b>			
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
<b>Total interest income</b>	<b>705,242</b>	<b>517,936</b>	<b>443,453</b>
<b>INTEREST EXPENSE:</b>			
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
<b>Total interest expense</b>	<b>247,462</b>	<b>56,571</b>	<b>41,084</b>
<b>Net interest income</b>	<b>457,780</b>	<b>461,365</b>	<b>402,369</b>
<b>PROVISION FOR CREDIT LOSSES</b>			
<b>Net interest income after provision for credit losses</b>	<b>439,101</b>	<b>452,759</b>	<b>419,143</b>
<b>NONINTEREST INCOME:</b>			
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
<b>Total noninterest income</b>	<b>236,342</b>	<b>225,570</b>	<b>277,961</b>
<b>NONINTEREST EXPENSE:</b>			
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
<b>Total noninterest expense</b>	<b>489,222</b>	<b>441,279</b>	<b>417,272</b>
<b>Income before income tax expense and noncontrolling interest</b>	<b>186,221</b>	<b>237,050</b>	<b>279,832</b>
Provision for income tax expense	31,085	46,581	54,798
<b>Net income</b>	<b>\$ 155,136</b>	<b>\$ 190,469</b>	<b>\$ 225,034</b>
Net income attributable to noncontrolling interest	(1,421)	(1,482)	(9,651)
<b>Net income attributable to TowneBank</b>	<b>\$ 153,715</b>	<b>\$ 188,987</b>	<b>\$ 215,383</b>
<b>Per common share information</b>			
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
<b>Net income</b>	\$ 155,136	\$ 190,469	\$ 225,034
<b>Other comprehensive income (loss)</b>			
<b>Unrealized gains (losses) on securities</b>			
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)
<b>Pension and postretirement benefit plans</b>			
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
<b>Other comprehensive income (loss), net of tax</b>	21,743	(151,102)	(30,587)
<b>Comprehensive income</b>	\$ 176,879	\$ 39,367	\$ 194,447
Comprehensive income attributable to noncontrolling interest	(1,421)	(1,482)	(9,651)
<b>Comprehensive income attributable to TowneBank</b>	\$ 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
<b>Balance, December 31, 2020</b>	<b>72,667,541</b>	<b>\$ 121,132</b>	<b>\$ 1,046,642</b>	<b>\$ 557,889</b>	<b>\$ 16,969</b>	<b>\$ (16,969)</b>	<b>\$ 41,184</b>	<b>\$ 16,981</b>	<b>\$ 1,783,828</b>
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
<b>Balance, December 31, 2021</b>	<b>72,683,985</b>	<b>\$ 121,164</b>	<b>\$ 1,050,948</b>	<b>\$ 716,605</b>	<b>\$ 18,257</b>	<b>\$ (18,257)</b>	<b>\$ 10,597</b>	<b>\$ 16,860</b>	<b>\$ 1,916,174</b>
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)
<b>Balance, December 31, 2022</b>	<b>72,841,379</b>	<b>\$ 121,426</b>	<b>\$ 1,052,262</b>	<b>\$ 840,777</b>	<b>\$ 18,974</b>	<b>\$ (18,974)</b>	<b>\$ (140,505)</b>	<b>\$ 14,797</b>	<b>\$ 1,888,757</b>
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)
<b>Balance, December 31, 2023</b>	<b>74,893,462</b>	<b>\$ 124,847</b>	<b>\$ 1,112,761</b>	<b>\$ 921,126</b>	<b>\$ 20,813</b>	<b>\$ (20,813)</b>	<b>\$ (118,762)</b>	<b>\$ 15,906</b>	<b>\$ 2,055,878</b>

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

OPERATING ACTIVITIES:	2023	2022	2021
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	<u>161,304</u>	<u>415,505</u>	<u>518,823</u>
<b>INVESTING ACTIVITIES:</b>			
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	<u>(335,675)</u>	<u>(2,047,213)</u>	<u>(547,357)</u>
<b>FINANCING ACTIVITIES:</b>			
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	<u>149,898</u>	<u>(512,098)</u>	<u>1,460,883</u>
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	<u>\$ 1,128,357</u>	<u>\$ 1,152,830</u>	<u>\$ 3,296,636</u>
<b>Supplemental cash flow information:</b>			
Cash paid for interest	\$ 230,455	\$ 55,063	\$ 44,395
Cash paid for income taxes	\$ 13,446	\$ 24,180	\$ 51,006
<b>Noncash financing and investing activities:</b>			
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

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### 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

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- 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**

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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:

<b>Portfolio Segment</b>	<b>Loan Class</b>
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.

