

# FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

## FORM 10-Q

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

For the quarterly period ended September 30, 2024

FDIC Insurance Cert. Number: 35095

## TOWNE BANK

(Exact name of registrant as specified in its charter)

### VIRGINIA

(State or other jurisdiction of  
incorporation or organization)

54-1910608

(I.R.S. Employer Identification No.)

5716 High Street, Portsmouth, Virginia

(Address of principal executive offices)

23703

(Zip Code)

(757) 638-7500

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of the Company's common stock outstanding as of November 1, 2024, was 75,152,573 shares.

# TOWNE BANK

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## GLOSSARY OF ACRONYMS AND DEFINED TERMS

As used in this report, the terms "Company," "we," "us," and "our" refer to TowneBank and our consolidated subsidiaries. The following acronyms and defined terms are used in various sections of this Form 10-Q, including the Notes to Consolidated Financial Statements in Item 1 and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of this Form 10-Q.

ACL	Allowance for Credit Loss
AFS	Available-for-Sale
ALCO	Asset/Liability Management Committee
AOCI	Accumulated Other Comprehensive Income (Loss)
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
Basel III	Basel Committee on Banking Supervision's Capital Guidelines for U.S. Banks
BHHS	Berkshire Hathaway HomeServices
BOLI	Bank-Owned Life Insurance
bp	Basis Points
C&I	Commercial and Industrial Business
CDA	Collateral-Dependent Asset
CRE	Commercial Real Estate
ECL	Expected Credit Loss
Farmers	Farmers Bankshares, Inc.
Farmers Bank	Farmers Bank, Windsor, Virginia
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank of Atlanta
FRB	Federal Reserve Bank
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
LIHTC	Low Income Housing Tax Credits
MBS	Mortgage-backed Security
N/M	Not Meaningful
NENC	Northeast North Carolina
PCD	Purchased Credit Deteriorated
REPO	Retail Repurchase Agreement
SCC	Virginia State Corporation Commission
SERP	Supplemental Executive Retirement Plan
SOFR	Secured Overnight Financing Rate
TBA	To Be Announced
TE	Taxable Equivalent
U.S.	United States

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands)</i>	<b>September 30, 2024</b>	<b>December 31, 2023</b>
	(unaudited)	(audited)
<b>ASSETS</b>		
Cash and due from banks	\$ 131,068	\$ 85,584
Interest-bearing deposits at FRB	1,061,596	939,356
Interest-bearing deposits in financial institutions	103,400	103,417
<b>Total Cash and Cash Equivalents</b>	<b>1,296,064</b>	<b>1,128,357</b>
Securities available for sale, at fair value (amortized cost of \$2,474,963 and \$2,292,963, and allowance for credit losses of \$1,171 and \$1,498 at September 30, 2024 and December 31, 2023, respectively)	2,363,176	2,129,342
Securities held to maturity, at amortized cost (fair value \$204,816 and \$462,656 at September 30, 2024 and December 31, 2023, respectively)	212,422	477,592
Less: Allowance for credit losses	(77)	(84)
Securities held to maturity, net of allowance for credit losses	212,345	477,508
Other equity securities	12,681	13,792
FHLB stock	12,134	21,372
<b>Total Securities</b>	<b>2,600,336</b>	<b>2,642,014</b>
Mortgage loans held for sale	264,320	149,987
Loans, net of unearned income and deferred costs	11,412,518	11,329,021
Less: Allowance for credit losses on loans	(123,191)	(126,461)
<b>Net Loans</b>	<b>11,289,327</b>	<b>11,202,560</b>
Premises and equipment, net	365,764	337,598
Goodwill	457,619	456,335
Other intangible assets, net	63,265	64,634
BOLI	279,325	277,445
Other assets	572,000	576,109
<b>TOTAL ASSETS</b>	<b>\$ 17,188,020</b>	<b>\$ 16,835,039</b>
<b>LIABILITIES AND EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$ 4,267,628	\$ 4,342,701
Interest-bearing:		
Demand and money market accounts	6,990,103	6,757,619
Savings	319,970	336,492
Certificates of deposit	2,785,469	2,456,394
<b>Total Deposits</b>	<b>14,363,170</b>	<b>13,893,206</b>
Advances from the FHLB	3,405	203,958
Subordinated debt, net	256,444	255,796
Repurchase agreements and other borrowings	30,970	32,826
<b>Total Borrowings</b>	<b>290,819</b>	<b>492,580</b>
Other liabilities	371,316	393,375
<b>TOTAL LIABILITIES</b>	<b>15,025,305</b>	<b>14,779,161</b>
Preferred stock:		
Authorized and unissued shares - 2,000,000	—	—
Common stock, \$1.667 par value: 150,000,000 shares authorized; 75,068,662 and 74,893,462 shares issued at September 30, 2024 and December 31, 2023, respectively	125,139	124,847
Capital surplus	1,117,279	1,112,761
Retained earnings	985,343	921,126
Common stock issued to deferred compensation trust, at cost: 1,056,823 and 1,004,717 shares at September 30, 2024 and December 31, 2023, respectively	(22,224)	(20,813)
Deferred compensation trust	22,224	20,813
Accumulated other comprehensive income (loss)	(81,482)	(118,762)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>2,146,279</b>	<b>2,039,972</b>
Noncontrolling interest	16,436	15,906
<b>TOTAL EQUITY</b>	<b>2,162,715</b>	<b>2,055,878</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 17,188,020</b>	<b>\$ 16,835,039</b>

*The accompanying notes are an integral part of these financial statements.*

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Three Months Ended		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
<i>(Dollars in thousands, except per share data)</i>				
<b>INTEREST INCOME:</b>				
Loans, including fees	\$ 155,792	\$ 143,605	\$ 461,316	\$ 415,351
Investment securities	22,334	20,292	65,257	57,519
Interest-bearing deposits in financial institutions and federal funds sold	15,249	15,031	43,995	40,168
Mortgage loans held for sale	3,247	3,928	7,908	8,079
<b>Total interest income</b>	<b>196,622</b>	<b>182,856</b>	<b>578,476</b>	<b>521,117</b>
<b>INTEREST EXPENSE:</b>				
Deposits	82,128	64,171	242,539	146,776
Advances from the FHLB	29	3,438	3,408	16,838
Subordinated debt, net	2,237	2,245	6,710	6,650
Repurchase agreements and other borrowings	(54)	(56)	1,271	806
<b>Total interest expense</b>	<b>84,340</b>	<b>69,798</b>	<b>253,928</b>	<b>171,070</b>
<b>Net interest income</b>	<b>112,282</b>	<b>113,058</b>	<b>324,548</b>	<b>350,047</b>
<b>PROVISION FOR CREDIT LOSSES</b>	<b>(1,100)</b>	<b>1,007</b>	<b>(2,154)</b>	<b>16,232</b>
<b>Net interest income after provision for credit losses</b>	<b>113,382</b>	<b>112,051</b>	<b>326,702</b>	<b>333,815</b>
<b>NONINTEREST INCOME:</b>				
Residential mortgage banking income, net	11,786	10,648	35,685	31,380
Insurance commissions and related income, net	25,727	23,777	75,297	69,098
Property management income, net	11,221	12,800	42,306	40,433
Real estate brokerage income, net	—	(63)	—	3,562
Service charges on deposit accounts	3,117	2,823	9,548	8,577
Credit card merchant fees, net	1,830	2,006	5,042	5,232
Investment commissions, net	2,835	2,363	7,759	6,581
BOLI	1,886	1,814	6,966	5,196
Gain on sale of equity investments	20	554	20	9,386
Other income	3,814	3,084	9,345	9,083
Net gain (loss) on investment securities	—	—	74	—
<b>Total noninterest income</b>	<b>62,236</b>	<b>59,806</b>	<b>192,042</b>	<b>188,528</b>
<b>NONINTEREST EXPENSE:</b>				
Salaries and employee benefits	72,123	67,258	214,849	204,124
Occupancy	9,351	9,027	28,490	27,579
Furniture and equipment	4,657	4,100	13,769	12,733
Amortization - intangibles	3,130	3,610	9,675	10,744
Software	6,790	6,130	19,947	17,922
Data processing	4,701	4,140	13,223	11,504
Professional fees	4,720	2,770	11,689	8,948
Advertising and marketing	4,162	3,653	12,268	12,012
Other expenses	17,266	17,014	52,565	61,762
<b>Total noninterest expense</b>	<b>126,900</b>	<b>117,702</b>	<b>376,475</b>	<b>367,328</b>
<b>Income before income tax expense and noncontrolling interest</b>	<b>48,718</b>	<b>54,155</b>	<b>142,269</b>	<b>155,015</b>
Provision for income tax expense	5,592	9,410	20,977	28,424
<b>Net income</b>	<b>\$ 43,126</b>	<b>\$ 44,745</b>	<b>\$ 121,292</b>	<b>\$ 126,591</b>
Net income attributable to noncontrolling interest	(177)	117	(800)	(1,680)
<b>Net income attributable to TowneBank</b>	<b>\$ 42,949</b>	<b>\$ 44,862</b>	<b>\$ 120,492</b>	<b>\$ 124,911</b>
<b>Per common share information</b>				
Basic earnings	\$ 0.57	\$ 0.60	\$ 1.61	\$ 1.67
Diluted earnings	\$ 0.57	\$ 0.60	\$ 1.61	\$ 1.67

The accompanying notes are an integral part of these financial statements.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

<i>(Dollars in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
<b>Net income</b>	\$ 43,126	\$ 44,745	\$ 121,292	\$ 126,591
<b>Other comprehensive income (loss)</b>				
<b>Unrealized gains (losses) on securities</b>				
Unrealized holding gains (losses) arising during the period	62,312	(42,539)	51,581	(47,466)
Tax effect	(13,566)	9,414	(11,229)	10,504
Realized (gains) losses reclassified into earnings	—	—	(74)	—
Tax effect	—	—	16	—
Net unrealized gains (losses)	<u>48,746</u>	<u>(33,125)</u>	<u>40,294</u>	<u>(36,962)</u>
<b>Pension and postretirement benefit plans</b>				
Prior service costs	—	(330)	—	(991)
Tax effect	—	73	—	219
Actuarial gain (loss)	(907)	28	(2,721)	84
Tax effect	196	(6)	592	(18)
Amortization of prior service costs	166	208	496	624
Tax effect	(36)	(46)	(108)	(138)
Amortization of net actuarial (gain) loss	(542)	(581)	(1,628)	(1,742)
Tax effect	119	128	355	386
Change in retirement plans, net of tax	<u>(1,004)</u>	<u>(526)</u>	<u>(3,014)</u>	<u>(1,576)</u>
<b>Other comprehensive income (loss), net of tax</b>	<u>47,742</u>	<u>(33,651)</u>	<u>37,280</u>	<u>(38,538)</u>
<b>Comprehensive income</b>	<u>\$ 90,868</u>	<u>\$ 11,094</u>	<u>\$ 158,572</u>	<u>\$ 88,053</u>
Comprehensive income attributable to noncontrolling interest	<u>(177)</u>	<u>117</u>	<u>(800)</u>	<u>(1,680)</u>
<b>Comprehensive income attributable to TowneBank</b>	<u>\$ 90,691</u>	<u>\$ 11,211</u>	<u>\$ 157,772</u>	<u>\$ 86,373</u>

The accompanying notes are an integral part of these financial statements.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Nine Months Ended	
	September 30,	
	2024	2023
<i>(Dollars in thousands)</i>		
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 121,292	\$ 126,591
Adjustments to reconcile net income to net cash used for operating activities:		
Net amortization of securities	3,204	5,203
Investment securities gains	(74)	—
Depreciation, amortization, and other intangible amortization	26,415	25,715
Amortization of debt issuance costs	464	464
Provision for credit losses	(2,154)	16,232
BOLI	(6,966)	(5,196)
Deferred income tax (benefit) expense	(8,539)	1,962
Share-based compensation expense	5,869	5,142
Originations of mortgage loans held for sale	(1,671,567)	(1,594,553)
Proceeds from sales of mortgage loans held for sale	1,608,889	1,553,493
Gain on sales of mortgage loans held for sale	(51,655)	(44,649)
Gain on sale of equity investments	—	(8,833)
Gain on sale and write-down of foreclosed assets	(9)	(206)
Changes in:		
Interest receivable	2,470	(6,555)
Other assets	23,363	2,773
Interest payable	(3,481)	10,061
Other liabilities	(7,389)	30,441
Net cash provided by operating activities	40,132	118,085
<b>INVESTING ACTIVITIES:</b>		
Purchase of available-for-sale securities	(391,640)	(41,490)
Purchase of other securities	—	(1,042)
Sale of available-for-sale securities	48,098	—
Net change in FHLB stock	9,237	(7,017)
Proceeds from maturities, calls, and prepayments of available-for-sale securities	158,423	104,054
Proceeds from maturities, calls, and prepayments of held-to-maturity securities	265,158	397
Proceeds from maturities, calls, and prepayments of other securities	1,112	—
Net increase in loans	(88,788)	(105,080)
Net change in investment in LIHTC	(39,963)	(63,797)
Purchase of premises and equipment	(48,203)	(37,301)
Proceeds from sales of premises and equipment	3,911	1,106
Proceeds from sales of foreclosed assets	4,146	5,508
Proceeds from BOLI	5,108	—
Investment from noncontrolling interest in consolidated joint ventures	—	506
Acquisition of business, net of cash acquired	(10,075)	17,776
Net cash used for investing activities	(83,476)	(126,380)
<b>FINANCING ACTIVITIES:</b>		
Net change in deposit accounts	469,964	72,010
Net change in short-term borrowings	(201,856)	55,641
Repayment of long-term borrowings	(553)	(1,058)
Distribution of noncontrolling interest	(270)	(759)
Purchase of noncontrolling interest	—	(1,947)
Proceeds from issuance of common stock	4	—
Cash dividends paid	(56,238)	(52,670)
Net cash provided by financing activities	211,051	71,217
Change in cash and cash equivalents	167,707	62,922
Cash and cash equivalents at beginning of year	1,128,357	1,152,830
Cash and cash equivalents at end of period	\$ 1,296,064	\$ 1,215,752
Supplemental cash flow information:		
Cash paid for interest	\$ 257,409	\$ 161,008
Cash paid for income taxes	\$ 723	\$ 9,870
Noncash financing and investing activities:		
Transfer from loans to foreclosed property	\$ 4,113	\$ 3,173
Net unrealized gains (losses) on available-for-sale securities, net of tax	\$ 40,294	\$ (36,962)
Common stock issued in connection with business acquisitions	\$ —	\$ 59,604

The accompanying notes are an integral part of these financial statements.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### CONSOLIDATED STATEMENT OF EQUITY

<i>(Dollars in thousands, except per share data)</i>	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, January 1, 2024</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>
Net income	—	—	—	34,687	—	—	—	440	35,127
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	(7,824)	—	(7,824)
Cash dividends declared on common stock (\$0.25 per share)	—	—	—	(18,748)	—	—	—	—	(18,748)
Directors' deferred compensation	—	—	—	—	102	(102)	—	—	—
Issuance of common stock - stock compensation plans	96,975	162	1,277	—	—	—	—	—	1,439
<b>Balance, March 31, 2024</b>	<b>74,990,437</b>	<b>\$ 125,009</b>	<b>\$ 1,114,038</b>	<b>\$ 937,065</b>	<b>\$ 20,915</b>	<b>\$ (20,915)</b>	<b>\$ (126,586)</b>	<b>\$ 16,346</b>	<b>\$ 2,065,872</b>
Net income	—	—	—	42,856	—	—	—	183	43,039
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	(2,638)	—	(2,638)
Cash dividends declared on common stock (\$0.25 per share)	—	—	—	(18,759)	—	—	—	—	(18,759)
Directors' deferred compensation	—	—	—	—	1,841	(1,841)	—	—	—
Issuance of common stock - stock compensation plans	48,652	81	1,721	—	—	—	—	—	1,802
<b>Balance, June 30, 2024</b>	<b>75,039,089</b>	<b>\$ 125,090</b>	<b>\$ 1,115,759</b>	<b>\$ 961,162</b>	<b>\$ 22,756</b>	<b>\$ (22,756)</b>	<b>\$ (129,224)</b>	<b>\$ 16,529</b>	<b>\$ 2,089,316</b>
Net income	—	—	—	42,949	—	—	—	177	43,126
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	47,742	—	47,742
Cash dividends declared on common stock (\$0.25 per share)	—	—	—	(18,768)	—	—	—	—	(18,768)
Directors' deferred compensation	—	—	—	—	(532)	532	—	—	—
Distribution of interests in joint ventures	—	—	—	—	—	—	—	(270)	(270)
Conversion of convertible debt into common stock	208	1	3	—	—	—	—	—	4
Issuance of common stock - stock compensation plans	29,365	48	1,517	—	—	—	—	—	1,565
<b>Balance, September 30, 2024</b>	<b>75,068,662</b>	<b>\$ 125,139</b>	<b>\$ 1,117,279</b>	<b>\$ 985,343</b>	<b>\$ 22,224</b>	<b>\$ (22,224)</b>	<b>\$ (81,482)</b>	<b>\$ 16,436</b>	<b>\$ 2,162,715</b>

The accompanying notes are an integral part of these financial statements.



## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### CONSOLIDATED STATEMENT OF EQUITY

<i>(Dollars in thousands, except per share data)</i>	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Deferred Compensation Trust	Common Stock Issued to Deferred Compensation Trust	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total
<b>Balance, January 1, 2023</b>	72,841,379	\$ 121,426	\$ 1,052,262	\$ 840,777	\$ 18,974	\$ (18,974)	\$ (140,505)	\$ 14,797	\$ 1,888,757
Net income	—	—	—	38,333	—	—	—	145	38,478
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	19,208	—	19,208
Cash dividends declared on common stock (\$0.23 per share)	—	—	—	(17,205)	—	—	—	—	(17,205)
Investment of noncontrolling interest in consolidated joint ventures	—	—	—	—	—	—	—	276	276
Directors' deferred compensation	—	—	—	—	(135)	135	—	—	—
Issuance of common stock - acquisitions	1,897,019	3,162	56,442	—	—	—	—	—	59,604
Issuance of common stock - stock compensation plans	66,033	94	696	—	—	—	—	—	790
Purchase of noncontrolling interest	—	—	(13)	—	—	—	—	—	(13)
<b>Balance, March 31, 2023</b>	<b>74,804,431</b>	<b>\$ 124,682</b>	<b>\$ 1,109,387</b>	<b>\$ 861,905</b>	<b>\$ 18,839</b>	<b>\$ (18,839)</b>	<b>\$ (121,297)</b>	<b>\$ 15,218</b>	<b>\$ 1,989,895</b>
Net income	—	—	—	41,716	—	—	—	1,652	43,368
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	(24,095)	—	(24,095)
Cash dividends declared on common stock (\$0.25 per share)	—	—	—	(18,720)	—	—	—	—	(18,720)
Investment of noncontrolling interest in consolidated joint ventures	—	—	—	—	—	—	—	193	193
Directors' deferred compensation	—	—	—	—	1,295	(1,295)	—	—	—
Distribution of interests in joint ventures	—	—	—	—	—	—	—	(404)	(404)
Issuance of common stock - stock compensation plans	73,812	123	2,073	—	—	—	—	—	2,196
Purchase of noncontrolling interest	—	—	(1,934)	—	—	—	—	—	(1,934)
<b>Balance, June 30, 2023</b>	<b>74,878,243</b>	<b>\$ 124,805</b>	<b>\$ 1,109,526</b>	<b>\$ 884,901</b>	<b>\$ 20,134</b>	<b>\$ (20,134)</b>	<b>\$ (145,392)</b>	<b>\$ 16,659</b>	<b>\$ 1,990,499</b>
Net income	—	—	—	44,862	—	—	—	(117)	44,745
Other comprehensive loss, net of taxes	—	—	—	—	—	—	(33,651)	—	(33,651)
Cash dividends declared on common stock (\$0.25 per share)	—	—	—	(18,721)	—	—	—	—	(18,721)
Investment of noncontrolling interest in consolidated joint ventures	—	—	—	—	—	—	—	37	37
Directors' deferred compensation	—	—	—	—	606	(606)	—	—	—
Distribution of interests in joint ventures	—	—	—	—	—	—	—	(355)	(355)
Issuance of common stock - stock compensation plans	8,840	32	1,626	—	—	—	—	—	1,658
<b>Balance, September 30, 2023</b>	<b>74,887,083</b>	<b>\$ 124,837</b>	<b>\$ 1,111,152</b>	<b>\$ 911,042</b>	<b>\$ 20,740</b>	<b>\$ (20,740)</b>	<b>\$ (179,043)</b>	<b>\$ 16,224</b>	<b>\$ 1,984,212</b>

The accompanying notes are an integral part of these financial statements.

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### Note 1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of TowneBank have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all of the disclosures and notes necessary for a complete presentation of financial position, results of operations, and cash flow activity required in accordance with GAAP. In the opinion of management, the financial statements reflect all adjustments of a normal, recurring nature that are necessary for a fair presentation for the periods presented as required by Regulation S-X, Rule 10-01, of the SEC. These statements should be read in conjunction with the Company's 2023 audited Consolidated Financial Statements and the 2023 Annual Report on Form 10-K. Results of operations for the three- and nine-month periods ended September 30, 2024, are not necessarily indicative of the results of operations for the full year or any other interim periods.

##### Recent accounting pronouncements:

Accounting standards adopted in current year		
Standard	Summary of guidance	Effects on financial statements
<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>	Permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met.	Effective for periods beginning after December 15, 2023, including interim periods within those fiscal years.  The adoption of this pronouncement did not have a material impact on the Company's 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 adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements.

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### Item 1. Financial Statements

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting standards not yet adopted		
Standard	Summary of guidance	Effects on financial statements
<p><b>Topic 280 - Segment Reporting - Improvements to Reportable Segment Disclosures</b></p> <p><b>ASU 2023-07</b> <b>Issued November 2023</b></p>	<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>
<p><b>Topic 740 - Income Taxes - Improvements to Income Tax Disclosures</b></p> <p><b>ASU 2023-09</b> <b>Issued December 2023</b></p>	<p>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.</p>	<p>Effective for annual periods beginning after December 15, 2024.</p> <p>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.</p> <p>The Company is currently evaluating the provisions of the standard and the impact on its disclosures in future Consolidated Financial Statements.</p>

#### Note 2. Earnings per Share and Shareholders' Equity

Basic earnings per share are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share are determined by dividing net income available to common shareholders by the weighted average number of common shares outstanding, assuming all securities that could be converted to common stock have been converted or exercised.

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### Item 1. Financial Statements

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes basic and diluted earnings per share calculations for the periods indicated:

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<b>Basic</b>				
Net income available to common shareholders	\$ 42,949	\$ 44,862	\$ 120,492	\$ 124,911
Weighted-average common shares outstanding	74,940,828	74,750,294	74,904,276	74,602,963
Basic earnings per common share	\$ 0.57	\$ 0.60	\$ 1.61	\$ 1.67
<b>Diluted</b>				
Net income available to common shareholders	\$ 42,949	\$ 44,862	\$ 120,492	\$ 124,911
Weighted-average common shares outstanding	74,940,828	74,750,294	74,904,276	74,602,963
Effect of dilutive securities:				
Stock compensation plans (1)	200,833	15,221	139,572	15,780
Weighted-average diluted shares outstanding	75,141,661	74,765,515	75,043,848	74,618,743
Diluted earnings per common share	\$ 0.57	\$ 0.60	\$ 1.61	\$ 1.67

(1) There were no anti-dilutive stock options or restricted stock shares to be excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2024 or September 30, 2023.

### Note 3. Mergers and Acquisitions

*Village Bank and Trust Financial Corp.*: On September 24, 2024, the Company signed a definitive agreement and plan of reorganization (the "Village merger agreement"), pursuant to which the Company will acquire Village Bank and Trust Financial Corp. ("Village"), and its wholly owned bank subsidiary, Village Bank, a Midlothian, Virginia, based bank with nine banking offices serving the Greater Richmond Metropolitan Area and Williamsburg, Virginia. The proposed acquisition of Village and Village Bank has been approved by the Boards of Directors of TowneBank, Village, and Village Bank and is expected to close in first quarter 2025, subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of Village's shareholders. At June 30, 2024, Village had total assets of \$747.73 million, gross loans of \$606.09 million, and total deposits of \$628.91 million.

Under the terms of the Village merger agreement, Village shareholders will receive \$80.25 per share in cash for each outstanding share of Village common stock held immediately prior to the effective date of the merger, and each share of Village common stock will be canceled and retired. As a result of the merger, each share of Village restricted stock granted under an equity or equity-based compensation plan that is unvested or contingent and outstanding, immediately prior to the effective date of the merger, will be fully vested and converted into the right to receive \$80.25 per share in cash.

*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

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

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.

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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
Other real estate owned	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	\$ 31.42
Common stock issued	\$ 59,604
Cash exchanged for fractional shares	5
Fair value of total consideration transferred	<u>\$ 59,609</u>

As of March 31, 2024, the Company had finalized its valuation of all assets and liabilities acquired. The loans acquired in the Farmers merger were divided into loans with evidence of credit quality deterioration, or PCD, which are accounted for under ASC 326-10, and loans that do not meet this criteria (purchased performing). As of January 13, 2023, the estimated fair value of the Farmers purchased performing loans acquired was \$228.27 million, the related gross contractual amount was \$233.72 million, and the estimated contractual cash flows not expected to be collected were \$1.93 million.

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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	1,380
Discount attributable to other factors	575
Par value of financial assets with credit deterioration	<u>\$ 51,533</u>

#### Note 4. Investment Securities

##### *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>September 30, 2024</b>	<b>Amortized Cost (1)</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	\$ 315,096	\$ 289	\$ (23,571)	\$ —	\$ 291,814
U.S. Treasury notes	29,072	—	(417)	—	28,655
Municipal securities	479,165	897	(24,340)	(283)	455,439
Trust preferred and other corporate securities	101,878	754	(11,107)	(888)	90,637
MBSs issued by GSEs and GNMA	1,549,752	4,763	(57,884)	—	1,496,631
Total available-for-sale securities	<u>\$ 2,474,963</u>	<u>\$ 6,703</u>	<u>\$ (117,319)</u>	<u>\$ (1,171)</u>	<u>\$ 2,363,176</u>
<b>December 31, 2023</b>	<b>Amortized Cost (1)</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
MBSs 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>

(1) Amortized cost amounts exclude accrued interest receivable, which was \$10.86 million as of September 30, 2024, and \$11.13 million as of December 31, 2023, and is recorded in other assets on the Consolidated Balance Sheets.

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The following table summarizes realized gains and losses on the sale of AFS debt securities for the periods indicated (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Gross gains	\$ —	\$ —	\$ 421	\$ —
Gross (losses)	—	—	(347)	—
Net gains (losses)	\$ —	\$ —	\$ 74	\$ —
Sales proceeds*	\$ —	\$ —	\$ 48,577	\$ —

\*Proceeds include interest on investment securities sold of zero and \$480 thousand in the third quarter and first nine months of 2024, and zero for the same respective periods in 2023.

#### *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):

	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
<b>September 30, 2024</b>					
U.S. agency securities	\$ 102,428	\$ —	\$ (3,251)	\$ 99,177	\$ —
U.S. Treasury notes	96,942	—	(4,489)	92,453	—
Municipal securities	5,342	218	—	5,560	(6)
Trust preferred and other corporate securities	2,133	105	—	2,238	(71)
MBSs issued by GSEs	5,577	—	(189)	5,388	—
Total held-to-maturity securities	\$ 212,422	\$ 323	\$ (7,929)	\$ 204,816	\$ (77)
<b>December 31, 2023</b>					
U.S. agency securities	\$ 101,850	\$ —	\$ (5,972)	\$ 95,878	\$ —
U.S. Treasury notes	362,593	—	(9,015)	353,578	—
Municipal securities	5,272	279	—	5,551	(6)
Trust preferred and other corporate securities	2,172	101	—	2,273	(78)
MBSs issued by GSEs	5,705	—	(329)	5,376	—
Total held-to-maturity securities	\$ 477,592	\$ 380	\$ (15,316)	\$ 462,656	\$ (84)

(1) Amortized cost amounts exclude accrued interest receivable, which was \$0.84 million as of September 30, 2024, and \$2.64 million as of December 31, 2023, and is recorded in other assets on the Consolidated Balance Sheets.



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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### *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):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>September 30, 2024</b>				
Due in one year or less	\$ 11,332	\$ 11,277	\$ 34,812	\$ 34,036
Due after one year through five years	789,640	748,333	172,075	165,001
Due after five years through ten years	451,105	423,221	3,630	3,873
Due after ten years	1,222,886	1,180,345	1,905	1,906
	<u>\$ 2,474,963</u>	<u>\$ 2,363,176</u>	<u>\$ 212,422</u>	<u>\$ 204,816</u>
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>December 31, 2023</b>				
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>

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):

		Less than 12 months		12 months or more		Total	
		Number	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<b>September 30, 2024</b>							
U.S. agency securities	52	\$ 23,227	\$ (191)	\$ 223,481	\$ (23,380)	\$ 246,708	\$ (23,571)
U.S. Treasury notes	2	—	—	28,655	(417)	28,655	(417)
Municipal securities	41	11,901	(233)	93,992	(6,863)	105,893	(7,096)
MBSs issued by GSEs and GNMA	229	220,130	(1,380)	908,566	(56,504)	1,128,696	(57,884)
Total AFS securities	<u>324</u>	<u>\$ 255,258</u>	<u>\$ (1,804)</u>	<u>\$ 1,254,694</u>	<u>\$ (87,164)</u>	<u>\$ 1,509,952</u>	<u>\$ (88,968)</u>
		Less than 12 months		12 months or more		Total	
		Number	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<b>December 31, 2023</b>							
U.S. agency securities	59	\$ 51,314	\$ (1,984)	\$ 193,273	\$ (26,729)	\$ 244,587	\$ (28,713)
U.S. Treasury notes	2	—	—	27,684	(875)	27,684	(875)
Municipal securities	56	4,153	(40)	192,163	(13,993)	196,316	(14,033)
MBSs issued by GSEs and GNMA	240	156,286	(1,904)	925,174	(81,917)	1,081,460	(83,821)
Total AFS securities	<u>357</u>	<u>\$ 211,753</u>	<u>\$ (3,928)</u>	<u>\$ 1,338,294</u>	<u>\$ (123,514)</u>	<u>\$ 1,550,047</u>	<u>\$ (127,442)</u>

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

Three Months Ended September 30, 2024	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
<b>Balance, beginning of period</b>	\$ 363	\$ 1,178	\$ 1,541
Provision for credit losses	(80)	(290)	(370)
<b>Balance, end of period</b>	<u>\$ 283</u>	<u>\$ 888</u>	<u>\$ 1,171</u>

Three Months Ended September 30, 2023	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
<b>Balance, beginning of period</b>	\$ 472	\$ 760	\$ 1,232
Provision for credit losses	17	94	111
<b>Balance, end of period</b>	<u>\$ 489</u>	<u>\$ 854</u>	<u>\$ 1,343</u>

Nine Months Ended September 30, 2024	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
<b>Balance, beginning of period</b>	\$ 280	\$ 1,218	\$ 1,498
Provision for credit losses	3	(330)	(327)
<b>Balance, end of period</b>	<u>\$ 283</u>	<u>\$ 888</u>	<u>\$ 1,171</u>

Nine Months Ended September 30, 2023	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
<b>Balance, beginning of period</b>	\$ 351	\$ 735	\$ 1,086
Provision for credit losses	138	119	257
<b>Balance, end of period</b>	<u>\$ 489</u>	<u>\$ 854</u>	<u>\$ 1,343</u>

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 September 30, 2024. The following table reflects the credit ratings aggregated by investment category for HTM debt securities as of the dates indicated (dollars in thousands):

September 30, 2024	Credit Ratings					Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	
Description of Securities						
U.S. agency securities	\$ 102,428	\$ —	\$ —	\$ —	\$ —	\$ 102,428
U.S. Treasury notes	96,942	—	—	—	—	96,942
Municipal securities	1,879	3,463	—	—	—	5,342
Trust preferred and other corporate securities	—	—	—	2,133	—	2,133
MBS issued by GSEs	5,577	—	—	—	—	5,577
<b>Total</b>	<u>\$ 206,826</u>	<u>\$ 3,463</u>	<u>\$ —</u>	<u>\$ 2,133</u>	<u>\$ —</u>	<u>\$ 212,422</u>

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December 31, 2023	Credit Ratings					Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	
Description of Securities						
U.S. agency securities	\$ 101,850	\$ —	\$ —	\$ —	\$ —	\$ 101,850
U.S. Treasury notes	362,593	—	—	—	—	362,593
Municipal securities	1,821	3,451	—	—	—	5,272
Trust preferred and other corporate securities	—	—	—	2,172	—	2,172
MBS issued by GSEs	5,705	—	—	—	—	5,705
Total	\$ 471,969	\$ 3,451	\$ —	\$ 2,172	\$ —	\$ 477,592

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):

September 30, 2024							Total
Description of Securities	2024	2023	2022	2021	2020	Prior	
U.S. agency securities	\$ —	\$ —	\$ 27,923	\$ 74,505	\$ —	\$ —	\$ 102,428
U.S. Treasury notes	—	—	74,750	22,192	—	—	96,942
Municipal securities	—	—	—	—	—	5,342	5,342
Trust preferred and other corporate securities	—	—	—	—	—	2,133	2,133
MBS issued by GSEs	—	—	—	—	—	5,577	5,577
Total	\$ —	\$ —	\$ 102,673	\$ 96,697	\$ —	\$ 13,052	\$ 212,422

December 31, 2023							Total
Description of Securities	2023	2022	2021	2020	2019	Prior	
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
MBS issued by GSEs	—	—	—	—	—	5,705	5,705
Total	\$ —	\$ 347,274	\$ 117,169	\$ —	\$ 1,672	\$ 11,477	\$ 477,592

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

Three Months Ended September 30, 2024	Trust Preferred and Other Corporate Securities		Total
	Municipal Securities		
Balance, beginning of period	\$ 6	\$ 73	\$ 79
Provision for credit losses	—	(2)	(2)
Balance, end of period	\$ 6	\$ 71	\$ 77

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Three Months Ended September 30, 2023	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
<b>Balance, beginning of period</b>	\$ 6	\$ 81	\$ 87
Provision for credit losses	—	(2)	(2)
<b>Balance, end of period</b>	<u>\$ 6</u>	<u>\$ 79</u>	<u>\$ 85</u>

Nine Months Ended September 30, 2024	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
<b>Balance, beginning of period</b>	\$ 6	\$ 78	\$ 84
Provision for credit losses	—	(7)	(7)
<b>Balance, end of period</b>	<u>\$ 6</u>	<u>\$ 71</u>	<u>\$ 77</u>

Nine Months Ended September 30, 2023	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
<b>Balance, beginning of period</b>	\$ 8	\$ 75	\$ 83
Provision for credit losses	(2)	4	2
<b>Balance, end of period</b>	<u>\$ 6</u>	<u>\$ 79</u>	<u>\$ 85</u>

#### *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. No impairments or adjustments have been recorded on these investments.

The following table provides information on equity securities as of the dates indicated (in thousands):

	September 30, 2024	December 31, 2023
FHLB stock	\$ 12,134	\$ 21,372
Other equity securities	\$ 12,681	\$ 13,792

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 a 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*

The market values of investment securities the Company had pledged as of the dates indicated are as follows (in thousands):

	September 30, 2024	December 31, 2023
To secure federal, state, and municipal deposits	\$ 582,977	\$ 715,448
To secure borrowings from the FHLB	\$ 5,137	\$ 5,725
To secure repurchase agreements with commercial customers	\$ 61,440	\$ 72,051

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#### Note 5. Loans Held for Investment

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.

Total loans increased \$83.50 million, compared to December 31, 2023. The following table presents loan balances by major classification as of the dates indicated (in thousands):

	September 30, 2024	December 31, 2023
<b>Commercial Real Estate</b>		
Construction and land development	\$ 1,118,669	\$ 1,249,735
Owner occupied	1,655,345	1,699,386
Non-owner occupied	3,179,699	3,117,071
Multi-family	750,906	583,209
<b>Total Commercial Real Estate</b>	6,704,619	6,649,401
<b>Residential 1-4 family</b>	1,891,216	1,852,891
<b>HELOC</b>	408,565	382,979
<b>C&amp;I</b>	1,256,511	1,265,169
<b>Government</b>	521,681	525,261
<b>Indirect</b>	546,887	558,789
<b>Consumer loans and other</b>	83,039	94,531
<b>Loans, net of unearned income and deferred costs</b>	<u>\$ 11,412,518</u>	<u>\$ 11,329,021</u>

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

	September 30, 2024	December 31, 2023
Deferred loan costs in excess of unearned income	\$ 2,637	\$ 2,251
Unaccreted discount on PCD loans	(2,973)	(3,435)
Unaccreted discount on non-PCD loans	(4,247)	(5,550)
Nonaccrual loans (1)	6,588	6,843
Loans pledged as collateral to secure overnight borrowings with the FHLB	3,078	2,824

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

	September 30, 2024	September 30, 2023
Three months ended	\$ 106	\$ 123
Nine months ended	\$ 359	\$ 344

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### *Modifications to Debtors Experiencing Financial Difficulty*

In the ordinary course of business the Company may determine a borrower is experiencing financial difficulties and modify the originally agreed-upon terms of their loan. The Company has elected to exclude accrued interest from the calculation of loan modifications.

The following tables show 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):

<b>Loan Modifications Made to Borrowers Experiencing Financial Difficulty</b>				
Loan Classification	<b>For Quarter Ended September 30, 2024</b>		<b>For Nine Months Ended September 30, 2024</b>	
	<b>Convert to Interest Only</b>		<b>Convert to Interest Only</b>	
	<b>Amortized Cost Basis at September 30, 2024</b>	<b>% of Total Class of Financing Receivable</b>	<b>Amortized Cost Basis at September 30, 2024</b>	<b>% of Total Class of Financing Receivable</b>
Commercial Real Estate - Non-owner occupied	\$ —	— %	\$ 1,488	0.05 %
Consumer loans and other	1,462	1.76 %	1,462	1.76 %
<b>Total</b>	<b>\$ 1,462</b>	<b>1.76 %</b>	<b>\$ 2,950</b>	<b>0.03 %</b>
Loan Classification	<b>Term Extension</b>		<b>Term Extension</b>	
	<b>Amortized Cost Basis at September 30, 2024</b>	<b>% of Total Class of Financing Receivable</b>	<b>Amortized Cost Basis at September 30, 2024</b>	<b>% of Total Class of Financing Receivable</b>
	<b>Commercial Real Estate</b>			
Construction and land development	\$ 2,452	0.22 %	\$ 2,452	0.22 %
Owner occupied	1,656	0.10 %	16,338	0.99 %
Non-owner occupied	522	0.02 %	3,053	0.10 %
<b>Total Commercial Real Estate</b>	<b>4,630</b>		<b>21,843</b>	
<b>Residential 1-4 family</b>	<b>341</b>	<b>0.02 %</b>	<b>804</b>	<b>0.04 %</b>
<b>HELOC</b>	<b>98</b>	<b>0.02 %</b>	<b>98</b>	<b>0.02 %</b>
<b>C&amp;I</b>	<b>5,184</b>	<b>0.41 %</b>	<b>6,171</b>	<b>0.49 %</b>
<b>Total (1)</b>	<b>\$ 10,253</b>	<b>0.09 %</b>	<b>\$ 28,916</b>	<b>0.25 %</b>

(1) Accrued interest is excluded from amortized cost and is immaterial.

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loan Classification	Loan Modifications Made to Borrowers Experiencing Financial Difficulty			
	For Quarter Ended September 30, 2023		For Nine Months Ended September 30, 2023	
	Term Extension		Term Extension	
	Amortized Cost Basis at September 30, 2023	% of Total Class of Financing Receivable	Amortized Cost Basis at September 30, 2023	% of Total Class of Financing Receivable
<b>Commercial Real Estate</b>				
Construction and land development	\$ —	— %	\$ 1,202	0.09 %
Owner occupied	4,111	0.24 %	4,862	0.29 %
Non-owner occupied	—	— %	907	0.03 %
<b>Total Commercial Real Estate</b>	<b>4,111</b>		<b>6,971</b>	
<b>Residential 1-4 family</b>	<b>—</b>	<b>— %</b>	<b>317</b>	<b>0.02 %</b>
<b>HELOC</b>	<b>—</b>	<b>— %</b>	<b>392</b>	<b>0.11 %</b>
<b>C&amp;I</b>	<b>1,135</b>	<b>0.09 %</b>	<b>1,534</b>	<b>0.12 %</b>
<b>Consumer loans and other</b>	<b>—</b>	<b>— %</b>	<b>193</b>	<b>0.21 %</b>
Total (1)	\$ 5,246	0.05 %	\$ 9,407	0.08 %

(1) Accrued interest is excluded from amortized cost and is immaterial.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty for the periods ended September 30, 2024 and 2023:

Term Extensions or Convert to Interest Only	
Loan Classification	Financial Effect
<b>Commercial Real Estate</b>	
Construction and land development	Extended maturities to allow time to assess stale project and repayment concerns. These modifications did not impact the weighted-average life of C&D loans.
Owner occupied	Reamortized balances and/or extended maturities to allow time for project completion 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, which reduced monthly payment amounts for borrowers. These modifications did not impact the weighted-average life of CRE-NOO loans.
<b>Residential 1-4 family</b>	Extended maturity and amortized the loan balance. 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>C&amp;I</b>	Reamortized balances and extended maturities, which reduced monthly payment amounts for borrowers and improved debt service. These modifications did not impact the weighted-average life of C&I loans.
<b>Consumer loans and other</b>	Converted to interest only, renewed lines and/or extended maturities to allow time for resolution, sale of collateral or alternate financing, or to allow borrowers additional time to pay off balances. These modifications did not impact the weighted-average life of consumer loans.