## **TOWNEBANK**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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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

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

## TOWNEBANK

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

## TOWNEBANK

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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

## TOWNEBANK

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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:

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

## TOWNEBANK

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

## TOWNEBANK

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Recent accounting pronouncements:**

<b>Accounting standards adopted in current year</b>		
<b>Standard</b>	<b>Summary of guidance</b>	<b>Effects on financial statements</b>
<b>Topic 326 - Financial Instruments - Credit Losses</b> <b>Subtopic 310-40 Troubled Debt Restructurings and Subtopic 326-20 Vintage Disclosures</b>  <b>ASU 2022 - 02</b> <b>Issued March 2022</b>	<p>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.</p> <p>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.</p>	<p>Effective for interim and annual periods beginning after December 15, 2022.</p> <p>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.</p> <p>The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.</p>

<b>Accounting standards not yet adopted</b>		
<b>Standard</b>	<b>Summary of guidance</b>	<b>Effects on financial statements</b>
<b>Topic 280 - Segment Reporting - Improvements to Reportable Segment Disclosures</b>  <b>ASU 2023-07</b> <b>Issued November 2023</b>	<p>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.</p>	<p>Effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.</p> <p>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.</p> <p>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.</p>
<b>Topic 323 - Investments - Equity Method and Joint Ventures - Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method</b>  <b>ASU 2023-02</b> <b>Issued March 2023</b>	<p>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.</p>	<p>Effective for periods beginning after December 15, 2023, including interim periods within those fiscal years.</p> <p>The Company does not expect this pronouncement to have a material impact on its Consolidated Financial Statements.</p>

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

<b>Accounting standards not yet adopted</b>		
<b>Topic 740 - Income Taxes - Improvements to Income Tax Disclosures</b>  <b>ASU 2023-09</b> <b>Issued December 2023</b>	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.
<b>Topic 842 - Leases, Common Control Arrangements</b>  <b>ASU 2023-01</b> <b>Issued March 2023</b>	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.

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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):

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	<u>619,289</u>
Fair value of liabilities assumed:	
Deposits	\$ 514,572
Total borrowings	33,806
Other liabilities	9,860
Total liabilities	<u>\$ 558,238</u>
Net identifiable assets acquired	\$ 61,051
Less: noncontrolling interest	6,975
Goodwill	5,533
Purchase price	<u>\$ 59,609</u>
Purchase price:	
Company common shares issued	1,897,019
Purchase price per share of Company's common stock	<u>\$ 31.42</u>
Common stock issued	\$ 59,604
Cash exchanged for fractional shares	<u>5</u>
Fair value of total consideration transferred	<u>\$ 59,609</u>

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.

**TOWNEBANK**  
**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	<u>575</u>
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 <u>December 31, 2023</u>
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

**TOWNEBANK**  
**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):

<b>December 31, 2023</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Allowance for Credit Losses</b>	<b>Fair Value</b>
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>

<b>December 31, 2022</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Allowance for Credit Losses</b>	<b>Fair Value</b>
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):

<b>December 31, 2023</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Allowance for Credit Losses</b>
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>

**TOWNEBANK**  
**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	Description of Securities	Number	Less than 12 months		12 months or more		Total	
			Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	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>

**TOWNEBANK**  
**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
Description of Securities	AAA	AA+	AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Total
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

# TOWNEBANK

## 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>\$ —</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	Trust Preferred and Other Corporate Securities		Total
	Municipal Securities		
Beginning balance	\$ 8	\$ 75	\$ 83
Provision for credit losses	(2)	3	1
Ending balance	<u>\$ 6</u>	<u>\$ 78</u>	<u>\$ 84</u>