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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).

Loan Classification	Amortized Cost Basis of Modified Financing Receivables that Subsequently Defaulted				
	Interest Rate Reduction	Term Extension	Principal Forgiveness	Combined Term Extension and Principal Forgiveness	Combined Term Extension and Interest Rate Reduction
<b>Defaults during the quarter ended March 31, 2024</b>					
C&I (1)	\$ —	\$ 584	\$ —	\$ —	\$ —
<b>Defaults during the quarter ended June 30, 2024</b>					
Construction and land development (2)	\$ —	\$ 771	\$ —	\$ —	\$ —
<b>Defaults during the quarter ended September 30, 2024</b>					
CRE non-owner occupied	\$ 1,488	\$ —	\$ —	\$ —	\$ —
	<u>\$ 1,488</u>	<u>\$ 1,355</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(1) Three defaults in first quarter 2024, all subsequently brought current or paid off.

(2) Default in second quarter 2024, subsequently brought current.

Loan Classification	Amortized Cost Basis of Modified Financing Receivables that Subsequently Defaulted				
	Interest Rate Reduction	Term Extension	Principal Forgiveness	Combination-Term Extension and Principal Forgiveness	Combination-Term Extension and Interest Rate Reduction
<b>Defaults during the quarter ended March 31, 2023</b>					
CRE non-owner occupied (1)	\$ —	\$ 72	\$ —	\$ —	\$ —
<b>Defaults during the quarter ended June 30, 2023</b>					
HELOC	\$ —	\$ 392	\$ —	\$ —	\$ —
	<u>\$ —</u>	<u>\$ 464</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(1) Default in first quarter 2023, subsequently brought current. There were no defaults in the quarter ended September 30, 2023.

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



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September 30, 2024	Payment Status (Amortized Cost Basis)		
	Current	30 - 89 Days Past Due	90+ Days Past Due
<b>Loan Classification</b>			
<b>Commercial Real Estate</b>			
Construction and land development	\$ 2,452	\$ —	\$ —
Owner occupied	16,338	—	—
Non-owner occupied	3,053	—	1,488
<b>Total Commercial Real Estate</b>	<b>21,843</b>	<b>—</b>	<b>1,488</b>
<b>Residential 1-4 family</b>	<b>1,129</b>	<b>—</b>	<b>—</b>
<b>HELOC</b>	<b>98</b>	<b>—</b>	<b>—</b>
<b>C&amp;I</b>	<b>6,171</b>	<b>—</b>	<b>—</b>
<b>Consumer loans and other</b>	<b>1,462</b>	<b>—</b>	<b>—</b>
	<b>\$ 30,703</b>	<b>\$ —</b>	<b>\$ 1,488</b>

September 30, 2023	Payment Status (Amortized Cost Basis)		
	Current	30 - 89 Days Past Due	90+ Days Past Due
<b>Loan Classification</b>			
<b>Commercial Real Estate</b>			
Construction and land development	\$ 1,202	\$ —	\$ —
Owner occupied	4,862	—	—
Non-owner occupied	907	—	—
<b>Total Commercial Real Estate</b>	<b>6,971</b>	<b>—</b>	<b>—</b>
<b>Residential 1-4 family</b>	<b>317</b>	<b>—</b>	<b>—</b>
<b>HELOC</b>	<b>—</b>	<b>392</b>	<b>—</b>
<b>C&amp;I</b>	<b>1,534</b>	<b>—</b>	<b>—</b>
<b>Consumer loans and other</b>	<b>193</b>	<b>—</b>	<b>—</b>
	<b>\$ 9,015</b>	<b>\$ 392</b>	<b>\$ —</b>

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.

The following table lists modified loans with unused commitments as of September 30, 2024 (dollars in thousands).

Loan Classification	Number	Available Commitment
<b>Commercial Real Estate</b>		
Owner occupied	1	\$ 344
Non-owner occupied	1	457
<b>Total Commercial Real Estate</b>	<b>2</b>	<b>801</b>
<b>C&amp;I</b>	<b>2</b>	<b>393</b>
	<b>4</b>	<b>\$ 1,194</b>

## PART I. FINANCIAL INFORMATION

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 6. Allowance for Credit Losses

The following table presents information related to our estimate of ECL for the dates indicated (in thousands):

	September 30, 2024		December 31, 2023	
Accrued interest receivable on loans excluded from the estimate of ECL	\$	34,711	\$	36,433
Individually assessed loans		25,216		19,683
Specific reserves on individually assessed loans		588		—

Provision for Credit Losses	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Loans and unfunded loan commitments	\$ (727)	\$ 898	(1,820)	15,973

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 three- and nine-month periods ended September 30, 2024 and 2023 (in thousands):

Three Months Ended September 30, 2024					
	Balance, Beginning of Period	Provision (Benefit)	Write-offs	Recoveries	Balance, End of Period
<b>Commercial Real Estate</b>					
Construction and land development	\$ 19,630	\$ (1,513)	\$ (306)	\$ 3	\$ 17,814
Owner occupied	14,629	317	(6)	—	14,940
Non-owner occupied	21,272	9	—	13	21,294
Multi-family	3,472	60	—	—	3,532
<b>Residential 1-4 family</b>	30,419	(204)	—	72	30,287
<b>HELOC</b>	16,081	533	—	13	16,627
<b>C&amp;I</b>	10,611	(756)	(30)	75	9,900
<b>Government</b>	2,747	(164)	—	—	2,583
<b>Indirect</b>	4,551	50	(463)	65	4,203
<b>Consumer loans and other</b>	2,140	(16)	(146)	33	2,011
<b>Total</b>	<u>\$ 125,552</u>	<u>\$ (1,684)</u>	<u>\$ (951)</u>	<u>\$ 274</u>	<u>\$ 123,191</u>

Three Months Ended September 30, 2023					
	Balance, Beginning of Period	Provision (Benefit)	Write-offs	Recoveries	Balance, End of Period
<b>Commercial Real Estate</b>					
Construction and land development	\$ 21,402	\$ 23	\$ —	\$ 36	\$ 21,461
Owner occupied	12,866	61	—	5	12,932
Non-owner occupied	19,692	400	—	30	20,122
Multi-family	2,587	29	—	—	2,616
<b>Residential 1-4 family</b>	31,987	319	—	119	32,425
<b>HELOC</b>	16,558	31	—	244	16,833
<b>C&amp;I</b>	7,938	(1,232)	—	1,080	7,786
<b>Government</b>	3,301	(36)	—	—	3,265
<b>Indirect</b>	4,439	696	(355)	57	4,837
<b>Consumer loans and other</b>	2,743	280	(185)	44	2,882
<b>Total</b>	<u>\$ 123,513</u>	<u>\$ 571</u>	<u>\$ (540)</u>	<u>\$ 1,615</u>	<u>\$ 125,159</u>

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##### Nine Months Ended September 30, 2024

	Balance, Beginning of Period	Provision (Benefit)	Write-offs	Recoveries	Balance, End of Period
<b>Commercial Real Estate</b>					
Construction and land development	\$ 18,736	\$ (284)	\$ (647)	\$ 9	\$ 17,814
Owner occupied	14,078	847	(6)	21	14,940
Non-owner occupied	22,098	(952)	—	148	21,294
Multi-family	3,133	399	—	—	3,532
<b>Residential 1-4 family</b>	<b>32,363</b>	<b>(2,174)</b>	<b>—</b>	<b>98</b>	<b>30,287</b>
<b>HELOC</b>	<b>17,324</b>	<b>(783)</b>	<b>—</b>	<b>86</b>	<b>16,627</b>
<b>C&amp;I</b>	<b>8,069</b>	<b>1,312</b>	<b>(366)</b>	<b>885</b>	<b>9,900</b>
<b>Government</b>	<b>3,092</b>	<b>(509)</b>	<b>—</b>	<b>—</b>	<b>2,583</b>
<b>Indirect</b>	<b>4,794</b>	<b>629</b>	<b>(1,454)</b>	<b>234</b>	<b>4,203</b>
<b>Consumer loans and other</b>	<b>2,774</b>	<b>(577)</b>	<b>(409)</b>	<b>223</b>	<b>2,011</b>
<b>Total</b>	<b>\$ 126,461</b>	<b>\$ (2,092)</b>	<b>\$ (2,882)</b>	<b>\$ 1,704</b>	<b>\$ 123,191</b>

##### Nine Months Ended September 30, 2023

	Balance, Beginning of Period	Provision (Benefit)	Initial Allowance for PCD	Write-offs	Recoveries	Balance, End of Period
<b>Commercial Real Estate</b>						
Construction and land development	\$ 20,218	\$ 1,040	\$ 145	\$ —	\$ 58	\$ 21,461
Owner occupied	10,625	2,103	199	(2)	7	12,932
Non-owner occupied	16,478	3,504	63	—	77	20,122
Multi-family	1,909	705	2	—	—	2,616
<b>Residential 1-4 family</b>	<b>27,688</b>	<b>4,499</b>	<b>94</b>	<b>(1)</b>	<b>145</b>	<b>32,425</b>
<b>HELOC</b>	<b>16,766</b>	<b>(481)</b>	<b>8</b>	<b>(2)</b>	<b>542</b>	<b>16,833</b>
<b>C&amp;I</b>	<b>6,912</b>	<b>3,094</b>	<b>357</b>	<b>(3,728)</b>	<b>1,151</b>	<b>7,786</b>
<b>Government</b>	<b>3,176</b>	<b>88</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>3,265</b>
<b>Indirect</b>	<b>4,172</b>	<b>1,303</b>	<b>1</b>	<b>(813)</b>	<b>174</b>	<b>4,837</b>
<b>Consumer loans and other</b>	<b>2,872</b>	<b>(84)</b>	<b>510</b>	<b>(539)</b>	<b>123</b>	<b>2,882</b>
<b>Total</b>	<b>\$ 110,816</b>	<b>\$ 15,771</b>	<b>\$ 1,380</b>	<b>\$ (5,085)</b>	<b>\$ 2,277</b>	<b>\$ 125,159</b>

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The following table presents a roll forward of the allowance for off-balance-sheet exposure for the three and nine months ended September 30, 2024 and 2023, related to loans held for investment, which is carried in other liabilities on our Consolidated Balance Sheets (in thousands):

	Three Months Ended September 30, 2024			Three Months Ended September 30, 2023		
	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	\$ 897	\$ 187	\$ 1,084	\$ 697	\$ 96	\$ 793
Owner occupied	256	29	285	267	(8)	259
Non-owner occupied	293	(61)	232	268	124	392
Multi-family	62	(11)	51	84	—	84
<b>Residential 1-4 family</b>	—	—	—	—	—	—
<b>HELOC</b>	2,833	93	2,926	2,967	(9)	2,958
<b>C&amp;I</b>	1,832	672	2,504	1,218	(11)	1,207
<b>Government</b>	—	—	—	—	—	—
<b>Indirect</b>	—	—	—	—	—	—
<b>Consumer loans and other</b>	1,370	48	1,418	1,478	135	1,613
<b>Total</b>	<u>\$ 7,543</u>	<u>\$ 957</u>	<u>\$ 8,500</u>	<u>\$ 6,979</u>	<u>\$ 327</u>	<u>\$ 7,306</u>
	Nine Months Ended September 30, 2024			Nine Months Ended September 30, 2023		
	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	\$ 1,298	\$ (214)	\$ 1,084	\$ 648	\$ 145	\$ 793
Owner occupied	352	(67)	285	277	(18)	259
Non-owner occupied	379	(147)	232	284	108	392
Multi-family	111	(60)	51	31	53	84
<b>Residential 1-4 family</b>	—	—	—	—	—	—
<b>HELOC</b>	3,047	(121)	2,926	2,960	(2)	2,958
<b>C&amp;I</b>	1,484	1,020	2,504	1,285	(78)	1,207
<b>Government</b>	—	—	—	—	—	—
<b>Indirect</b>	—	—	—	—	—	—
<b>Consumer loans and other</b>	1,557	(139)	1,418	1,619	(6)	1,613
<b>Total</b>	<u>\$ 8,228</u>	<u>\$ 272</u>	<u>\$ 8,500</u>	<u>\$ 7,104</u>	<u>\$ 202</u>	<u>\$ 7,306</u>

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 upcoming fiscal disputes in Congress;
- anticipation of the Fed funds rate cuts and their long-term impact on the 10-year Treasury yield;
- 2023 bank failures and recent issues around other banks not symptomatic of a serious broader problem;
- the potential impact of current geopolitical situations;
- changes in unemployment; and
- changes in Gross Domestic Product.

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In general, the macroeconomic forecast scenarios utilized in the current quarter models showed moderate improvements from the previous quarter. Additional factors considered were changes in loan portfolio composition, interest rates, loan risk ratings, charge-off experience, 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. The allowance for credit losses is an estimate of expected losses inherent within the Company's loans held for investment portfolio.

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 most recent update in July 2024.

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The following table provides a breakdown of the Company's loans held for investment by credit score or risk grade and year of origination at September 30, 2024 and December 31, 2023 (in thousands):

#### September 30, 2024

	Term Loans By Origination						Revolving Loans	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
<b>CRE - Construction and Land Development</b>									
Pass	\$ 388,615	\$ 421,791	\$ 148,270	\$ 83,072	\$ 13,924	\$ 12,437	\$ 41,261	\$ 5,205	\$ 1,114,575
Special Mention	2,708	344	—	—	—	—	—	—	3,052
Substandard	771	—	271	—	—	—	—	—	1,042
	<u>\$ 392,094</u>	<u>\$ 422,135</u>	<u>\$ 148,541</u>	<u>\$ 83,072</u>	<u>\$ 13,924</u>	<u>\$ 12,437</u>	<u>\$ 41,261</u>	<u>\$ 5,205</u>	<u>\$ 1,118,669</u>
Gross Write-Offs	\$ 387	\$ —	\$ 183	\$ 77	\$ —	\$ —	\$ —	\$ —	\$ 647
<b>CRE - Owner Occupied</b>									
Pass	\$ 129,139	\$ 230,663	\$ 329,444	\$ 364,169	\$ 220,814	\$ 313,392	\$ 17,186	\$ —	\$ 1,604,807
Special Mention	5,254	1,999	5,125	1,168	11,066	3,314	925	—	28,851
Substandard	11,589	711	1,692	4,050	792	1,425	1,428	—	21,687
	<u>\$ 145,982</u>	<u>\$ 233,373</u>	<u>\$ 336,261</u>	<u>\$ 369,387</u>	<u>\$ 232,672</u>	<u>\$ 318,131</u>	<u>\$ 19,539</u>	<u>\$ —</u>	<u>\$ 1,655,345</u>
Gross Write-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ —	\$ —	\$ 6
<b>CRE - Non-Owner Occupied</b>									
Pass	\$ 394,117	\$ 545,082	\$ 722,014	\$ 651,132	\$ 369,731	\$ 433,265	\$ 17,377	\$ —	\$ 3,132,718
Special Mention	50	—	16,106	22,221	2,366	813	1,250	—	42,806
Substandard	4,019	—	—	—	—	156	—	—	4,175
	<u>\$ 398,186</u>	<u>\$ 545,082</u>	<u>\$ 738,120</u>	<u>\$ 673,353</u>	<u>\$ 372,097</u>	<u>\$ 434,234</u>	<u>\$ 18,627</u>	<u>\$ —</u>	<u>\$ 3,179,699</u>
Gross Write-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>CRE - Multi-Family</b>									
Pass	\$ 96,420	\$ 49,309	\$ 272,647	\$ 160,297	\$ 94,814	\$ 67,782	\$ 6,589	\$ —	\$ 747,858
Special Mention	2,999	—	—	—	—	—	—	—	2,999
Substandard	—	—	—	—	—	49	—	—	49
	<u>\$ 99,419</u>	<u>\$ 49,309</u>	<u>\$ 272,647</u>	<u>\$ 160,297</u>	<u>\$ 94,814</u>	<u>\$ 67,831</u>	<u>\$ 6,589</u>	<u>\$ —</u>	<u>\$ 750,906</u>
Gross Write-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>C&amp;I</b>									
Pass	\$ 141,851	\$ 152,850	\$ 171,385	\$ 119,128	\$ 46,859	\$ 51,882	\$ 545,338	\$ 5,580	\$ 1,234,873
Special Mention	805	561	4,484	1,080	1,419	431	9,933	12	18,725
Substandard	955	627	218	47	942	124	—	—	2,913
	<u>\$ 143,611</u>	<u>\$ 154,038</u>	<u>\$ 176,087</u>	<u>\$ 120,255</u>	<u>\$ 49,220</u>	<u>\$ 52,437</u>	<u>\$ 555,271</u>	<u>\$ 5,592</u>	<u>\$ 1,256,511</u>
Gross Write-Offs	\$ —	\$ 291	\$ —	\$ 13	\$ —	\$ 32	\$ —	\$ 30	\$ 366

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### Item 1. Financial Statements

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Term Loans By Origination									
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
<b>Government</b>									
Pass	\$ 5,747	\$ 47,384	\$ 111,670	\$ 19,464	\$ 177,337	\$ 145,553	\$ 14,526	\$ —	\$ 521,681
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
	<u>\$ 5,747</u>	<u>\$ 47,384</u>	<u>\$ 111,670</u>	<u>\$ 19,464</u>	<u>\$ 177,337</u>	<u>\$ 145,553</u>	<u>\$ 14,526</u>	<u>\$ —</u>	<u>\$ 521,681</u>
Gross Write- Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Residential 1 - 4 Family</b>									
Credit Score:									
> = 750	\$ 149,339	\$ 217,950	\$ 483,626	\$ 339,691	\$ 145,700	\$ 226,228	\$ 823	\$ 394	\$ 1,563,751
650-749	20,915	39,825	102,998	67,989	33,643	49,706	—	—	315,076
450-649	910	701	5,392	570	326	4,490	—	—	12,389
300-449	—	—	—	—	—	—	—	—	—
	<u>\$ 171,164</u>	<u>\$ 258,476</u>	<u>\$ 592,016</u>	<u>\$ 408,250</u>	<u>\$ 179,669</u>	<u>\$ 280,424</u>	<u>\$ 823</u>	<u>\$ 394</u>	<u>\$ 1,891,216</u>
Gross Write- Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>HELOC</b>									
Credit Score:									
> = 750	\$ 2,230	\$ 1,148	\$ 1,435	\$ 288	\$ 186	\$ 713	\$ 305,179	\$ 410	\$ 311,589
650-749	157	721	776	250	—	1,726	87,743	126	91,499
450-649	29	130	30	273	49	876	3,898	60	5,345
300-449	—	—	—	—	—	—	132	—	132
	<u>\$ 2,416</u>	<u>\$ 1,999</u>	<u>\$ 2,241</u>	<u>\$ 811</u>	<u>\$ 235</u>	<u>\$ 3,315</u>	<u>\$ 396,952</u>	<u>\$ 596</u>	<u>\$ 408,565</u>
Gross Write- Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Indirect</b>									
Credit Score:									
> = 750	\$ 100,967	\$ 85,794	\$ 88,050	\$ 38,623	\$ 5,284	\$ 1,955	\$ —	\$ —	\$ 320,673
650-749	42,112	53,241	75,209	37,408	8,746	2,682	—	—	219,398
450-649	91	345	1,729	1,444	1,868	1,326	—	—	6,803
300-449	—	—	—	—	—	13	—	—	13
	<u>\$ 143,170</u>	<u>\$ 139,380</u>	<u>\$ 164,988</u>	<u>\$ 77,475</u>	<u>\$ 15,898</u>	<u>\$ 5,976</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 546,887</u>
Gross Write- Offs	\$ —	\$ 272	\$ 758	\$ 312	\$ 76	\$ 36	\$ —	\$ —	\$ 1,454