**TOWNEBANK**  
**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.

**TOWNEBANK**  
**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
<b>Commercial Real Estate</b>		
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
<b>Total Commercial Real Estate</b>	6,649,401	6,335,285
<b>Residential 1- 4 family</b>	1,852,891	1,634,062
<b>HELOC</b>	382,979	395,526
<b>Commercial and industrial business</b>	1,265,169	1,256,697
<b>Government</b>	525,261	512,265
<b>Indirect</b>	558,789	568,190
<b>Consumer loans and other</b>	94,531	92,577
<b>Loans, net of unearned income and deferred costs</b>	<u>\$ 11,329,021</u>	<u>\$ 10,794,602</u>

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 <sup>(1)</sup>	6,843	6,273
Loans pledged as collateral to secure overnight borrowings with the FHLB	2,824	3,083

<sup>(1)</sup> 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):

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Loan Modifications Made to Borrowers Experiencing Financial Difficulty**

	<b>For the Year Ended December 31, 2023</b>	
	<b>Term Extension</b>	
<b>Loan Classification</b>	<b>Amortized Cost Basis</b>	<b>% of Total Class of Financing Receivable</b>
<b>Commercial Real Estate</b>		
Construction and land development	\$ 916	0.07 %
Owner occupied	4,826	0.28 %
Non-owner occupied	3,001	0.10 %
<b>Total Commercial Real Estate</b>	<b>8,743</b>	
<b>Residential 1-4 family</b>	<b>646</b>	<b>0.03 %</b>
<b>HELOC</b>	<b>392</b>	<b>0.10 %</b>
<b>Commercial and industrial business</b>	<b>2,284</b>	<b>0.18 %</b>
<b>Consumer loans and other</b>	<b>173</b>	<b>0.18 %</b>
Total	<u>\$ 12,238</u>	0.11 %

**Principal Deferral- Six Months  
Interest Only**

<b>Loan Classification</b>	<b>Amortized Cost Basis</b>	<b>% of Total Class of Financing Receivable</b>
<b>Commercial Real Estate</b>		
Owner occupied	\$ 1,289	0.08 %
Non-owner occupied	1,882	0.06 %
Total	<u>\$ 3,171</u>	0.03 %

**Total of All Modifications**

<b>Loan Classification</b>	<b>Amortized Cost Basis</b>	<b>% of Total Class of Financing Receivable</b>
<b>Commercial Real Estate</b>		
Construction and land development	\$ 916	0.07 %
Owner occupied	6,115	0.36 %
Non-owner occupied	4,883	0.16 %
<b>Total Commercial Real Estate</b>	<b>11,914</b>	
<b>Residential 1-4 family</b>	<b>646</b>	<b>0.03 %</b>
<b>HELOC</b>	<b>392</b>	<b>0.10 %</b>
<b>Commercial and industrial business</b>	<b>2,284</b>	<b>0.18 %</b>
<b>Consumer loans and other</b>	<b>173</b>	<b>0.18 %</b>
Total	<u>\$ 15,409</u>	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.

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

<b>Term Extension</b>	
<b>Loan Classification</b>	<b>Financial Effect</b>
<b>Commercial Real Estate</b>	
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.
<b>Residential 1-4 family</b>	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.
<b>HELOC</b>	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.
<b>Commercial and industrial business</b>	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.
<b>Consumer loans and other</b>	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).

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

(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).

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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
<b>Commercial Real Estate</b>						
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
<b>Residential 1-4 family</b>	27,688	4,425	94	(1)	157	32,363
<b>HELOC</b>	16,766	8	8	(2)	544	17,324
<b>Commercial and industrial</b>	6,912	2,946	357	(3,751)	1,605	8,069
<b>Government</b>	3,176	(85)	1	—	—	3,092
<b>Indirect</b>	4,172	1,712	1	(1,358)	267	4,794
<b>Consumer loans and other</b>	2,872	(107)	510	(687)	186	2,774
<b>Total</b>	<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
<b>Commercial Real Estate</b>					
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
<b>Residential 1-4 family</b>	18,014	9,629	(10)	55	27,688
<b>HELOC</b>	14,550	2,141	(50)	125	16,766
<b>Commercial and industrial</b>	6,935	3,103	(3,380)	254	6,912
<b>Government</b>	3,458	(282)	—	—	3,176
<b>Indirect</b>	2,133	2,145	(398)	292	4,172
<b>Consumer loans and other</b>	2,557	243	(34)	106	2,872
<b>Total</b>	<u>\$ 106,059</u>	<u>\$ 7,520</u>	<u>\$ (3,874)</u>	<u>\$ 1,111</u>	<u>\$ 110,816</u>