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Term Loans By Origination										
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans Converted to Term	Total	
Consumer Loans and Other										
Credit Score:										
>= 750	\$ 18,898	\$ 6,222	\$ 5,167	\$ 4,576	\$ 3,031	\$ 2,732	\$ 28,467	\$ —	\$ 69,093	
650-749	2,126	2,249	2,209	1,230	445	169	4,679	74	13,181	
450-649	209	90	63	12	46	63	282	—	765	
300-649	—	—	—	—	—	—	—	—	—	
	\$ 21,233	\$ 8,561	\$ 7,439	\$ 5,818	\$ 3,522	\$ 2,964	\$ 33,428	\$ 74	\$ 83,039	
Gross Write-Offs	\$ —	\$ 1	\$ 272	\$ 80	\$ 14	\$ 1	\$ 1	\$ 40	\$ 409	
Grand Total	\$ 1,523,022	\$ 1,859,737	\$ 2,550,010	\$ 1,918,182	\$ 1,139,388	\$ 1,323,302	\$ 1,087,016	\$ 11,861	\$ 11,412,518	
Total Gross Write-Offs	\$ 387	\$ 564	\$ 1,213	\$ 482	\$ 90	\$ 75	\$ 1	\$ 70	\$ 2,882	

#### December 31, 2023

Term Loans By Origination										
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term	Total	
CRE - Construction and Land Development										
Pass	\$ 608,244	\$ 409,873	\$ 162,271	\$ 15,320	\$ 5,531	\$ 11,202	\$ 32,372	\$ 2,949	\$ 1,247,762	
Special Mention	1,682	—	—	—	—	30	—	—	1,712	
Substandard	—	182	79	—	—	—	—	—	261	
	\$ 609,926	\$ 410,055	\$ 162,350	\$ 15,320	\$ 5,531	\$ 11,232	\$ 32,372	\$ 2,949	\$ 1,249,735	
Gross Write-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
CRE - Owner Occupied										
Pass	\$ 277,443	\$ 339,047	\$ 388,453	\$ 248,442	\$ 146,817	\$ 234,309	\$ 16,484	\$ 249	\$ 1,651,244	
Special Mention	7,150	7,218	1,723	9,203	1,197	935	1,935	—	29,361	
Substandard	1,038	696	4,101	3,140	7,659	2,147	—	—	18,781	
	\$ 285,631	\$ 346,961	\$ 394,277	\$ 260,785	\$ 155,673	\$ 237,391	\$ 18,419	\$ 249	\$ 1,699,386	
Gross Write-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 2	
CRE - Non-Owner Occupied										
Pass	\$ 601,491	\$ 771,722	\$ 728,198	\$ 401,776	\$ 247,135	\$ 287,725	\$ 16,100	\$ —	\$ 3,054,147	
Special Mention	11,289	13,026	26,617	—	6,679	835	800	—	59,246	
Substandard	901	—	—	—	—	2,777	—	—	3,678	
	\$ 613,681	\$ 784,748	\$ 754,815	\$ 401,776	\$ 253,814	\$ 291,337	\$ 16,900	\$ —	\$ 3,117,071	
Gross Write-Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	



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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Term Loans By Origination										
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term	Total	
<b>CRE - Multi-Family</b>										
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>\$ —</u>	<u>\$ 583,209</u>
Gross Write- Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>C&amp;I</b>										
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>\$ —</u>	<u>\$ 1,265,169</u>
Gross Write- Offs	\$ 580	\$ —	\$ —	\$ —	\$ —	\$ 191	\$ —	\$ 2,980	\$ —	\$ 3,751
<b>Government</b>										
Pass	\$ 48,949	\$ 107,621	\$ 15,029	\$ 182,185	\$ 20,755	\$ 138,385	\$ 12,337	\$ —	\$ —	\$ 525,261
Special Mention	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—
	<u>\$ 48,949</u>	<u>\$ 107,621</u>	<u>\$ 15,029</u>	<u>\$ 182,185</u>	<u>\$ 20,755</u>	<u>\$ 138,385</u>	<u>\$ 12,337</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 525,261</u>
Gross Write- Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Residential 1 - 4 Family</b>										
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	—	—	—	—	—	—	—	—	—	—
	<u>\$ 293,484</u>	<u>\$ 607,875</u>	<u>\$ 431,320</u>	<u>\$ 193,484</u>	<u>\$ 96,030</u>	<u>\$ 225,961</u>	<u>\$ 3,962</u>	<u>\$ 775</u>	<u>\$ —</u>	<u>\$ 1,852,891</u>
Gross Write- Offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ 1
<b>HELOC</b>										
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
	<u>\$ 5,061</u>	<u>\$ 3,076</u>	<u>\$ 1,579</u>	<u>\$ 385</u>	<u>\$ 1,063</u>	<u>\$ 2,522</u>	<u>\$ 368,364</u>	<u>\$ 929</u>	<u>\$ —</u>	<u>\$ 382,979</u>
Gross Write- Offs	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ 2

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	Term Loans By Origination						Revolving Loans	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
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
	<u>\$ 180,446</u>	<u>\$ 224,117</u>	<u>\$ 112,168</u>	<u>\$ 26,251</u>	<u>\$ 9,912</u>	<u>\$ 5,895</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 558,789</u>
Gross Write-Offs	\$ 88	\$ 655	\$ 438	\$ 101	\$ 38	\$ 38	\$ —	\$ —	\$ 1,358
Consumer Loans 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	—	—	—	—	—	—	—	—	—
	<u>\$ 16,795</u>	<u>\$ 15,460</u>	<u>\$ 9,146</u>	<u>\$ 6,072</u>	<u>\$ 3,149</u>	<u>\$ 3,248</u>	<u>\$ 39,947</u>	<u>\$ 714</u>	<u>\$ 94,531</u>
Gross Write-Offs	\$ —	\$ 422	\$ 236	\$ 11	\$ 12	\$ 6	\$ —	\$ —	\$ 687
Grand Total	<u>\$ 2,323,768</u>	<u>\$ 2,941,598</u>	<u>\$ 2,142,531</u>	<u>\$ 1,249,550</u>	<u>\$ 629,718</u>	<u>\$ 991,702</u>	<u>\$ 1,043,560</u>	<u>\$ 6,594</u>	<u>\$ 11,329,021</u>
Total Gross Write-Offs	<u>\$ 668</u>	<u>\$ 1,077</u>	<u>\$ 674</u>	<u>\$ 112</u>	<u>\$ 52</u>	<u>\$ 238</u>	<u>\$ —</u>	<u>\$ 2,980</u>	<u>\$ 5,801</u>

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 excluding selling costs to determine ACL. At September 30, 2024, CDA loans measured at the fair value of collateral totaled \$16.91 million, with specific reserves of zero. At December 31, 2023, CDA loans measured at the fair value of collateral totaled \$10.39 million, with specific reserves of zero.

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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 September 30, 2024 and December 31, 2023 (in thousands):

September 30, 2024	Type of Collateral and Extent to Which Collateral Secures Loans				Financial Assets Not Considered Collateral Dependent	Total
	Residential Property	Investment Property	Commercial Property	Business Assets		
Commercial Real Estate						
Construction and land development	\$ 273	\$ 3,734	\$ —	\$ —	\$ 1,114,662	\$ 1,118,669
Owner occupied	—	—	16,602	227	1,638,516	1,655,345
Non-owner occupied	—	40,690	—	—	3,139,009	3,179,699
Multi-family	—	3,049	—	—	747,857	750,906
Residential 1-4 family	5,061	—	—	—	1,886,155	1,891,216
HELOC	393	—	—	—	408,172	408,565
C&I	—	200	—	—	1,256,311	1,256,511
Government	—	—	—	—	521,681	521,681
Indirect	—	—	—	—	546,887	546,887
Consumer loans and other	—	—	—	—	83,039	83,039
Total, amortized cost	\$ 5,727	\$ 47,673	\$ 16,602	\$ 227	\$ 11,342,289	\$ 11,412,518
Collateral value	\$ 12,418	\$ 122,666	\$ 37,936	\$ —		

December 31, 2023	Type of Collateral and Extent to Which Collateral Secures Loans				Financial Assets Not Considered Collateral Dependent	Total
	Residential Property	Investment Property	Commercial Property	Business Assets		
Commercial Real Estate						
Construction and land 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
C&I	—	—	—	—	1,265,169	1,265,169
Government	—	—	—	—	525,261	525,261
Indirect	—	—	—	—	558,789	558,789
Consumer loans 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	\$ —		

#### *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.

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The following table is an aging analysis at amortized cost of the Company's loans held for investment portfolio at September 30, 2024 and December 31, 2023 (in thousands):

	Days Past Due				Total Past Due	Total Loans	Accruing Loans Over 90 Days Past Due
	Current	30-59	60-89	Over 90			
<b>September 30, 2024</b>							
Commercial Real Estate							
Construction and land development	\$ 1,117,896	\$ —	\$ 500	\$ 273	\$ 773	\$ 1,118,669	\$ —
Owner occupied	1,654,914	—	106	325	431	1,655,345	—
Non-owner occupied	3,178,044	168	—	1,487	1,655	3,179,699	—
Multi-family	750,906	—	—	—	—	750,906	—
Residential 1-4 family	1,888,323	—	1,282	1,611	2,893	1,891,216	45
HELOC	407,399	493	130	543	1,166	408,565	169
C&I	1,256,102	228	133	48	409	1,256,511	—
Government	521,681	—	—	—	—	521,681	—
Indirect	541,222	3,656	810	1,199	5,665	546,887	296
Consumer loans and other	82,915	80	19	25	124	83,039	—
Total	\$ 11,399,402	\$ 4,625	\$ 2,980	\$ 5,511	\$ 13,116	\$ 11,412,518	\$ 510

	Days Past Due				Total Past Due	Total Loans	Accruing Loans Over 90 Days Past Due
	Current	30-59	60-89	Over 90			
<b>December 31, 2023</b>							
Commercial Real Estate							
Construction and land 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
C&I	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 loans 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

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 periods ended September 30, 2024 and December 31, 2023. Nonaccrual loans, less than \$1 million, and not in the 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):

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September 30, 2024	Nonaccrual Loans		Financial Assets 90 Days or More Past Due, Not on Nonaccrual Status as of 09/30/24	Nonaccrual Loans With No Specific Reserve as of 09/30/24	Interest Income Recognized as of 09/30/24
	As of 06/30/24	As of 09/30/24			
Commercial Real Estate					
Construction and land development	\$ 1,885	\$ 273	\$ —	\$ 273	\$ 12
Owner occupied	426	421	—	421	43
Non-owner occupied	—	1,489	—	1,489	—
Multi-family	—	—	—	—	13
Residential 1-4 family	2,045	2,174	45	2,174	19
HELOC	476	526	169	526	73
C&I	695	691	—	103	260
Government	—	—	—	—	—
Indirect	1,055	1,000	296	1,000	39
Consumer loans and other	—	14	—	14	—
Total	\$ 6,582	\$ 6,588	\$ 510	\$ 6,000	\$ 459

December 31, 2023	Nonaccrual Loans		Financial Assets 90 Days or More Past Due, Not on Nonaccrual Status as of 12/31/2023	Nonaccrual Loans With No Specific Reserve as of 12/31/2023	Interest Income Recognized as of 12/31/2023
	As of 12/31/2022	As of 12/31/2023			
Commercial Real Estate					
Construction and land 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
C&I	2,079	1,217	—	1,217	99
Government	—	—	—	—	—
Indirect	663	1,228	421	1,228	17
Consumer loans and other	—	—	5	—	—
Total	\$ 6,273	\$ 6,843	\$ 735	\$ 6,843	\$ 182

#### Note 7. Leases

At September 30, 2024, we did not have any significant leases that had not yet commenced for which we 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 on our Consolidated Balance Sheets.

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Leases</b>	
	<b>September 30, 2024</b>	<b>December 31, 2023</b>
<b>Assets</b>		
Finance lease assets	\$ —	\$ 26,405
Operating lease assets	50,032	49,074
Total lease assets	<u>\$ 50,032</u>	<u>\$ 75,479</u>
<b>Liabilities</b>		
Finance lease liabilities	\$ —	\$ 29,397
Operating lease liabilities	54,303	53,358
Total lease liabilities	<u>\$ 54,303</u>	<u>\$ 82,755</u>

The following table presents a summary of activity related to leases for the three- and nine-month periods ended September 30, 2024 and 2023 (in thousands):

	<b>Lease Cost</b>			
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<b>Finance lease cost:</b>				
Amortization of right-of-use assets	\$ —	\$ 159	\$ 301	\$ 478
Interest on lease liabilities	—	486	1,403	1,420
Operating lease cost (1) included in occupancy expense	2,948	3,300	9,038	10,425
Variable lease cost included in occupancy expense	272	228	783	695
Sublease income included in occupancy expense	(70)	(56)	(181)	(165)
Net lease cost	<u>\$ 3,150</u>	<u>\$ 4,117</u>	<u>\$ 11,344</u>	<u>\$ 12,853</u>

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

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The following table presents lease liability maturities, by year, as of September 30, 2024 (in thousands):

<b>Maturity of Lease Liabilities</b>	
	<b>Operating Leases (1)</b>
August 1 - December 31, 2024	\$ 2,526
2025	9,833
2026	8,969
2027	8,348
2028	7,750
Thereafter	41,261
<b>Total lease payments</b>	<b>\$ 78,687</b>
Less: interest	24,384
<b>Present value of lease liabilities</b>	<b>\$ 54,303</b>

(1) Operating lease payments include \$28.44 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 had one financing lease that commenced in 2022 with a purchase option. The closing on the purchase option occurred on July 1, 2024, when the related financing lease liability was \$30.80 million. The Company did not have any finance leases at September 30, 2024.

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

<b>Lease Term and Discount Rate</b>		
	<b>September 30, 2024</b>	<b>September 30, 2023</b>
Weighted - average remaining lease term - finance leases (in years)	—	0.25
Weighted - average remaining lease term - operating leases (in years)	12.91	13.77
Weighted - average discount rate - finance leases	—%	6.43%
Weighted - average discount rate - operating leases	5.92%	5.09%

The following table presents other information with regard to leases for the three- and nine-month periods ended September 30, 2024 and 2023 (in thousands):

<b>Other Information</b>				
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<b>Cash paid for amounts included in the measurement of lease liabilities</b>				
Operating cash flows from operating leases	\$ 2,538	\$ 2,848	\$ 7,950	\$ 8,912
Operating cash flows from finance leases	—	—	236	—
<b>Related Party Transactions (1)</b>				
Rent expense included in occupancy expense	\$ 533	\$ 515	\$ 1,579	\$ 1,727

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

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

##### **Note 8. 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 second quarter 2023, the Realty 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. Due largely to overlapping geographic markets, 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. A major distinction is the source of income. The Realty and Insurance segments are commission and 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 also included the combination of the contributing companies' respective mortgage, title, and property management lines of business. Our income from this investment is recorded in the Banking segment in other income.

The following tables provide information about reportable segments and reconciliation of such information to the Consolidated Financial Statements for the periods indicated (dollars in thousands):



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Three Months Ended September 30, 2024	Banking	Realty	Insurance	Consolidated Totals
Net interest income	\$ 111,569	\$ 713	\$ —	\$ 112,282
Provision for credit losses	(1,043)	(57)	—	(1,100)
Net interest income after provision for credit losses	112,612	770	—	113,382
Residential mortgage banking income, net	(425)	12,211	—	11,786
Insurance commissions and related income, net	(198)	—	25,925	25,727
Property management income, net	—	11,221	—	11,221
Real estate commission income, net	—	—	—	—
Investment commissions, net	2,835	—	—	2,835
Gain on sale of equity investment	—	—	20	20
Other noninterest income	10,398	244	5	10,647
Noninterest expense	85,735	24,073	17,092	126,900
Income (loss) before income tax, corporate allocation, and noncontrolling interest	39,487	373	8,858	48,718
Corporate allocation	1,223	(484)	(739)	—
Income (loss) before income tax provision and noncontrolling interest	40,710	(111)	8,119	48,718
Provision for income tax expense	3,495	18	2,079	5,592
Net income (loss)	37,215	(129)	6,040	43,126
Noncontrolling interest	(29)	(148)	—	(177)
Net income (loss) attributable to TowneBank	\$ 37,186	\$ (277)	\$ 6,040	\$ 42,949
Net income (loss) as percentage of consolidated income	86.58 %	(0.64)%	14.06 %	100.00 %
Assets	\$ 15,946,213	\$ 540,188	\$ 701,619	\$ 17,188,020

Three Months Ended September 30, 2023	Banking	Realty	Insurance	Consolidated Totals
Net interest income	\$ 112,189	\$ 869	\$ —	\$ 113,058
Provision for credit losses	1,206	(199)	—	1,007
Net interest income after provision for credit losses	110,983	1,068	—	112,051
Residential mortgage banking income, net	(307)	10,955	—	10,648
Insurance commissions and other income, net	—	—	23,777	23,777
Property management income, net	—	12,800	—	12,800
Real estate commission income, net	—	(63)	—	(63)
Investment commissions, net	2,363	—	—	2,363
Gain on sale of equity investment	10	—	544	554
Other noninterest income	9,350	231	146	9,727
Noninterest expense	76,528	25,436	15,738	117,702
Income (loss) before income tax, corporate allocation, and noncontrolling interest	45,871	(445)	8,729	54,155
Corporate allocation	1,291	(600)	(691)	—
Income (loss) before income tax provision and noncontrolling interest	47,162	(1,045)	8,038	54,155
Provision for income tax expense	7,440	(99)	2,069	9,410
Net income (loss)	39,722	(946)	5,969	44,745
Noncontrolling interest	—	117	—	117
Net income (loss) attributable to TowneBank	\$ 39,722	\$ (829)	\$ 5,969	\$ 44,862
Net income (loss) as percentage of consolidated income	88.54 %	(1.85)%	13.31 %	100.00 %
Assets	\$ 15,564,147	\$ 522,660	\$ 593,549	\$ 16,680,356

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### Item 1. Financial Statements

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended September 30, 2024				Consolidated
	Banking	Realty	Insurance	Totals
Net interest income	\$ 322,280	\$ 2,268	\$ —	\$ 324,548
Provision for credit losses	(2,189)	35	—	(2,154)
Net interest income after provision for credit losses	324,469	2,233	—	326,702
Residential mortgage banking income, net	(1,321)	37,006	—	35,685
Insurance commissions and other income, net	(976)	—	76,273	75,297
Property management income, net	—	42,306	—	42,306
Real estate commission income, net	—	—	—	—
Investment commissions, net	7,759	—	—	7,759
Gain on sale of equity investment	—	—	20	20
Other noninterest income	30,057	887	31	30,975
Noninterest expense	253,381	71,994	51,100	376,475
Income (loss) before income tax, corporate allocation, and noncontrolling interest	106,607	10,438	25,224	142,269
Corporate allocation	3,524	(1,322)	(2,202)	—
Income (loss) before income tax provision and noncontrolling interest	110,131	9,116	23,022	142,269
Provision for income tax expense	12,731	2,336	5,910	20,977
Net income (loss)	97,400	6,780	17,112	121,292
Noncontrolling interest	34	(834)	—	(800)
Net income (loss) attributable to TowneBank	\$ 97,434	\$ 5,946	\$ 17,112	\$ 120,492
Net income (loss) as percentage of consolidated income	80.87 %	4.93 %	14.20 %	100.00 %
Assets	\$ 15,946,213	\$ 540,188	\$ 701,619	\$ 17,188,020

Nine Months Ended September 30, 2023				Consolidated
	Banking	Realty	Insurance	Totals
Net interest income	\$ 349,165	\$ 882	\$ —	\$ 350,047
Provision for credit losses	16,442	(210)	—	16,232
Net interest income after provision for credit losses	332,723	1,092	—	333,815
Residential mortgage banking income, net	(1,584)	32,964	—	31,380
Insurance commissions and other income, net	—	443	68,655	69,098
Property management income, net	—	40,433	—	40,433
Real estate commission income, net	—	3,562	—	3,562
Investment commissions, net	6,581	—	—	6,581
Gain on sale of equity investment	10	8,833	544	9,387
Other noninterest income	27,395	218	474	28,087
Noninterest expense	242,161	78,647	46,520	367,328
Income (loss) before income tax, corporate allocation, and noncontrolling interest	122,964	8,898	23,153	155,015
Corporate allocation	3,763	(1,800)	(1,963)	—
Income (loss) before income tax provision and noncontrolling interest	126,727	7,098	21,190	155,015
Provision for income tax expense	21,204	1,769	5,451	28,424
Net income (loss)	105,523	5,329	15,739	126,591
Noncontrolling interest	—	(1,680)	—	(1,680)
Net income (loss) attributable to TowneBank	\$ 105,523	\$ 3,649	\$ 15,739	\$ 124,911
Net income (loss) as percentage of consolidated income	84.47 %	2.92 %	12.61 %	100.00 %
Assets	\$ 15,564,147	\$ 522,660	\$ 593,549	\$ 16,680,356

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 9. Commitments and Contingencies

Commitments to extend credit are agreements to lend to customers provided there is no violation of any condition set forth in the contract. Commitments are evaluated on a case-by-case basis based on the customer's creditworthiness. They tend to have fixed expiration dates and may expire without being utilized. Therefore, total commitment amounts may not necessarily represent future cash requirements. Standby letters of credit are written conditional commitments issued to guarantee the performance of customers to third parties. The credit risk involved is similar to the risk involved in extending loans to customers.