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Twelve Months Ended December 31, 2021

	Balance, Beginning of Period	Provision (Benefit)	Writeoffs	Recoveries	Balance, End of Period
<b>Commercial Real Estate</b>					
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
<b>Residential 1-4 family</b>	13,779	3,944	(132)	423	18,014
<b>HELOC</b>	15,240	(1,237)	(36)	583	14,550
<b>Commercial and industrial</b>	11,056	(4,038)	(295)	212	6,935
<b>Government</b>	2,334	1,124	—	—	3,458
<b>Indirect</b>	2,901	(661)	(482)	375	2,133
<b>Consumer loans and other</b>	5,387	(2,840)	(60)	70	2,557
<b>Total</b>	\$ 120,157	\$ (14,271)	\$ (1,670)	\$ 1,843	\$ 106,059

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
<b>Commercial Real Estate</b>									
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
<b>Residential 1-4 family</b>	—	—	—	—	—	—	—	—	—
<b>HELOC</b>	2,960	87	3,047	2,568	392	2,960	2,686	(118)	2,568
<b>Commercial and industrial</b>	1,285	199	1,484	1,434	(149)	1,285	2,903	(1,469)	1,434
<b>Government</b>	—	—	—	—	—	—	—	—	—
<b>Indirect</b>	—	—	—	—	—	—	—	—	—
<b>Consumer loans and other</b>	1,619	(62)	1,557	1,528	91	1,619	1,603	(75)	1,528
<b>Total</b>	\$ 7,104	\$ 1,124	\$ 8,228	\$ 6,882	\$ 222	\$ 7,104	\$ 9,244	\$ (2,362)	\$ 6,882

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;

## TOWNEBANK

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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):

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

	Term Loans By Origination						Revolving Loans	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
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
	<u>\$ 609,926</u>	<u>\$ 410,055</u>	<u>\$ 162,350</u>	<u>\$ 15,320</u>	<u>\$ 5,531</u>	<u>\$ 11,232</u>	<u>\$ 32,372</u>	<u>\$ 2,949</u>	<u>\$ 1,249,735</u>
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
	<u>\$ 285,631</u>	<u>\$ 346,961</u>	<u>\$ 394,277</u>	<u>\$ 260,785</u>	<u>\$ 155,673</u>	<u>\$ 237,391</u>	<u>\$ 18,419</u>	<u>\$ 249</u>	<u>\$ 1,699,386</u>
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
	<u>\$ 613,681</u>	<u>\$ 784,748</u>	<u>\$ 754,815</u>	<u>\$ 401,776</u>	<u>\$ 253,814</u>	<u>\$ 291,337</u>	<u>\$ 16,900</u>	<u>\$ —</u>	<u>\$ 3,117,071</u>
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
	<u>\$ 68,616</u>	<u>\$ 214,651</u>	<u>\$ 115,673</u>	<u>\$ 99,615</u>	<u>\$ 40,356</u>	<u>\$ 37,775</u>	<u>\$ 6,523</u>	<u>\$ —</u>	<u>\$ 583,209</u>
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
	<u>\$ 201,179</u>	<u>\$ 227,034</u>	<u>\$ 146,174</u>	<u>\$ 63,677</u>	<u>\$ 43,435</u>	<u>\$ 37,956</u>	<u>\$ 544,736</u>	<u>\$ 978</u>	<u>\$ 1,265,169</u>
Gross Writeoffs	\$ 580	\$ —	\$ —	\$ —	\$ —	\$ 191	\$ —	\$ 2,980	\$ 3,751

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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	\$ —	\$ —	\$ 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	\$ —	\$ —	\$ —	\$ 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

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Term Loans By Origination

	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
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

	2022	2021	2020	2019	2018	Prior	Revolving Loans	Revolving Loans Converted to Term	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