The following table presents information about our commitments and contingencies as of the dates indicated (in thousands):

	September 30, 2024	December 31, 2023
Off-balance-sheet commitments to extend credit	\$ 4,123,271	\$ 4,503,104
Standby letters of credit and financial guarantees	175,265	174,707
Mortgage loans sold to investors with estimated recourse	1,249,378	1,214,680
Mortgage warranty provision on mortgage loans sold	29,859	18,506

#### Note 10. Goodwill and Other Intangibles

The following table presents the gross carrying amount and accumulated amortization for the Company's other intangible assets as of the dates indicated (in thousands):

	September 30, 2024		December 31, 2023	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Core deposit intangible	\$ 36,620	\$ 23,807	\$ 38,121	\$ 22,152
Non-compete agreements	205	133	1,115	1,017
Customer lists	78,235	39,815	81,881	42,885
Total intangible assets subject to amortization	115,060	63,755	121,117	66,054
Trade name	8,729	—	6,340	—
Contractual agreements	3,231	—	3,231	—
Total intangible assets not subject to amortization	11,960	—	9,571	—
<b>Total other intangible assets</b>	<b>\$ 127,020</b>	<b>\$ 63,755</b>	<b>\$ 130,688</b>	<b>\$ 66,054</b>

Amortization expense for intangible assets was \$3.13 million and \$3.61 million for the three-month periods, and \$9.68 million and \$10.74 million for the nine-month periods ended September 30, 2024 and 2023, respectively.

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Changes in the net carrying amount of goodwill related to each of the Company's segments since December 31, 2023, are as follows (in thousands):

	Banking	Realty	Insurance	Consolidated Totals
Balance, December 31, 2023	\$ 347,822	\$ 24,842	\$ 83,671	\$ 456,335
Acquisitions	—	1,284	—	1,284
<b>Balance, September 30, 2024</b>	<b>\$ 347,822</b>	<b>\$ 26,126</b>	<b>\$ 83,671</b>	<b>\$ 457,619</b>

The change in goodwill from December 31, 2023 to September 30, 2024, relates to the Company's completion of the acquisition of a vacation management company.

#### Note 11. Postretirement Benefits

The following table sets forth the Company's periodic postretirement benefit cost for the interim periods identified (in thousands):

	SERP		Other Postretirement Benefits	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2024	2023	2024	2023
Service cost	\$ 1,073	\$ 771	\$ —	\$ —
Interest cost	667	695	7	8
Amortization of prior service costs	179	222	(13)	(14)
Amortization of actuarial (gain) loss	(507)	(531)	(35)	(50)
Net periodic postretirement benefit cost	<u>\$ 1,412</u>	<u>\$ 1,157</u>	<u>\$ (41)</u>	<u>\$ (56)</u>
	SERP		Other Postretirement Benefits	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Service cost	\$ 3,220	\$ 2,312	\$ —	\$ —
Interest cost	2,046	2,080	21	24
Amortization of prior service costs	537	666	(41)	(42)
Amortization of actuarial (gain) loss	(1,525)	(1,594)	(103)	(148)
Net periodic postretirement benefit cost	<u>\$ 4,278</u>	<u>\$ 3,464</u>	<u>\$ (123)</u>	<u>\$ (166)</u>

Postretirement benefit costs are included in our Consolidated Statements of Income for the three- and nine-month periods ended September 30, 2024 and September 30, 2023. The service cost component of postretirement benefits is included in salaries and employee benefits. All other components of postretirement benefit costs are included in other expenses.

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#### Note 12. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the components of accumulated other comprehensive income (loss) at September 30, 2024 and 2023 (in thousands), and changes in the nine months then ended. The amounts reclassified from AOCI for the securities available for sale are included in gain (loss) on investment securities, net in the Consolidated Statements of Income, while the amounts reclassified from AOCI for the defined benefit plan are a component of salaries and employee benefits expense and other expenses in the Consolidated Statements of Income.

	Unrealized Gains (Losses) on Securities (a)	Pension and Postretirement Plans (b)	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance, December 31, 2023	\$ (126,827)	\$ 8,065	\$ (118,762)
Other comprehensive income (loss) before reclassifications, net of tax	40,352	(2,129)	38,223
Amounts reclassified from AOCI, net of tax	(58)	(885)	(943)
Net change	40,294	(3,014)	37,280
Balance, September 30, 2024	<u>\$ (86,533)</u>	<u>\$ 5,051</u>	<u>\$ (81,482)</u>

	Unrealized Gains (Losses) on Securities (a)	Pension and Postretirement Plans (b)	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance, December 31, 2022	\$ (148,772)	\$ 8,267	\$ (140,505)
Other comprehensive income (loss) before reclassifications, net of tax	(36,962)	(706)	(37,668)
Amounts reclassified from AOCI, net of tax	—	(870)	(870)
Net change	(36,962)	(1,576)	(38,538)
Balance, September 30, 2023	<u>\$ (185,734)</u>	<u>\$ 6,691</u>	<u>\$ (179,043)</u>

(a) For additional information about securities, refer to Note 4.

(b) For additional information about postretirement plans, refer to Note 11.

#### Note 13. Variable Interest Entities

##### *Low Income Housing Tax Credit Partnerships*

As part of its community reinvestment initiatives, the Company invests within its footprint in multi-family affordable housing developments as a limited partner. 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 affect the performance of each partnership and the obligation to absorb losses or the right to receive benefits that could be significant to the entities.

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The following table provides key information regarding the Company's investment in LIHTC partnerships:

<i>(dollars in thousands)</i>	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Partnership assets not included on the Consolidated Balance Sheets	\$ 915,519	\$ 706,950
Carrying value of limited partner interests (1)	288,004	248,041
Maximum exposure to loss from limited partner investments	288,550	253,032
Funding commitments dependent on contractual milestones	95,183	117,576
Unfunded short-term construction loan commitments	4,454	9

(1) Included in other assets on the Consolidated Balance Sheets.

Tax benefits from LIHTC partnerships are recognized, net of amortization expenses, as a component of income tax expense. The following table provides those benefits and amortization expenses as of the dates indicated:

<i>(dollars in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Tax benefit, net	\$ 2,463	\$ 880	\$ 5,603	\$ 2,978
Amortization expenses	10,793	6,034	25,638	16,172

#### Note 14. 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.

**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 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 which utilized Level 3, or unobservable inputs, the most significant of which were a discount rate and weighted-average life.

**Mortgage loans held for sale:** TowneBank elects to carry mortgage loans held for sale at fair value. Fair values of mortgage 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

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

sell on the mandatory market is established for mortgage loans held for sale when TowneBank enters into a loan commitment or interest rate lock with the customer. For additional information about mortgage loans held for sale, refer to Note 15.

**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 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 nine-month period ended September 30, 2024, and the year ended December 31, 2023, the Company used a weighted-average fall-out rate of 13.53%.

**Forward loan sale commitments:** Loan sales 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 the Company 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 on the Consolidated Balance Sheets 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 estimates the fair value of its forward loan 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 sales contract to sell loans to investors when using best efforts or a TBA mortgage-backed security under mandatory delivery. The forward sales contracts lock in a price for the sale of loans with similar characteristics to the specific rate lock commitments. The Company has not formally designated these derivatives as a qualifying hedge relationship; accordingly, changes to fair value are recorded to earnings each period. These valuations fall into a Level 2 category.

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of September 30, 2024 and December 31, 2023 (in thousands):

	September 30, 2024			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	\$ —	\$ 291,814	\$ —	\$ 291,814
U.S. Treasury notes	28,655	—	—	28,655
Municipal securities	—	455,439	—	455,439
Mortgage-backed securities issued by GSEs	—	1,496,631	—	1,496,631
Trust preferred and other corporate securities	—	60,563	30,074	90,637
Mortgage loans held for sale	—	264,320	—	264,320
Forward loan commitment asset	—	142	—	142
Forward loan commitment liability	—	63	—	63
Derivative assets	—	369	1,548	1,917
Derivative liabilities	—	1,666	—	1,666
	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
Mortgage 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

The following table presents qualitative information about significant unobservable inputs utilized to measure the fair value of Level 3 securities measured on a recurring and nonrecurring basis. A range is presented where multiple securities are valued.

Financial Instrument	Valuation Technique	Unobservable Input	As of September 30, 2024	As of December 31, 2023
			(Weighted Average)	(Weighted Average)
Securities AFS	Discounted cash flow	Discount rate	9.00% - 11.00%	10.01% - 12.77%
		Weighted average life	5.21 - 7.48 years	5.96 - 8.24 years
HTM security	Discounted cash flow	Discount rate	6.30%	6.67%
		Weighted average life	24.60 years	25.35 years

TowneBank elects the fair value option for mortgage loans held for sale. This election allows for a more effective offset of the changes in fair value of the loans, the forward loan commitments, and mandatory delivery derivative instruments used to economically hedge them without the burden of complying with requirements for hedge accounting.



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The following table presents information related to mortgage loans held for sale accounted for under the fair value option as of the dates indicated (in thousands):

<i>(dollars in thousands)</i>	September 30, 2024	December 31, 2023
Aggregate fair value	\$ 264,320	\$ 149,987
Unpaid principal balance	257,135	145,641

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.

<i>(in thousands)</i>	Net Gains (Losses) Resulting from Changes in Fair Value			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Mortgage loans held for sale, at fair value	\$ 1,097	\$ (190)	\$ (526)	\$ (1,384)

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 on the balance sheet at quarter-end, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at September 30, 2024 and December 31, 2023 (in thousands):

September 30, 2024	Level 1	Level 2	Level 3	Fair Value
Other real estate owned and other nonperforming assets	\$ —	\$ —	\$ —	\$ —

December 31, 2023	Level 1	Level 2	Level 3	Fair Value
Other real estate owned and other nonperforming assets	\$ —	\$ —	\$ 908	\$ 908

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, other real estate owned is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

The levels within the fair value hierarchy and the estimated fair values of our financial instruments required to be disclosed under ASC 825, *Financial Instruments*, as of September 30, 2024 and December 31, 2023, are as follows (in thousands):

	Carrying	Estimated			
	Value	Fair Value	Level 1	Level 2	Level 3
<b>September 30, 2024</b>					
Cash and due from banks	\$ 131,068	\$ 131,068	\$ 131,068	\$ —	\$ —
Interest-bearing deposits at FRB	1,061,596	1,061,596	1,061,596	—	—
Interest-bearing deposits in financial institutions	103,400	103,400	103,400	—	—
Securities available for sale, net	2,363,176	2,363,176	28,655	2,304,447	30,074
Securities held to maturity, net	212,422	204,816	92,453	111,312	1,051
Other equity securities	12,681	12,681	—	12,681	—
Net loans	11,412,518	10,794,451	—	—	10,794,451
Interest receivable	48,844	48,844	—	48,844	—
Certificates of deposit	2,785,469	2,785,302	—	2,785,302	—
Advances from the FHLB	3,405	3,275	—	3,275	—
Subordinated debt, net	256,444	210,248	—	210,248	—
	Carrying	Estimated			
	Value	Fair Value	Level 1	Level 2	Level 3
<b>December 31, 2023</b>					
Cash and due from banks	\$ 85,584	\$ 85,584	\$ 85,584	\$ —	\$ —
Interest-bearing deposits at FRB	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	27,684	2,073,548	28,110
Securities held to maturity, net	477,592	462,656	353,578	108,050	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	—
Certificates of deposit	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	—

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 payables due in one year or less and deposits with no defined or contractual maturities are excluded.

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 15. Derivative Instruments and Hedging Activities

Rate lock commitments and 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.

The following table reflects the amount and market value of mortgage banking derivatives included on the Consolidated Balance Sheets as of the dates indicated (in thousands):

	September 30, 2024		December 31, 2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate contracts included in other assets	\$ 281,546	\$ 1,917	\$ 151,785	\$ 1,201
Interest rate contracts included in other liabilities	\$ 318,348	\$ (1,666)	\$ 173,302	\$ 1,982

Gains and losses from mortgage banking derivatives are included in residential mortgage banking income, net in the Consolidated Statements of Income. For the three and nine months ended September 30, 2024, the Company recognized a loss of \$0.98 million and a gain of \$2.42 million, respectively, from mortgage banking derivatives. For the three and nine months ended September 30, 2023, the Company recognized \$1.24 million and \$4.19 million in gains from mortgage banking derivatives.

#### Note 16. Revenue from Contracts with Customers

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 (in thousands):

Revenue from Contracts with Customers:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<b>Investment management income</b>				
Investment commissions, net	\$ 2,835	\$ 2,363	\$ 7,759	\$ 6,581
Total	\$ 2,835	\$ 2,363	\$ 7,759	\$ 6,581
<b>Insurance income</b>				
Property and casualty insurance income, net	\$ 22,329	\$ 20,511	\$ 64,468	\$ 57,910
Benefit insurance income, net	3,398	3,266	10,829	10,745
Total	\$ 25,727	\$ 23,777	\$ 75,297	\$ 68,655
<b>Real estate and property management income</b>				
Real estate sales commissions, net	\$ —	\$ (63)	\$ —	\$ 3,562
Real estate property management income, net	11,221	12,800	42,306	40,433
Total	\$ 11,221	\$ 12,737	\$ 42,306	\$ 43,995
Provision (benefit) expense for credit losses on future reservation receivables	\$ 261	\$ (200)	\$ 533	\$ 29
Provision expense for credit losses on property and casualty insurance receivables	\$ (54)	\$ 66	\$ (14)	\$ 212

The provision for credit losses on receivables related to future reservations of resort properties is recorded in real estate property management income. The provision for credit losses related to property and casualty insurance receivables is recorded in property and casualty insurance income.

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company had no material contract assets or contract liabilities recorded on the Consolidated Balance Sheets as of September 30, 2024 or December 31, 2023.

This disclosure includes only revenue from contracts with third-party customers. See "Note 8. Segment Reporting" 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.

#### Note 17. Borrowings

TowneBank is a member of the FHLB and may borrow funds based on criteria established by the FHLB. These advances could be either short- or long-term, depending on our related cost and needs, and are secured by a blanket lien on residential mortgages and other real estate-secured loans. The FHLB may call these borrowings if the adjusted collateral balance falls below the borrowing level.

The Company also has REPOs which 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 for REPOs are monitored daily. Securities pledged as collateral for REPOs consist primarily of MBSs issued by GSEs and GNMA. The market value of securities pledged could decline. Due to the overnight short-term nature of REPOs, the carrying amount of repurchase agreements approximates fair value, and potential risk due to a decline in the value of the pledged collateral is low.

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. These issues are included in subordinated debt, net on the Consolidated Balance Sheets.

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.

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

	September 30, 2024	December 31, 2023
Market value of securities pledged as collateral for REPOs	\$ 61,440	\$ 72,051
Carrying value of capital notes assumed with Farmers acquisition	\$ 7,941	\$ 7,757
Carrying value of Company issued capital notes	\$ 248,503	\$ 248,039

## PART I. FINANCIAL INFORMATION

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*Our Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist readers in understanding and evaluating our consolidated results of operations and financial condition. The following should be read in conjunction with our 2023 audited Consolidated Financial Statements included in our 2023 Annual Report to Shareholders and our 2023 Annual Report on Form 10-K. The financial statements contained in this Form 10-Q have been subject to a review by Forvis Mazars, LLP, independent certified public accountants, as described in their report included as Exhibit 99.*

**Forward-Looking Statements.** *This Quarterly Report on Form 10-Q contains certain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only the beliefs, expectations, or opinions of TowneBank and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward-looking statements may be identified by the use of such words as: "believe," "expect," "anticipate," "intend," "plan," "estimate," or words of similar meaning, or future or conditional terms, such as "will," "would," "should," "could," "may," "likely," "probably," or "possibly." These statements may address issues that involve significant risks, uncertainties, estimates, and assumptions made by management. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following:*

- *competitive pressures in the banking industry that may increase significantly;*
- *changes in the interest rate environment that may reduce margins and/or the volumes and values of loans made or held as well as the value of other financial assets held;*
- *an unforeseen outflow of cash or deposits or an inability to access the capital markets, which could jeopardize our overall liquidity or capitalization;*
- *changes in the creditworthiness of customers and the possible impairment of the collectability of loans;*
- *insufficiency of our allowance for credit losses due to market conditions, inflation, changing interest rates, or other factors;*
- *adverse developments in the financial industry generally, such as the recent bank failures, responsive measures to mitigate and manage such developments, related supervisory and regulatory actions and costs, and related impacts on customer and client behavior;*
- *general economic conditions, either nationally or regionally, that may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit or other services;*
- *geopolitical instability, including wars, conflicts, civil unrest, and terrorist attacks and the potential impact, directly or indirectly, on our business;*
- *the effects of weather-related or natural disasters, which may negatively affect our operations and/or our loan portfolio and increase our cost of conducting business;*
- *public health events (such as the COVID-19 pandemic) and governmental and societal responses to them;*
- *changes in the legislative or regulatory environment, including changes in accounting standards and tax laws, that may adversely affect our business;*
- *our ability to close the transaction with Village Bank when expected or at all because required approvals and other conditions to closing are not received or satisfied on the proposal terms or on the anticipated schedule;*
- *our integration of Village Bank's business to the extent that it may take longer or be more difficult, time-consuming, or costly to accomplish than expected;*
- *deposit attrition, operating costs, customer losses, and business disruption following the Village Bank transaction, including adverse effects on relationships with employees and customers;*
- *costs or difficulties related to the integration of the businesses we have acquired may be greater than expected;*

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

- *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, whether directed at us or at vendors or other third parties with which we interact;*
- *the implementation of new technologies, and the ability to develop and maintain reliable electronic systems;*
- *our competitors may have greater financial resources and develop products that enable them to compete more successfully;*
- *changes in business conditions;*
- *changes in the securities market; and*
- *changes in our local economy with regard to our market area.*

*Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events, or otherwise. For additional information on factors that could materially influence forward-looking statements included in this report, see the "Risk Factors" in TowneBank's Annual Report on Form 10-K for the year ended December 31, 2023, and related disclosures in other filings that have been, or will be, filed by TowneBank with the Federal Deposit Insurance Corporation.*

#### **Overview**

TowneBank is a retail and commercial 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, mortgage, insurance, resort property management, 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 provides resort property management services and originations of a variety of mortgage loans. Prior to the sale of BHHS Towne Realty in second quarter 2023, the Realty segment 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 \$17.19 billion at September 30, 2024, compared to \$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.

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Total cash and cash equivalents	7.54 %	6.70 %
Total securities	15.13 %	15.69 %
Mortgage loans held for sale	1.54 %	0.89 %
Loans, net of unearned income and deferred costs	66.40 %	67.29 %
Total deposits	83.57 %	82.53 %
Noninterest-bearing deposits	24.83 %	25.80 %
Total borrowings	1.69 %	2.93 %

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table lists key asset and liability categories at September 30, 2024 and June 30, 2024, for comparative purposes.