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Term Loans By Origination

	2022	2021	2020	2019	2018	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
<b>Government</b>									
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	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Residential 1 - 4 Family</b>									
<b>Credit Score:</b>									
>= 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
<b>HELOC</b>									
<b>Credit Score:</b>									
>= 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
<b>Indirect</b>									
<b>Credit Score:</b>									
>= 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
<b>Consumer and Other</b>									
<b>Credit Score:</b>									
>= 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

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Term Loans By Origination						Revolving Loans Converted to Term	Total	
	2022	2021	2020	2019	2018	Prior			
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		
<b>Commercial Real Estate</b>					
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		

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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		
<b>Commercial Real Estate</b>					
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):

December 31, 2023	Days Past Due				Total Past Due	Total Loans	Accruing Loans Over 90 Days Past Due
	Current	30-59	60-89	Over 90			
<b>Commercial Real Estate</b>							
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

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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			
<b>Commercial Real Estate</b>							
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	—
<b>Total</b>	<b>\$ 10,782,461</b>	<b>\$ 7,007</b>	<b>\$ 1,621</b>	<b>\$ 3,513</b>	<b>\$ 12,141</b>	<b>\$ 10,794,602</b>	<b>\$ 324</b>

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			
<b>Commercial Real Estate</b>					
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	—	—
<b>Total</b>	<b>\$ 6,273</b>	<b>\$ 6,843</b>	<b>\$ 735</b>	<b>\$ 6,843</b>	<b>\$ 182</b>

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Nonaccrual Financial Assets		Financial Assets 90 Days or More Past Due, Not on Nonaccrual Status as of 12/31/2022	Nonaccrual Financial Assets With No Specific Reserve as of 12/31/2022	Interest Income Recognized as of 12/31/2022
	As of 12/31/2021	As of 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	\$ 5,973	\$ 6,273	\$ 324	\$ 6,273	\$ 186

**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	\$ 908	\$ 560

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.

**TOWNEBANK**  
**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
<b>Assets</b>		
Finance lease assets	\$ 26,405	\$ 28,620
Operating lease assets	49,074	49,505
Total lease assets	\$ 75,479	\$ 78,125
<b>Liabilities</b>		
Finance lease liabilities	\$ 29,397	\$ 28,886
Operating lease liabilities	53,358	53,289
Total lease liabilities	\$ 82,755	\$ 82,175

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

<i>(In thousands)</i>	<b>Lease Cost</b>	
	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
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	<u>\$ 17,010</u>	<u>\$ 14,597</u>

(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>	<b>Maturity of Lease Liabilities</b>	
	<b>Operating Leases (1)</b>	
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	<u>\$</u>	<u>53,358</u>

(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:

	<b>Lease Term and Discount Rate</b>	
	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
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%

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	<b>December 31,</b>			
	<b>2023</b>		<b>2022</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
<b>Intangible assets subject to amortization</b>				
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
<b>Intangible assets not subject to amortization</b>				
Trade names	6,340	—	4,880	—
Contractual agreements	3,231	—	3,231	—
Total intangible assets not subject to amortization	9,571	—	8,111	—
<b>Total intangible assets</b>	<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.

## TOWNEBANK

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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)
<b>Balance at December 31, 2023</b>	<b>\$ 347,822</b>	<b>\$ 24,842</b>	<b>\$ 83,671</b>	<b>\$ 456,335</b>

#### 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
	<b>\$ 2,456,394</b>

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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):

	<b>2023</b>	<b>2022</b>
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):

<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Call/Reset Date</b>	<b>Outstanding Amount</b>
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):

	<b>2023</b>	<b>2022</b>
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-

## **TOWNEBANK**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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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.

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

## TOWNEBANK

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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*.

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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	\$ 638	\$ (13,107)	\$ 115	\$ (561)

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>

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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.

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*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

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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
<b>Revenue from Contracts with Customers:</b>			
<b>(1) Investment management income</b>			
Investment commissions, net	\$ 8,962	\$ 9,249	\$ 10,160
Total	\$ 8,962	\$ 9,249	\$ 10,160
<b>(2) Insurance income</b>			
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
<b>(3) Real estate and property management income</b>			
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

# TOWNEBANK

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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):

	Actual		Minimum Capital Requirements Including Conservation Buffer (1)		To Be Well Capitalized Under Prompt Action Provisions	
	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %
<b>As of December 31, 2023</b>						
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 %
<b>As of December 31, 2022</b>						
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.

## TOWNEBANK

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

**TOWNEBANK**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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.

	Net Gains (Losses) Resulting from Changes in Fair Value	
	Year Ended	
	December 31, 2023	December 31, 2022
<i>(in thousands)</i>		
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):

<b>December 31, 2023</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Other real estate owned and other nonperforming assets	\$ —	\$ —	\$ 908	\$ 908
<b>December 31, 2022</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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:

*(dollars in thousands)*

	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

**TOWNEBANK**  
**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
<b>Current income tax expense</b>			
Federal	\$ (31,461)	\$ (32,392)	\$ (49,397)
State	(2,943)	(3,824)	(5,258)
Total current tax expense	(34,404)	(36,216)	(54,655)
<b>Deferred income tax (expense) benefit</b>			
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
<b>Deferred tax assets:</b>		
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	<u>123,262</u>	<u>116,948</u>
<b>Deferred tax liabilities:</b>		
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	<u>51,307</u>	<u>46,732</u>
Net deferred tax assets	<u>\$ 71,955</u>	<u>\$ 70,216</u>

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

**TOWNEBANK**  
**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>	<b>Unrealized Gains (Losses) on Securities (a)</b>	<b>Pension and Postretirement Plans (b)</b>	<b>Accumulated Other Comprehensive Income (Loss), Net of Tax</b>
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
<b>Balance, December 31, 2023</b>	<b>\$ (126,827)</b>	<b>\$ 8,065</b>	<b>\$ (118,762)</b>

(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.

## **TOWNEBANK**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **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**

	<b>Bank</b>	<b>Realty</b>	<b>Insurance</b>	<b>Consolidated Totals</b>
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**

	<b>Bank</b>	<b>Realty</b>	<b>Insurance</b>	<b>Consolidated Totals</b>
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**

	<b>Bank</b>	<b>Realty</b>	<b>Insurance</b>	<b>Consolidated Totals</b>
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):

	<b>Banking</b>	<b>Realty</b>	<b>Insurance</b>	<b>Consolidated</b>
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):

<b>Year Ended December 31,</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Basic</b>			
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>
<b>Diluted</b>			
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	<u>74,661,576</u>	<u>72,577,943</u>	<u>72,563,077</u>
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

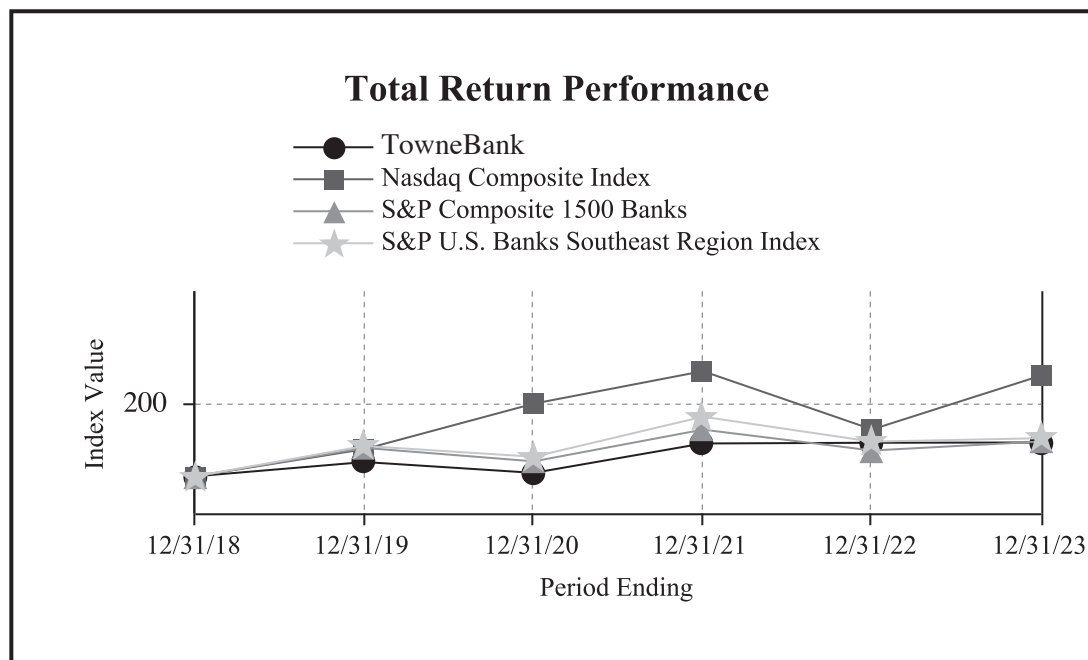
Our common stock is listed on the Nasdaq Global Select Market under the symbol TOWN.