<i>(dollars in thousands)</i>	September 30,	June 30,	Total Change	
	2024	2024	Change	%
Total assets	\$ 17,188,020	\$ 17,068,843	\$ 119,177	0.70 %
Total cash and cash equivalents	1,296,064	1,301,446	(5,382)	(0.41)%
Total investment securities	2,600,336	2,488,788	111,548	4.48 %
Mortgage loans held for sale	264,320	200,762	63,558	31.66 %
Loans, net of unearned income and deferred costs ("loans")	11,412,518	11,451,747	(39,229)	(0.34)%
Allowance for credit losses on loans	(123,191)	(125,552)	(2,361)	(1.88)%
Noninterest-bearing deposits	4,267,628	4,303,773	(36,145)	(0.84)%
Total deposits	14,363,170	14,272,588	90,582	0.63 %
Total borrowings	290,819	295,169	(4,350)	(1.47)%
Allowance for credit losses on loans to period end loans	1.08 %	1.10 %		

Total assets increased 0.70%, or \$119.18 million, in the quarter, driven by increases in investment securities and mortgage loans held for sale, offset by declines in loans. Investment securities increased due to purchases and market value improvements in the quarter, and mortgage loans held for sale increased driven by elevated mortgage loan levels. Loans declined, primarily in real estate construction and land development. Net unrealized losses in our AFS debt securities decreased to \$110.62 million at September 30, 2024, from \$172.93 million at June 30, 2024. Construction and land development loans are significantly impacted by the higher rate environment of recent years. The number of new projects has decreased, leading to declines in loan levels as existing projects are completed. Management's focus remains on strategic balance sheet management with a concentration on controlling loan growth and maintaining strong levels of capital and liquidity.

Total deposits increased \$90.58 million during the quarter. Noninterest-bearing deposits decreased \$36.15 million in the quarter. Management believes noninterest-bearing deposits are returning to their pre-COVID19 seasonal swings.

The following table presents the key components affecting the Company's financial performance in the three and nine months ended September 30, 2024, compared to prior year.

<i>(dollars in thousands)</i>	Three Months Ended		Change	%
	2024	2023		
Net income attributable to TowneBank	\$ 42,949	\$ 44,862	\$ (1,913)	(4.26)%
Net interest income	112,282	113,058	(776)	(0.69)%
Noninterest income	62,236	59,806	2,430	4.06 %
Total revenue	174,518	172,864	1,654	0.96 %
Provision for credit losses	(1,100)	1,007	(2,107)	(209.24)%
Noninterest expense	126,900	117,702	9,198	7.81 %
Acquisition-related expenses	460	572	(112)	(19.58)%
Noninterest expense, excluding acquisition-related expenses	126,440	117,130	9,310	7.95 %



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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

	Nine Months Ended			
	September 30,			
	2024	2023	Change	%
Net income attributable to TowneBank	\$ 120,492	\$ 124,911	\$ (4,419)	(3.54)%
Net interest income	324,548	350,047	(25,499)	(7.28)%
Noninterest income	192,042	188,528	3,514	1.86 %
Total revenue	516,590	538,575	(21,985)	(4.08)%
Provision for credit losses	(2,154)	16,232	(18,386)	(113.27)%
Noninterest expense	376,475	367,328	9,147	2.49 %
Acquisition-related expenses	1,073	9,534	(8,461)	(88.75)%
Noninterest expense, excluding acquisition-related expenses	375,402	357,794	17,608	4.92 %

Net income attributable to TowneBank decreased \$1.91 million, or 4.26%, in third quarter 2024 and \$4.42 million, or 3.54%, compared to 2023. These decreases were driven by growth in noninterest expenses, partially offset by increases in noninterest income. This discussion should be read in conjunction with our Consolidated Financial Statements and notes to the financial statements appearing elsewhere in this report.

### Critical Accounting Estimates and Significant Accounting Policies

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 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. We consider our policy for the allowance for credit losses to be a critical accounting policy. Refer to our 2023 Annual Report to Shareholders for further discussion of significant accounting policies.

## ANALYSIS OF RESULTS OF OPERATIONS

### Consolidated Performance Summary

**Results of Operations:** We reported the following for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
<i>(dollars in thousands, except per share data)</i>				
Total revenue	\$ 174,518	\$ 172,864	\$ 516,590	\$ 538,575
Operating revenue (non-GAAP)	\$ 174,498	\$ 172,310	\$ 516,496	\$ 529,189
Diluted earnings per share	\$ 0.57	\$ 0.60	\$ 1.61	\$ 1.67
Return on average assets	1.00 %	1.06 %	0.95 %	1.00 %
Return on average tangible assets (non-GAAP)	1.09 %	1.17 %	1.04 %	1.11 %
Return on average equity	8.12 %	8.96 %	7.80 %	8.48 %
Return on average tangible equity (non-GAAP)	11.42 %	12.97 %	11.11 %	12.35 %
Net interest margin	2.90 %	2.95 %	2.83 %	3.09 %
Net interest margin TE (non-GAAP)	2.93 %	2.98 %	2.86 %	3.12 %

**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 affected by

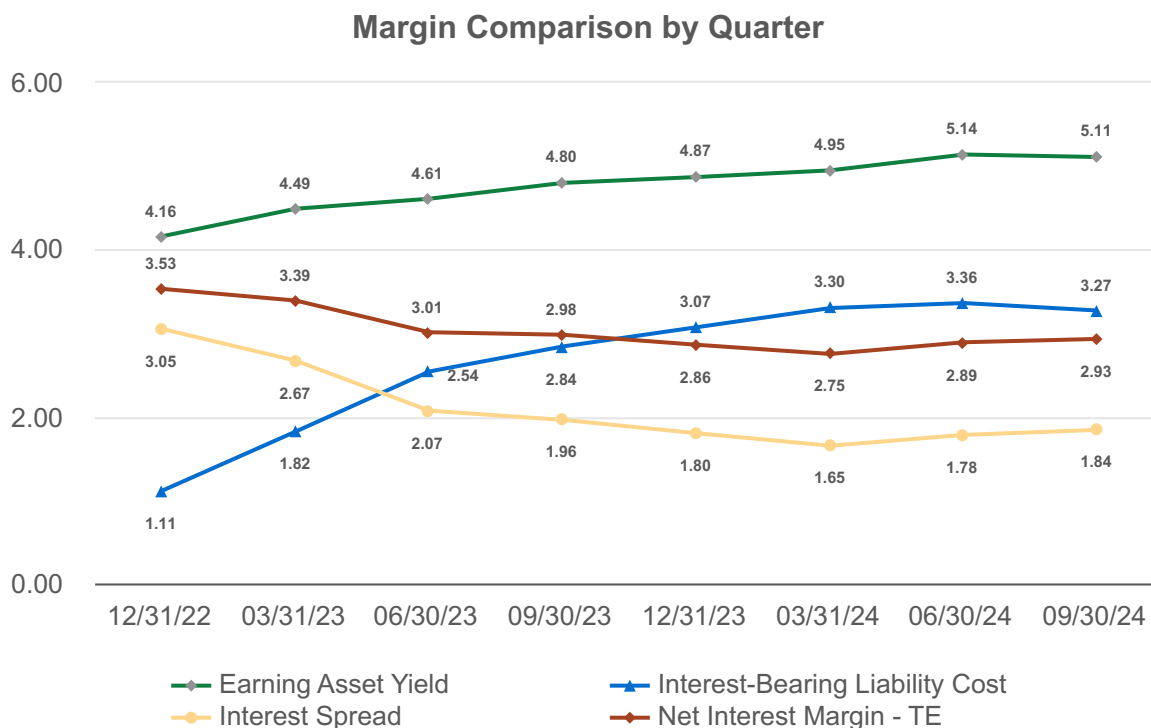


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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

market interest rates and the volume and mix of earning assets and interest-bearing liabilities. The yields and rates in this discussion and in the following tables have been computed based upon interest income and expense adjusted to a TE basis (non-GAAP) using a 21% federal marginal tax rate.

The following graph summarizes the key components of net interest margin over the past eight quarters. The cost of interest-bearing liabilities declined 9 bp in the quarter while the yield on interest-earning assets declined 3 bp as the spread between earning asset yield and interest-bearing liability cost widened and net interest margin increased for the second consecutive quarter.



TowneBank reported net interest income, on a TE basis ("net interest income-TE"), of \$113.39 million for the quarter ended September 30, 2024, which was \$0.86 million, or 0.76%, below the third quarter 2023 total of \$114.26 million. Interest income-TE was \$197.73 million in the quarter ended September 30, 2024, \$13.68 million, or 7.43%, higher than the \$184.05 million reported for quarter-end September 30, 2023, due, primarily, to Federal Reserve actions to combat inflation resulting in higher rates. However, interest expense increased \$14.54 million, or 20.83%, for the same period, driven by year-over-year increases in both rate and volume.

Average earning assets increased to \$15.40 billion in the quarter ended September 30, 2024, from \$15.21 billion in the comparative prior year quarter, an increase of 1.26%. The yield on earning assets was 5.11% in the quarter ended September 30, 2024, up compared to 4.80% in prior year. Average loan balances in third quarter 2024 were \$11.42 billion, \$249.50 million, or 2.23%, higher than the same period one year ago, and loan yields increased 33 bp.

Average interest-bearing liabilities were \$10.25 billion in third quarter 2024, up from \$9.75 billion in the comparative prior year quarter, an increase of 5.06%. The cost of interest-bearing liabilities was 3.27% in third quarter 2024, compared to 2.84% in third quarter 2023, a 43 bp increase.

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TE net interest margin, which is net interest income-TE expressed as a percentage of average earning assets, was 2.93%, or 5 bp lower, for the quarter ended September 30, 2024, compared to the September 30, 2023, quarter margin of 2.98%.

The Federal Reserve's Federal Funds target range declined in late September 2024 after holding at a 23-year high since third quarter 2023. Repricing of both assets and liabilities lag behind rate changes, driven by the properties of the underlying product, and has continued to impact yields and margins. 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 - September 18, 2024 (1)	5.25 - 5.50
September 19, 2024 - present	4.75 - 5.00

(1) 23-year high

The increases in rate in the past two years, coupled with a shift in deposit mix into higher yielding deposit products, has negatively impacted margin. From a repricing standpoint, interest-bearing liabilities are typically short-term and reprice more quickly than interest-earning assets which, in a rising rate environment, leads to margin compression. The Company has seen a 4 bp improvement in interest-bearing deposit costs from the linked quarter as a result of the decrease in the Federal Funds target range. In third quarter 2024, the Company saw a second sequential improvement in margin after steady declines beginning with 1st quarter 2023. Management believes we will continue to see margin improvements continuing into 2025 as we see the continued repricing of interest-bearing deposits and fixed rate loans.

The following tables depict our interest income on earning assets and related average yields, as well as interest expense on interest-bearing liabilities and related average rates paid for the periods presented. Also presented for the three-month periods are the changes in interest income and expense caused by variations in

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the volume and mix of these assets and liabilities, as well as changes in interest rates when compared to the previous periods:

	Three Months Ended						Increase/(Decrease) Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023		
	September 30, 2024			September 30, 2023			Rate (4)	Volume	Total
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate			
<i>(dollars in thousands)</i>									
<b>Assets:</b>									
Loans (net of unearned income and deferred costs)	\$ 11,419,428	\$ 156,610	5.46 %	\$ 11,169,924	\$ 144,457	5.13 %	\$ 8,985	\$ 3,168	\$ 12,153
Taxable investment securities	2,376,102	20,940	3.53 %	2,373,731	18,645	3.14 %	2,276	19	2,295
Tax-exempt investment securities	168,768	1,686	4.00 %	206,639	1,993	3.86 %	69	(376)	(307)
Total securities	2,544,870	22,626	3.56 %	2,580,370	20,638	3.20 %	2,345	(357)	1,988
Interest-bearing deposits	1,226,445	15,249	4.95 %	1,230,582	15,031	4.85 %	274	(56)	218
Mortgage loans held for sale	208,513	3,247	6.23 %	227,426	3,928	6.91 %	(369)	(312)	(681)
Total earning assets	15,399,256	197,732	5.11 %	15,208,302	184,054	4.80 %	11,235	2,443	13,678
Less: allowance for loan losses	(125,331)			(125,553)					
Total nonearning assets	1,754,216			1,680,110					
Total assets	<u>\$ 17,028,141</u>			<u>\$ 16,762,859</u>					
<b>Liabilities and Equity:</b>									
Interest-bearing deposits									
Demand and money market	\$ 6,917,622	\$ 48,896	2.81 %	\$ 6,605,853	\$ 41,381	2.49 %	5,530	1,985	7,515
Savings	315,338	842	1.06 %	356,116	938	1.05 %	15	(111)	(96)
Certificates of deposit	2,723,437	32,390	4.73 %	2,236,102	21,852	3.88 %	5,298	5,240	10,538
Total interest-bearing deposits	9,956,397	82,128	3.28 %	9,198,071	64,171	2.77 %	10,843	7,114	17,957
Borrowings	33,867	(25)	(0.29)%	299,105	3,382	4.42 %	(1,859)	(1,548)	(3,407)
Subordinated debt, net	256,309	2,237	3.49 %	255,446	2,245	3.52 %	(16)	8	(8)
Total interest-bearing liabilities	10,246,573	84,340	3.27 %	9,752,622	69,798	2.84 %	8,968	5,574	14,542
							<u>\$ 2,267</u>	<u>\$ (3,131)</u>	<u>\$ (864)</u>
Demand deposits	4,305,783			4,633,856					
Other noninterest-bearing liabilities	370,736			389,912					
Total liabilities	14,923,092			14,776,390					
Shareholders' equity	2,105,049			1,986,469					
Total liabilities and equity	<u>\$ 17,028,141</u>			<u>\$ 16,762,859</u>					
Net interest income-TE (3)		\$ 113,392			\$ 114,256				
<b>Reconciliation of Non-GAAP Financial Measures</b>									
TE basis adjustment		(1,110)			(1,198)				
Net interest income (GAAP)		<u>\$ 112,282</u>			<u>\$ 113,058</u>				
Interest rate spread (1)(3)			1.84 %			1.96 %			
Interest expense as a percent of average earning assets			2.18 %			1.82 %			
Net interest margin-TE (2)(3)			2.93 %			2.98 %			
Total cost of deposits			2.29 %			1.84 %			

- (1) Interest rate spread is the average yield earned on earning assets less the average rate paid on interest-bearing liabilities. Taxable equivalent.
- (2) Net interest margin is net interest income expressed as a percentage of average earning assets. Taxable equivalent.
- (3) Non-GAAP.
- (4) Variances caused by the change in rate times the change in balances are allocated to rate.

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	Nine Months Ended						Increase/(Decrease)		
	September 30, 2024			September 30, 2023			Nine Months Ended		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	September 30, 2024		
							Compared to Nine Months Ended September 30, 2023		
						Rate(4)	Volume	Total	
<i>(dollars in thousands)</i>									
<b>Assets:</b>									
Loans (net of unearned income and deferred costs)	\$ 11,423,458	\$ 463,794	5.42 %	\$ 11,159,329	\$ 417,808	5.01 %	\$ 35,820	\$ 10,166	\$ 45,986
Taxable investment securities	2,395,007	61,327	3.41 %	2,420,634	52,656	2.90 %	9,234	(563)	8,671
Tax-exempt investment securities	162,294	4,756	3.91 %	201,535	5,883	3.89 %	23	(1,150)	(1,127)
<b>Total securities</b>	<b>2,557,301</b>	<b>66,083</b>	<b>3.45 %</b>	<b>2,622,169</b>	<b>58,539</b>	<b>2.98 %</b>	<b>9,257</b>	<b>(1,713)</b>	<b>7,544</b>
Interest-bearing deposits	1,192,319	43,995	4.93 %	1,179,952	40,168	4.55 %	3,398	429	3,827
Mortgage loans held for sale	163,755	7,908	6.44 %	168,822	8,079	6.38 %	73	(244)	(171)
<b>Total earning assets</b>	<b>15,336,833</b>	<b>581,780</b>	<b>5.07 %</b>	<b>15,130,272</b>	<b>524,594</b>	<b>4.64 %</b>	<b>48,548</b>	<b>8,638</b>	<b>57,186</b>
Less: allowance for loan losses	(126,508)			(120,420)					
<b>Total nonearning assets</b>	<b>1,748,215</b>			<b>1,637,952</b>					
<b>Total assets</b>	<b>\$ 16,958,540</b>			<b>\$ 16,647,804</b>					
<b>Liabilities and Equity:</b>									
<b>Interest-bearing deposits</b>									
Demand and money market	\$ 6,880,752	\$ 145,042	2.82 %	\$ 6,349,422	\$ 96,742	2.04 %	39,625	8,675	48,300
Savings	320,696	2,569	1.07 %	376,282	2,676	0.95 %	314	(421)	(107)
Certificates of deposit	2,674,509	94,928	4.74 %	1,964,718	47,358	3.22 %	26,925	20,645	47,570
<b>Total interest-bearing deposits</b>	<b>9,875,957</b>	<b>242,539</b>	<b>3.28 %</b>	<b>8,690,422</b>	<b>146,776</b>	<b>2.26 %</b>	<b>66,864</b>	<b>28,899</b>	<b>95,763</b>
Borrowings	115,171	4,679	5.34 %	505,856	17,644	4.60 %	2,476	(15,441)	(12,965)
Subordinated debt, net	256,094	6,710	3.49 %	253,612	6,650	3.50 %	(5)	65	60
<b>Total interest-bearing liabilities</b>	<b>10,247,222</b>	<b>253,928</b>	<b>3.31 %</b>	<b>9,449,890</b>	<b>171,070</b>	<b>2.42 %</b>	<b>69,335</b>	<b>13,523</b>	<b>82,858</b>
							<b>\$ (20,787)</b>	<b>\$ (4,885)</b>	<b>\$ (25,672)</b>
Demand deposits	4,265,971			4,873,945					
<b>Other noninterest-bearing liabilities</b>	<b>381,547</b>			<b>353,459</b>					
<b>Total liabilities</b>	<b>14,894,740</b>			<b>14,677,294</b>					
<b>Shareholders' equity</b>	<b>2,063,800</b>			<b>1,970,510</b>					
<b>Total liabilities and equity</b>	<b>\$ 16,958,540</b>			<b>\$ 16,647,804</b>					
Net interest income-TE (3)		\$ 327,852			\$ 353,524				
<b>Reconciliation of Non-GAAP Financial Measures</b>									
TE basis adjustment		(3,304)			(3,477)				
<b>Net interest income (GAAP)</b>		<b>\$ 324,548</b>			<b>\$ 350,047</b>				
Interest rate spread (1)(3)			1.76 %			2.22 %			
Interest expense as a percent of average earning assets			2.21 %			1.51 %			
Net interest margin-TE (2)(3)			2.86 %			3.12 %			
Total cost of deposits			2.29 %			1.45 %			

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

(2) Net interest margin is net interest income expressed as a percentage of average earning assets. Taxable equivalent.

(3) Non-GAAP.

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

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**Provision for Credit Losses.** The third quarter 2024 provision for credit losses was a benefit of \$1.10 million, compared to an expense of \$1.01 million for the same period one year ago. The provision for credit losses in the first nine months of 2024 was a benefit of \$2.15 million compared to an expense of \$16.23 million in the prior year. Our 2023 provision included an initial provision for credit losses of \$4.01 million related to non-PCD loans and commitments acquired in the Farmers transaction in first quarter 2023.

In third quarter 2024, we had net charge-offs of \$0.68 million compared to net recoveries of \$1.07 million in third quarter 2023. In the first nine months of 2024, net charge-offs were \$1.18 million, compared to \$2.81 million for the same period in 2023. The primary source of charge-offs in 2024 has been indirect consumer auto loans. Factors impacting the current quarter provision included the decline in higher-risk real estate construction and development loans, continued strength in credit quality, and a continuation of improvements in macroeconomic forecast scenarios utilized in our models.

**Noninterest Income.** Total noninterest income for the three and nine months ended September 30, 2024, was \$62.24 million and \$192.04 million, respectively, compared to \$59.81 million and \$188.53 million for the same respective periods in 2023. Noninterest income as a percentage of total operating income was 35.67% for third quarter 2024, compared with 34.71% for third quarter 2023. In the nine-month comparison, excluding a nonrecurring gain on sale of equity investments transaction totaling \$8.83 million in 2023, noninterest income would have increased 6.87%, or \$12.35 million, over the prior year.

Our noninterest income primarily consists of fee income produced by our three reportable segments, less applicable commission expenses. The following table provides an analysis of noninterest income for the periods presented:

	Three Months Ended		Nine Months Ended		Increase/(Decrease)		Increase/(Decrease)	
	September 30,		September 30,		Three Months Ended		Nine Months Ended	
	2024	2023	2024	2023	2024 over 2023		2024 over 2023	
	Amount	Amount	Amount	Amount	Amount	Percent	Amount	Percent
<i>(dollars in thousands)</i>								
Residential mortgage banking income, net	\$ 11,786	\$ 10,648	\$ 35,685	\$ 31,380	\$ 1,138	10.69 %	\$ 4,305	13.72 %
Insurance commissions and other income, net	25,727	23,777	75,297	69,098	1,950	8.20 %	6,199	8.97 %
Property management income, net	11,221	12,800	42,306	40,433	(1,579)	(12.34)%	1,873	4.63 %
Real estate commission income, net	—	(63)	—	3,562	63	(100.00)%	(3,562)	(100.00)%
Service charges on deposit accounts	3,117	2,823	9,548	8,577	294	10.41 %	971	11.32 %
Credit card merchant fees, net	1,830	2,006	5,042	5,232	(176)	(8.77)%	(190)	(3.63)%
Investment commission income, net	2,835	2,363	7,759	6,581	472	19.97 %	1,178	17.90 %
BOLI	1,886	1,814	6,966	5,196	72	3.97 %	1,770	34.06 %
Gain on sale of equity investments	20	554	20	9,386	(534)	(96.39)%	(9,366)	(99.79)%
Other income	3,814	3,084	9,345	9,083	730	23.67 %	262	2.88 %
Subtotal before gain on investment securities	62,236	59,806	191,968	188,528	2,430	4.06 %	3,440	1.82 %
Net gain on investment securities	—	—	74	—	—	N/M	74	N/M
Total noninterest income	\$ 62,236	\$ 59,806	\$ 192,042	\$ 188,528	\$ 2,430	4.06 %	\$ 3,514	1.86 %
Noninterest income/operating income (non-GAAP)	35.67 %	34.71 %	37.18 %	35.63 %				

For third quarter and the first nine months of 2024, residential mortgage banking income, net of commission expense, increased compared to prior year periods driven by higher production levels, per-loan average volume, and margin improvements. Production volume was \$598.18 million in third quarter 2024, an increase of \$77.77 million, or 14.94%, compared to third quarter 2023. The number of units closed increased to 1,637 from 1,487 in the prior year quarter. Margins on the sale of loans increased 11 bp from

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3.17% in third quarter 2023 to 3.28% in third quarter 2024. Refinance activities increased to nearly 9% for the first time since mid-2022. Purchase volume was 91.49% of total loan volume in third quarter 2024, compared to 95.96% in the prior year quarter. Recent declines in mortgage rates have benefited refinance activities while new purchase volume remains constrained by low housing inventories.

Insurance commissions increased due to organic growth in property and casualty commission income. Contingency and bonus revenue, which consists primarily of amounts received from various property and casualty carriers, also increased in third quarter 2024 compared to 2023 due to organic growth. Management continues to search for opportunities to grow insurance segment revenues both organically and through disciplined mergers and acquisitions.

Property management income, net of commission expense, decreased in the quarter but increased in the first nine months over comparative periods in 2023. The primary source of income from this line of business is vacation property commissions and associated fees. Income in the first nine months of 2024 increased over prior year, driven by an acquisition in March 2024. Occupancy levels declined in third quarter 2024 compared to 2023.

In the first nine months of 2024, BOLI income increased compared to 2023 due to the inclusion of proceeds from life insurance claims in second quarter 2024. We sold seven investment securities with a carrying value of \$48.10 million in the first nine months of 2024. We did not sell any investment securities in third quarter 2024 or the first nine months of 2023. We recorded net gains on the sale of AFS securities of \$74 thousand in the first nine months of 2024 and zero net gains or losses on the sale of AFS securities for the same period in 2023. The Company recorded a gross gain on the sale of BHHS Towne Realty of \$8.83 million in second quarter 2023.

**Noninterest Expense.** For the quarter ended September 30, 2024, total noninterest expense was \$126.90 million, which was \$9.20 million more than comparative 2023. As a percentage of operating income, noninterest expense was 72.72% for third quarter 2024 and 68.31% for comparative 2023. In the nine months ended September 30, 2024, total noninterest expense, at \$376.48 million, was an increase of \$9.15 million over the nine months ended September 30, 2023.

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The following table provides an analysis of quarterly total noninterest expense by line item for the periods presented:

	Three Months Ended		Nine Months Ended		Increase/(Decrease)		Increase/(Decrease)	
	September 30,		September 30,		Three Months Ended	Nine Months Ended		
	2024	2023	2024	2023	2024 over 2023	2024 over 2023		
(dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Salaries and employee benefits	\$ 72,123	\$ 67,258	\$ 214,849	\$ 204,124	\$ 4,865	7.23 %	\$ 10,725	5.25 %
Occupancy expense	9,351	9,027	28,490	27,579	324	3.59 %	911	3.30 %
Furniture and equipment	4,657	4,100	13,769	12,733	557	13.59 %	1,036	8.14 %
Amortization - intangibles	3,130	3,610	9,675	10,744	(480)	(13.30)%	(1,069)	(9.95)%
Software	6,790	6,130	19,947	17,922	660	10.77 %	2,025	11.30 %
Data processing	4,701	4,140	13,223	11,504	561	13.55 %	1,719	14.94 %
Professional fees	4,720	2,770	11,689	8,948	1,950	70.40 %	2,741	30.63 %
Advertising and marketing	4,162	3,653	12,268	12,012	509	13.93 %	256	2.13 %
Other noninterest expenses:								
Acquisition-related expenses	460	572	1,073	9,534	(112)	(19.58)%	(8,461)	(88.75)%
Bank franchise tax/SCC fees	2,731	2,493	8,171	7,547	238	9.55 %	624	8.27 %
Charitable contributions	3,007	2,766	9,764	9,971	241	8.71 %	(207)	(2.08)%
Directors fees and expenses	1,754	727	3,853	2,644	1,027	141.27 %	1,209	45.73 %
FDIC and other insurance	2,797	2,736	9,287	8,051	61	2.23 %	1,236	15.35 %
Foreclosed property expenses	66	38	142	100	28	73.68 %	42	42.00 %
Other	2,973	4,647	9,511	12,853	(1,674)	(36.02)%	(3,342)	(26.00)%
Stationery and supplies	697	710	2,144	2,397	(13)	(1.83)%	(253)	(10.55)%
Telephone and postage	1,711	1,426	4,570	5,021	285	19.99 %	(451)	(8.98)%
Travel/meals/entertainment	1,070	899	4,050	3,644	171	19.02 %	406	11.14 %
Total other noninterest expenses	17,266	17,014	52,565	61,762	252	1.48 %	(9,197)	(14.89)%
Total noninterest expense	<u>\$ 126,900</u>	<u>\$ 117,702</u>	<u>\$ 376,475</u>	<u>\$ 367,328</u>	<u>\$ 9,198</u>	<u>7.81 %</u>	<u>\$ 9,147</u>	<u>2.49 %</u>
Salaries and employee benefits/total noninterest expense	56.83 %	57.14 %	57.07 %	55.57 %				
Noninterest expense/operating income (non-GAAP)	72.72 %	68.31 %	72.89 %	69.41 %				

In third quarter 2024, salaries and employee benefits represented 56.83% of total noninterest expense compared to 57.14% in third quarter 2023. Salaries and benefits expense increased driven by increases in banking personnel, higher producer incentives focused on generating deposits, and health insurance costs. The Company opened a full-service branch in second quarter 2024. The Company also opened full-service branches in mid-second quarter 2023 and third quarter 2023, which are impacting the year-over-year comparison.

In our Banking segment, we had a total of 1,471 full-time equivalent employees at September 30, 2024, as compared to 1,446 at September 30, 2023. We had a total of 1,253 full-time equivalent employees, compared to 1,384 in our non-Banking segments at September 30, 2024 and September 30, 2023, respectively.

Occupancy expense and furniture and equipment increased in the third quarter and first nine months of 2024 compared to 2023. As mentioned previously, the Company opened three full-service branches in the past 18

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months: in Cary, NC, in April 2024; in Raleigh, NC, in November 2023; and in Richmond, VA, in April 2023. In addition, we relocated our regional headquarters in Greensboro, NC, in April 2024, and a branch in Greenville, NC, in January 2024.

Investment in technology related to banking services and information monitoring continued to drive both direct and indirect costs. Professional fees increased due to consulting and outside services. Software costs increased due to higher core system costs, while data processing increased due to higher volumes and processing costs, merchant fee increases, and core conversion expenses in one of our vacation management companies.

Acquisition-related expenses decreased in third quarter 2024 compared to 2023. The Company acquired Farmers in first quarter 2023. Directors fees and expenses increased in the quarter and year to date primarily due to costs associated with a strategic planning retreat.

FDIC and other insurance expense was relatively flat in the quarterly comparison, but increased year to date. These fluctuations were due to a combination of timing differences associated with quarterly assessment increases and a true-up of the FDIC special assessment on certain banks related to the Deposit Insurance Fund.

**Provision for Income Taxes.** Our provision for income tax expense represented an effective tax rate of 11.52% in third quarter 2024 compared to an effective rate of 17.34% for third quarter 2023. The lower effective tax rate in the current quarter was primarily due to the impact on state and federal taxes from the increase in credits and losses related to LIHTC investment properties placed in service during the period.

### Segment Performance Summary

Our reportable segments are a traditional full-service community bank, a 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 8. Segment Reporting" of the Notes to Consolidated Financial Statements in this report.

**Banking Segment.** Income before income tax provision and noncontrolling interest from the Banking segment was \$40.71 million and \$110.13 million for the three and nine months ended September 30, 2024, compared to \$47.16 million and \$126.73 million for the same respective periods in 2023.

Total revenue increased marginally in the three months ended September 30, 2024, but decreased in the nine-month comparison to 2023. Declines in net interest income were offset by increases in investment commission income and BOLI for a marginal quarterly increase. Year to date, the decline in net interest income outpaced increases in noninterest income. Margin compression was the primary driver of the decline in net interest income because growth in interest expense on deposits outpaced growth in interest income. The provision for credit losses decreased in the third quarter and first nine months of 2024 compared to prior year due to decreases in our real estate construction and development portfolio, continued strength in credit quality, and a continuation of improvements in macroeconomic forecast scenarios utilized in our model.

Noninterest expenses increased in the third quarter and nine-month comparison to 2023. Salaries and employee benefits increased in both the quarter and first nine months of 2024 compared to 2023. Professional fees, data processing, and software, which are included in other expenses, increased a combined \$2.92 million in the quarter and \$4.90 million in the first nine months of 2024 compared to 2023. Acquisition expenses, which are also included in other expenses, declined \$8.46 million in the first nine



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months of 2024 compared to 2023. The Company acquired Farmers in first quarter 2023. For additional information, refer to the previous noninterest expense discussion.

The following chart presents revenue and expenses for the Banking segment for the periods presented, as well as changes between periods:

	Three Months Ended		Nine Months Ended		Increase/(Decrease)		Increase/(Decrease)	
	September 30,		September 30,		Three Months Ended		Nine Months Ended	
	2024	2023	2024	2023	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
(dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Net interest income	\$111,569	\$112,189	\$322,280	\$349,165	\$ (620)	(0.55)%	\$ (26,885)	(7.70)%
Service charges on deposit accounts	3,117	2,823	9,548	8,577	294	10.41 %	971	11.32 %
Credit card merchant fees	1,830	2,006	5,042	5,232	(176)	(8.77)%	(190)	(3.63)%
Investment commissions, net	2,835	2,363	7,759	6,581	472	19.97 %	1,178	17.90 %
Other income	4,828	4,224	13,096	12,012	604	14.30 %	1,084	9.02 %
Net gain (loss) on investment securities	—	—	74	—	—	— %	74	N/M
Total noninterest income	12,610	11,416	35,519	32,402	1,194	10.46 %	3,117	9.62 %
Total revenue	124,179	123,605	357,799	381,567	574	0.46 %	(23,768)	(6.23)%
Provision for credit losses	(1,043)	1,206	(2,189)	16,442	(2,249)	(186.48)%	(18,631)	(113.31)%
Salaries and employee benefits	47,148	42,727	140,261	128,161	4,421	10.35 %	12,100	9.44 %
Occupancy	6,963	6,637	21,217	19,717	326	4.91 %	1,500	7.61 %
Furniture and equipment	3,878	3,273	11,336	10,150	605	18.48 %	1,186	11.68 %
Amortization of intangible assets	1,072	1,296	3,352	3,918	(224)	(17.28)%	(566)	(14.45)%
Other expenses	26,674	22,595	77,215	80,215	4,079	18.05 %	(3,000)	(3.74)%
Total noninterest expenses	85,735	76,528	253,381	242,161	9,207	12.03 %	11,220	4.63 %
Income before income tax and corporate allocation	39,487	45,871	106,607	122,964	(6,384)	(13.92)%	(16,357)	(13.30)%
Corporate allocation	1,223	1,291	3,524	3,763	(68)	(5.27)%	(239)	(6.35)%
Income before income tax provision and noncontrolling interest	40,710	47,162	110,131	126,727	(6,452)	(13.68)%	(16,596)	(13.10)%
Provision for income tax expense	3,495	7,440	12,731	21,204	(3,945)	(53.02)%	(8,473)	(39.96)%
Net income	37,215	39,722	97,400	105,523	(2,507)	(6.31)%	(8,123)	(7.70)%
Noncontrolling interest	(29)	—	34	—	(29)	N/M	34	N/M
Net income attributable to TowneBank	\$ 37,186	\$ 39,722	\$ 97,434	\$105,523	\$ (2,536)	(6.38)%	\$ (8,089)	(7.67)%
Salaries and employee benefits/total noninterest expense	54.99%	55.83%	55.36%	52.92%				
% of total consolidated income	86.58%	88.54%	80.87%	84.47%				
Efficiency ratio (non-GAAP)	68.18%	60.86%	69.89%	62.44%				

**Realty Segment.** For the three months ended September 30, 2024, the Realty segment reported losses before income tax provision and noncontrolling interest of \$111 thousand, as compared to \$1.05 million in 2023. For the nine months ended September 30, 2024, the Realty segment reported income before income tax provision and noncontrolling interest of \$9.12 million, as compared to \$7.10 million in 2023.

Total revenue decreased in the third quarter and first nine months of 2024, compared to 2023. However, excluding an \$8.83 million gain on the sale of BHHS Towne Realty in second quarter 2023 and related real estate brokerage income, total revenue would have increased in the nine-month comparison.

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Residential mortgage production increased in the third quarter and first nine months of 2024, compared to 2023, driven by higher production levels and per loan averages. In the third quarter of 2024, refinance activities increased to almost 9% of our quarterly volume driven by a decline in mortgage rates. Low homes for sale inventory levels continue to be a challenge in our footprint and industry wide.

The following table presents key quarterly information related to our residential mortgage production (dollars in thousands):

	Three Months Ended				
	September 30,	June 30,	March 31,	December 31,	September 30,
	2024	2024	2024	2023	2023
Gross realized gain on sales and fees as a % of loans originated	3.28 %	3.28 %	3.34 %	3.06 %	3.17 %
Loans Sold	\$ 526,998	\$ 605,134	\$ 410,895	\$ 468,014	\$ 567,291
Purchase %	91.49 %	94.85 %	95.66 %	95.06 %	95.96 %
Refinance %	8.51 %	5.15 %	4.34 %	4.94 %	4.04 %

The Company has focused on aligning its infrastructure costs with production levels and will continue to evaluate its cost structure in relation to the current economic environment. As part of its realignment, the total number of full-time equivalent employees in our residential mortgage banking business decreased to 402 at September 30, 2024, compared to 464 at September 30, 2023. Additionally, the Company is placing greater emphasis on increasing production via retail channels as opposed to volumes from partner relationships and is focused on enhancing margin-related gains on sale. Margins on the sale of loans increased 11 bp over third quarter 2023. The Company expects to continue to benefit from the cost savings initiatives begun in 2023. In the third quarter and first nine months of 2024, the Company recognized income of \$0.61 million and \$1.42 million, respectively, on its residential mortgage banking business, compared to losses of \$0.80 million and \$6.35 million in the third quarter and first nine months of 2023, respectively.

Net property management fees decreased in the third quarter but increased in the first nine months of 2024, compared to 2023. The nine-month increase was driven by revenue from an acquisition that occurred in March 2024. Property management fees are from short-term vacation rentals. Following a surge in domestic travel post-pandemic, the short-term rental market expanded, as did the form of those rentals. With the increased number of short-term options, market dilution has impacted profits.

The Realty segment's provision for credit losses was a benefit in both third quarter 2024 and 2023. Noninterest expenses declined compared to the prior year led by decreases in salaries and benefits.

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The following charts present revenue and expenses for the Realty segment for the periods presented:

	Three Months Ended		Nine Months Ended		Increase/(Decrease)		Increase/(Decrease)	
	September 30,		September 30,		Three Months Ended		Nine Months Ended	
	2024	2023	2024	2023	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
(dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Residential mortgage banking income, net	\$ 12,211	\$ 10,955	\$ 37,006	\$ 32,964	\$ 1,256	11.47 %	\$ 4,042	12.26 %
Title insurance and settlement fees	—	—	—	443	—	— %	(443)	(100.00)%
Property management fees, net	11,221	12,800	42,306	40,433	(1,579)	(12.34)%	1,873	4.63 %
Real estate brokerage income, net	—	(63)	—	3,562	63	(100.00)%	(3,562)	(100.00)%
Income from unconsolidated subsidiary	51	(63)	148	(884)	114	180.95 %	1,032	116.74 %
Gain on sale of equity investment	—	—	—	8,833	—	— %	(8,833)	(100.00)%
Net interest and other income	906	1,163	3,007	1,984	(257)	(22.10)%	1,023	51.56 %
Total revenue	24,389	24,792	82,467	87,335	(403)	(1.63)%	(4,868)	(5.57)%
Provision for credit losses	(57)	(199)	35	(210)	142	(71.36)%	245	116.67 %
Salaries and employee benefits	12,355	12,881	36,913	41,670	(526)	(4.08)%	(4,757)	(11.42)%
Occupancy	1,638	1,669	5,019	5,559	(31)	(1.86)%	(540)	(9.71)%
Furniture and equipment	604	600	1,794	1,933	4	0.67 %	(139)	(7.19)%
Amortization of intangible assets	637	742	2,094	2,166	(105)	(14.15)%	(72)	(3.32)%
Other expenses	8,839	9,544	26,174	27,319	(705)	(7.39)%	(1,145)	(4.19)%
Total expenses	24,073	25,436	71,994	78,647	(1,363)	(5.36)%	(6,653)	(8.46)%
Income before income tax, corporate allocation, and noncontrolling interest	373	(445)	10,438	8,898	818	183.82 %	1,540	17.31 %
Corporate allocation	(484)	(600)	(1,322)	(1,800)	116	19.33 %	478	(26.56)%
Income before income tax provision and noncontrolling interest	(111)	(1,045)	9,116	7,098	934	89.38 %	2,018	28.43 %
Provision for income tax	18	(99)	2,336	1,769	117	118.18 %	567	32.05 %
Net income	(129)	(946)	6,780	5,329	817	86.36 %	1,451	27.23 %
Noncontrolling interest	(148)	117	(834)	(1,680)	(265)	226.50 %	846	50.36 %
Net income attributable to TowneBank	\$ (277)	\$ (829)	\$ 5,946	\$ 3,649	\$ 552	66.59 %	\$ 2,297	62.95 %
Total revenue excluding gain on sale of equity investment and related brokerage income	\$ 24,389	\$ 24,855	\$ 82,467	\$ 74,940	\$ (466)	(1.87)%	\$ 7,527	10.04 %
Salaries and employee benefits/total noninterest expense	51.32 %	50.64 %	51.27 %	52.98 %				
% of total consolidated income	(0.64)%	(1.85)%	4.93 %	2.92 %				

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	Three Months Ended		Nine Months Ended		Increase/(Decrease)		Increase/(Decrease)	
	September 30,		September 30,		Three Months Ended		Nine Months Ended	
	2024	2023	2024	2023	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<i>(dollars in thousands)</i>								
Key data:								
Efficiency ratio (non-GAAP)	96.09%	99.61%	84.76%	97.43%				
Loans originated, mortgage	\$421,570	\$348,387	\$1,141,159	\$1,037,839	\$ 73,183	21.01 %	\$ 103,320	9.96 %
Loans originated, joint venture	176,612	172,021	508,392	515,289	4,591	2.67 %	(6,897)	(1.34)%
Total loans originated	\$598,182	\$520,408	\$1,649,551	\$1,553,128	\$ 77,774	14.94 %	\$ 96,423	6.21 %
Number of loans, mortgage	1,096	938	2,994	2,776	158	16.84 %	218	7.85 %
Number of loans, joint venture	541	549	1,590	1,675	(8)	(1.46)%	(85)	(5.07)%
Total number of loans	1,637	1,487	4,584	4,451	150	10.09 %	133	2.99 %
Average loan amount, mortgage	\$ 385	\$ 371	\$ 381	\$ 374	\$ 14	3.77 %	\$ 7	1.87 %
Average loan amount, joint venture	326	313	320	308	13	4.15 %	12	3.90 %
Average loan amount	\$ 365	\$ 350	\$ 360	\$ 349	15	4.29 %	11	3.15 %
Number of originators, mortgage	117	137	117	137	(20)	(14.60)%	(20)	(14.60)%
Number of originators, joint venture	42	55	42	55	(13)	(23.64)%	(13)	(23.64)%
Total number of originators	159	192	159	192	(33)	(17.19)%	(33)	(17.19)%

**Insurance Segment.** In the three months ended September 30, 2024, the Insurance segment reported earnings before income taxes and noncontrolling interest of \$8.12 million, an increase of \$81 thousand, or 1.01%, over comparative 2023. In the nine months ended September 30, 2024, the Insurance segment reported earnings before income taxes and noncontrolling interest of \$23.02 million.