### Holder

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	William B. Littreal	SEVP and Chief Financial Officer
William I. Foster III	President and Chief Executive Officer	William T. Morrison	President and Chief Executive Officer, Towne Financial Services Group
R. Lee Clark	SEVP and Chief Operating Officer	Ernest S. Piccioli	SEVP and Chief Risk Officer
Matthew C. Davis	President and Regional Banking Director, North Carolina	Philip M. Rudisill	SEVP and Chief Credit Officer
Denys J. Diaz	SEVP and Chief Information Officer	Brian K. Skinner	President and Regional Banking Director, Virginia and Northeastern North Carolina
Kevin L. Fly	SEVP and Chief Accounting Officer	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	President, Lewis Gibbs Corporation, and Treasurer, First Team Automotive Group
Jacqueline B. Amato	Retired Chairman and Chief Executive Officer, TowneBank Mortgage	Stephanie J. Marioneaux, M.D.	Ophthalmologist
Jeffrey F. Benson	Partner, The Overton Group, Inc.	Juan M. Montero, II, M.D.	Retired General and Thoracic Surgeon
Richard S. Bray	Chairman, Beazley Foundation, Inc.; retired Senior Judge, Virginia Court of Appeals	R. Scott Morgan	Retired President and Senior Credit Officer, TowneBank
Bradford L. Cherry	Chairman of the Board, Cherry Carpet, Inc., and President, Cherry Properties Associates, L.C.	William T. Morrison	President and Chief Executive Officer, Towne Financial Services Group
J. Morgan Davis	Retired Chief Executive Officer, TowneBank	Thomas K. Norment, Jr	Of Counsel, Kaufman and Canoles, and Virginia State Senator
Douglas D. Ellis	President, Ellis-Gibson Development Group	Robert M. Oman	Retired President, Oman Funeral Homes, Inc.
John W. Failes	Retired CPA, Cherry Bekaert, LLP	R.V. Owens, III	President and CEO, Honey Badger OBX, LLC
Andrew S. Fine	Co-Chair, The Runnymede Corporation	J. Christopher Perry	CEO, Suburban Capital
William I. Foster III	President and Chief Executive Officer, TowneBank	Elizabeth W. Robertson	Retired CFO, Monument Restaurants, LLC
Robert C. Hatley	Retired President, TowneBank North Carolina	Dwight C. Schaubach	President and CEO, Schaubach Companies of Virginia, Inc.
Howard J. Jung	Retired Owner and Vice President, ACE Hardware Stores, Inc.	Sachin S. Shetty, Ph.D.	Executive Director, Center for Secure and Intelligent Critical Systems, and Professor, Electrical and Computer Engineering Department, Old Dominion University
John R. Lawson, II	Executive Chairman, W.M. Jordan Company, Inc.	Richard B. Thurmond	Southeast Regional Chairman, Howard Hannah Real Estate Services
Aubrey L. Layne, Jr.	EVP and Chief Administrative Officer, Sentara Healthcare	Alan S. Witt	Dean, Luter School of Business, Christopher Newport University
Harry T. Lester	Retired President, 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.

#### **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](mailto:investor.relations@townebank.net)

These reports are also available on our website at [http://www.townebank.com/investor\\_relations](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](http://www.computershare.com/us/investor-inquiries)

#### **CORPORATE COUNSEL**

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