Commissions on property and casualty insurance increased in the three- and nine-month periods ended September 30, 2024, compared to 2023, driven by organic growth and a full nine months of income in 2024 related to a 2023 acquisition. Contingency and bonus revenue increased in third quarter and the first nine months of 2024 compared to 2023. The Company sold a small insurance benefits subsidiary in third quarter 2023 and reported a gain on sale of \$0.54 million. An additional gain of \$20 thousand related to that sale was recorded in third quarter 2024. The Company expects to continue actively pursuing attractive acquisitions, with a strategic objective to grow annual revenues to \$150 - \$200 million.

Salaries and employee benefits expense increased due to cost of living increases, increases in health insurance costs, and a full nine months of salaries and benefits related to the 2023 acquisition.

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The following chart presents revenue and expenses as well as changes for the Insurance segment for the periods presented:

					Increase/(Decrease)		Increase/(Decrease)	
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30, 2024		September 30, 2024	
	2024	2023	2024	2023	Amount	Percent	Amount	Percent
<i>(dollars in thousands)</i>								
Net commission and fee income								
Property and casualty	\$ 23,157	\$ 22,103	\$ 66,104	\$ 60,259	\$ 1,054	4.77 %	\$ 5,845	9.70 %
Employee benefits	4,483	4,245	13,712	13,393	238	5.61 %	319	2.38 %
Specialized benefit services	—	133	10	445	(133)	(100.00)%	(435)	(97.75)%
Total net commissions and fees	27,640	26,481	79,826	74,097	1,159	4.38 %	5,729	7.73 %
Contingency and bonus revenue	2,731	2,335	10,185	9,343	396	16.96 %	842	9.01 %
Gain on sale of equity investment	20	544	20	544	(524)	(96.32)%	(524)	(96.32)%
Other income	5	13	21	29	(8)	(61.54)%	(8)	(27.59)%
Total revenues	30,396	29,373	90,052	84,013	1,023	3.48 %	6,039	7.19 %
Employee commission expense	4,446	4,906	13,728	14,340	(460)	(9.38)%	(612)	(4.27)%
Revenue, net of commission expense	25,950	24,467	76,324	69,673	1,483	6.06 %	6,651	9.55 %
Salaries and employee benefits	12,620	11,650	37,675	34,293	970	8.33 %	3,382	9.86 %
Occupancy	750	721	2,254	2,303	29	4.02 %	(49)	(2.13)%
Furniture and equipment	175	227	639	650	(52)	(22.91)%	(11)	(1.69)%
Amortization of intangible assets	1,421	1,572	4,229	4,660	(151)	(9.61)%	(431)	(9.25)%
Other expenses	2,126	1,568	6,303	4,614	558	35.59 %	1,689	36.61 %
Total operating expenses	17,092	15,738	51,100	46,520	1,354	8.60 %	4,580	9.85 %
Income before income tax, corporate allocation, and noncontrolling interest	8,858	8,729	25,224	23,153	129	1.48 %	2,071	8.94 %
Corporate allocation	(739)	(691)	(2,202)	(1,963)	(48)	6.95 %	(239)	12.18 %
Income before income tax provision and noncontrolling interest	8,119	8,038	23,022	21,190	81	1.01 %	1,832	8.65 %
Provision for income tax	2,079	2,069	5,910	5,451	10	0.48 %	459	8.42 %
Net income	6,040	5,969	17,112	15,739	71	1.19 %	1,373	8.72 %
Noncontrolling interest	—	—	—	—	—	— %	—	N/M
Net income attributable to TowneBank	\$ 6,040	\$ 5,969	\$ 17,112	\$ 15,739	\$ 71	1.19 %	\$ 1,373	8.72 %
Total revenue excluding gain on sale of equity investment	\$30,376	\$28,829	\$90,032	\$83,469				
Salaries and employee benefits/total noninterest expense	73.84 %	74.02 %	73.73 %	73.72 %				
% of total consolidated income	14.06 %	13.31 %	14.20 %	12.61 %				
Efficiency ratio (non-GAAP)	60.44 %	59.21 %	61.43 %	60.55 %				

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#### ANALYSIS OF FINANCIAL CONDITION

**Overview.** At September 30, 2024, total assets were \$17.19 billion, which is \$352.98 million, or 2.10%, higher than total assets at December 31, 2023. Our loan portfolio, less unearned income and deferred costs, made up 66.40% of our period-end assets and totaled \$11.41 billion at September 30, 2024. Average assets for the quarter ended September 30, 2024, were \$17.03 billion, an increase of \$345.10 million, or 2.07%, from the quarter ended December 31, 2023. Management continues to prioritize balance sheet strength and strong levels of liquidity in the current environment.

Average earning assets for third quarter 2024 increased \$304.13 million from fourth quarter 2023 to \$15.40 billion. Our average total deposits were \$14.26 billion for third quarter 2024, an increase of \$350.72 million, or 2.52%, compared to fourth quarter 2023. Average noninterest-bearing deposits for the quarter ended September 30, 2024, decreased \$102.93 million, or 2.33%, from the quarter ended December 31, 2023.

**Interest-Bearing Deposits in Financial Institutions.** Interest-bearing deposits in other banks and 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 September 30, 2024 and December 31, 2023, respectively, these balances were \$1.16 billion and \$1.04 billion and consisted mainly of deposits in other banks and overnight deposits with the FRB.

The average balance of interest-bearing deposits in other banks and at the FRB during third quarter 2024 was \$1.23 billion, or 7.96%, of average total earning assets, compared to \$1.14 billion, or 7.56%, of average total earning assets for fourth quarter 2023.

**Securities Available for Sale.** Our AFS debt securities portfolio is reported at fair value, which is determined based on market prices of similar instruments. The AFS debt securities portfolio was \$2.36 billion at September 30, 2024, compared with \$2.13 billion at December 31, 2023. The average balance during third quarter 2024 was \$2.31 billion, compared to \$2.01 billion during the quarter ended December 31, 2023. The average AFS debt securities portfolio represented 14.98% and 13.35% of average earning assets in third quarter 2024 and the quarter ended December 31, 2023, respectively. During the nine months ended September 30, 2024, we had sales, maturities, and calls totaling \$206.52 million in investment securities that were classified as AFS.

Net unrealized losses related to the fair value of AFS debt securities decreased \$40.29 million in the first nine months of 2024. Unrealized losses in the AFS debt securities portfolio are primarily driven by the increase in market interest rates rather than credit quality. AFS debt securities are reviewed quarterly to assess whether an allowance for credit losses is required. An allowance for credit losses on impaired AFS debt securities is recorded when the present value of expected future cash flows of the investment security is less than its amortized cost basis, limited to the amount by which the security's amortized cost basis exceeds the fair value. At September 30, 2024, the allowance for credit losses on AFS debt securities was \$1.17 million, compared to \$1.50 million at December 31, 2023. For further financial details, see "Note 4. Investment Securities" of the Notes to Consolidated Financial Statements in this report.

**Securities Held to Maturity.** HTM debt securities are valued at amortized cost and totaled \$212.35 million at September 30, 2024, and \$477.51 million at December 31, 2023. The average balance during third quarter 2024 was \$212.38 million, compared with \$517.86 million in fourth quarter 2023, representing 1.38% and 3.43% of total average earning assets, respectively. These securities are held primarily for yield and

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pledging purposes. HTM debt securities are reviewed quarterly for potential credit losses. The allowance for credit losses on HTM debt securities was \$77 thousand at September 30, 2024, and \$84 thousand at December 31, 2023. During the nine months ended September 30, 2024, we had maturities and calls totaling \$265.16 million in HTM debt securities. For further financial details, see "Note 4. Investment Securities" of the Notes to Consolidated Financial Statements in this report.

**Mortgage Loans Held for Sale.** At September 30, 2024, we held \$264.32 million in mortgage loans originated and intended for sale in the secondary market, as compared with \$149.99 million at December 31, 2023. Average mortgage loans held for sale were 1.35% of average earning assets for the quarter ended September 30, 2024, compared to 1.08% for the quarter ended December 31, 2023. The majority of mortgage loans held for sale are precommitted to investors, which minimizes our interest rate risk.

**Loan Portfolio.** Loans, net of unearned income and deferred costs, were \$11.41 billion at September 30, 2024, which was a \$83.50 million, or 0.74%, increase over \$11.33 billion at December 31, 2023. As a percentage of total average earning assets, average loans were 74.16% for the quarter ended September 30, 2024, compared with 74.39% for the quarter ended December 31, 2023. We expect to continue managing loan growth to align with deposit growth trends with a target of annualized low to mid-single digits.

Commercial real estate loans constituted 58.75% and 58.69% of our loan portfolio at September 30, 2024 and December 31, 2023, respectively. The following table provides additional information regarding commercial real estate loans segregated by the type of property securing the loans and the geographic region in which the loans were originated at September 30, 2024 (dollars in thousands):

Description Within Major Classification	Consolidated	% of Major Class	Virginia / NENC	North Carolina	Classified (1)
Residential construction	\$ 192,018	17.17 %	\$ 123,255	\$ 68,763	\$ —
Improved lots	178,473	15.96 %	120,902	57,571	—
Raw land	139,978	12.51 %	74,963	65,015	—
Land Development	117,131	10.47 %	99,578	17,553	770
Construction-to-perm	62,915	5.62 %	22,873	40,042	—
Presold Residential Construction	32,153	2.87 %	21,588	10,565	272
All other	396,001	35.40 %	304,647	91,354	—
<b>Construction and land development</b>	<b>\$ 1,118,669</b>	<b>100.00 %</b>	<b>\$ 767,806</b>	<b>\$ 350,863</b>	<b>\$ 1,042</b>
<b>Percentage of Consolidated</b>			<b>68.64 %</b>	<b>31.36 %</b>	<b>0.09 %</b>
Office buildings	\$ 449,739	27.17 %	\$ 292,545	\$ 157,194	\$ 840
Warehouse light industry	341,867	20.65 %	237,731	104,136	1,675
Auto dealer and repair	169,825	10.26 %	152,855	16,970	8,781
Restaurants	128,798	7.78 %	81,665	47,133	223
Churches	97,171	5.87 %	87,576	9,595	—
All other	467,945	28.27 %	300,627	167,318	10,168
<b>Owner occupied</b>	<b>\$ 1,655,345</b>	<b>100.00 %</b>	<b>\$ 1,152,999</b>	<b>\$ 502,346</b>	<b>\$ 21,687</b>
<b>Percentage of Consolidated</b>			<b>69.65 %</b>	<b>30.35 %</b>	<b>1.31 %</b>
Office buildings	\$ 790,459	24.86 %	\$ 477,265	\$ 313,194	\$ —
Hotels	758,752	23.86 %	648,854	109,898	1,488
Shopping centers	703,370	22.12 %	367,569	335,801	29
Warehouse light industry	366,265	11.51 %	205,013	161,252	—
All other	560,853	17.65 %	382,798	178,055	2,658
<b>Non-owner occupied</b>	<b>\$ 3,179,699</b>	<b>100.00 %</b>	<b>\$ 2,081,499</b>	<b>\$ 1,098,200</b>	<b>\$ 4,175</b>
<b>Percentage of Consolidated</b>			<b>65.46 %</b>	<b>34.54 %</b>	<b>0.13 %</b>

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Description Within Major Classification	Consolidated	% of Major Class	Virginia / NENC	North Carolina	Classified (1)
Less than \$1 Million Origination	\$ 69,529	9.26 %	\$ 34,915	\$ 34,614	\$ —
More than \$1 Million Origination	681,377	90.74 %	354,897	326,480	49
<b>Multi-family</b>	<b>\$ 750,906</b>	<b>100.00 %</b>	<b>\$ 389,812</b>	<b>\$ 361,094</b>	<b>\$ 49</b>
<b>Percentage of Consolidated</b>			<b>51.91 %</b>	<b>48.09 %</b>	<b>0.01 %</b>
<b>Total Commercial Real Estate</b>	<b>\$ 6,704,619</b>		<b>\$ 4,392,116</b>	<b>\$ 2,312,503</b>	<b>\$ 26,953</b>
<b>Percentage of Consolidated Total Commercial Real Estate</b>			<b>65.51 %</b>	<b>34.49 %</b>	<b>0.40 %</b>

(1) Classified loans are defined as substandard or doubtful. Classified commercial real estate loans totaled \$26.95 million, or 73.08% of total classified credits at September 30, 2024.

**Allowance for Credit Losses and Asset Quality.** The allowance for credit losses on funded loans at September 30, 2024 and December 31, 2023, was \$123.19 million and \$126.46 million, respectively. The decrease in the allowance was driven by a modest decline in the loan portfolio, primarily in higher-risk real estate construction and development loans, combined with continued strength in credit quality, and improvements in macroeconomic forecast scenarios utilized in our model. Loan balances in indirect consumer auto loans declined \$11.33 million compared to the linked quarter and coupled with seasoning of the remaining loans in that category resulted in a decline in that category's allowance. The allowance was equal to 1.08% of total loans outstanding at September 30, 2024, compared with 1.12% at December 31, 2023.

Classified loans, defined as loans in the substandard and doubtful categories, represented 0.32% of total loans at both September 30, 2024 and December 31, 2023. Total criticized loans, defined as special mention and classified loans, declined from \$142.34 million in fourth quarter 2023 to \$139.82 million in third quarter 2024. Loans 30 to 89 days past due totaled \$7.61 million at September 30, 2024, as compared to \$9.52 million at December 31, 2023. The allowance for credit losses on funded loans was equal to 18.70x of nonperforming loans at September 30, 2024, compared with 18.48x at December 31, 2023. 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.



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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):

	September 30, 2024	December 31, 2023
Real estate - construction and land development	\$ 17,814	\$ 18,736
Real estate - commercial owner occupied	14,940	14,078
Real estate - commercial non-owner occupied	21,294	22,098
Real estate - multi-family	3,532	3,133
Real estate - residential 1-4 family	30,287	32,363
HELOC	16,627	17,324
C&I	9,900	8,069
Government	2,583	3,092
Indirect	4,203	4,794
Consumer loans and other	2,011	2,774
<b>Total</b>	<b>\$ 123,191</b>	<b>\$ 126,461</b>

The following table provides information on the allowance for loan losses and nonperforming assets for the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended		
	September 30,		December 31,
	2024	2023	2023
<b>Nonperforming Assets</b>			
Nonperforming loans	\$ 6,588	\$ 7,110	\$ 6,843
Foreclosed property	884	766	908
Total nonperforming assets	<u>\$ 7,472</u>	<u>\$ 7,876</u>	<u>\$ 7,751</u>
Loans past due 90 days and still accruing interest	<u>\$ 510</u>	<u>\$ 970</u>	<u>\$ 735</u>
<b>Asset Quality Ratios</b>			
Allowance for credit losses to nonperforming loans	18.70x	17.60x	18.48x
Allowance for credit losses to period-end loans	1.08%	1.12%	1.12%
Nonperforming loans to period-end loans	0.06%	0.06%	0.06%
Nonperforming assets to period-end assets	0.04%	0.05%	0.05%
Quarterly net charge-offs (recoveries) to average loans (annualized)	0.02%	(0.04)%	—%

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

	September 30, 2024	December 31, 2023
CRE - Construction and land development	\$ 273	\$ 185
CRE - Owner occupied	421	521
CRE - Non-owner occupied	1,489	—
CRE - Multi-family	—	216
Residential 1-4 family	2,174	2,778
HELOC	526	698
C&I	691	1,217
Government	—	—
Indirect	1,000	1,228
Consumer loans and other	14	—
<b>Total nonperforming loans</b>	<b>\$ 6,588</b>	<b>\$ 6,843</b>

Nonperforming assets consist of nonaccrual loans, foreclosed real estate, and other repossessed collateral. Unless the debt is both well-secured and in the process of collection, 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. 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 or exempt under regulatory rules.

At September 30, 2024, we had \$7.47 million in nonperforming assets, which amounted to 0.04% of total assets. Additionally, loans 60-89 days past due, excluding nonperforming loans, totaled \$2.54 million, and there were \$510 thousand in loans past due 90 days or more that were accruing interest. Nonperforming assets consisted of \$6.59 million in nonperforming loans and \$0.88 million in foreclosed property at September 30, 2024. Nonperforming loans decreased by \$255 thousand from December 31, 2023. Foreclosed property decreased \$24 thousand from December 31, 2023.

**Deposits.** Total deposits at September 30, 2024, were \$14.36 billion, representing an increase of \$0.48 billion, or 3.48%, compared to September 30, 2023. Total average deposits were \$14.26 billion during third quarter 2024, compared to \$13.83 billion during third quarter 2023 and \$13.91 billion during fourth quarter 2023.

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	Total Deposits Period Ended			September 30, 2024 vs. September 30, 2023		September 30, 2024 vs. December 31, 2023	
	September 30,		December 31,	Change		Change	
	2024	2023	2023	\$	%	\$	%
<i>(dollars in thousands)</i>							
Interest-bearing demand and money market accounts	\$ 6,990,103	\$ 6,764,415	\$ 6,757,619	\$ 225,688	3.34 %	\$ 232,484	3.44 %
Regular savings	319,970	350,031	336,492	\$ (30,061)	(8.59)%	\$ (16,522)	(4.91)%
Certificates of deposit	2,785,469	2,321,498	2,456,394	\$ 463,971	19.99 %	\$ 329,075	13.40 %
Total interest-bearing	10,095,542	9,435,944	9,550,505	\$ 659,598	6.99 %	\$ 545,037	5.71 %
Noninterest-bearing demand	4,267,628	4,444,861	4,342,701	\$ (177,233)	(3.99)%	\$ (75,073)	(1.73)%
Total	<u>\$ 14,363,170</u>	<u>\$ 13,880,805</u>	<u>\$ 13,893,206</u>	<u>\$ 482,365</u>	<u>3.48 %</u>	<u>\$ 469,964</u>	<u>3.38 %</u>

At September 30, 2024, we had \$6.83 billion in estimated uninsured deposits, \$0.63 billion of which is collateralized by securities, for an estimated uncollateralized and adjusted uninsured deposit total of \$6.20 billion, roughly 43% of total deposits. Total liquidity sources at September 30, 2024, totaled \$6.82 billion, or 110% of adjusted uninsured deposits.

Average noninterest-bearing demand deposits as a percentage of average total deposits were 30.19% during third quarter 2024 and 33.50% during the same period in 2023. The cost of interest-bearing deposits was 3.28% for third quarter 2024, compared with 2.77% for third quarter 2023.

The following tables set forth a summary of our various deposit categories and their respective cost rates for the periods presented (dollars in thousands):

	Average Balance/Cost Rate									
	Three Months Ended						Nine Months Ended			
	September 30,			December 31,			September 30,			
	2024		2023	2023			2024		2023	
Interest-bearing demand and money market accounts	\$ 6,917,622	2.81 %	\$ 6,605,853	2.49 %	\$ 6,786,850	2.74 %	\$ 6,880,752	2.82 %	\$ 6,349,422	2.04 %
Regular savings	315,338	1.06 %	356,116	1.05 %	345,172	1.11 %	320,696	1.07 %	376,282	0.95 %
Certificates of deposit	2,723,437	4.73 %	2,236,102	3.88 %	2,370,723	4.25 %	2,674,509	4.74 %	1,964,718	3.22 %
Total interest-bearing	9,956,397	3.28 %	9,198,071	2.77 %	9,502,745	3.06 %	9,875,957	3.28 %	8,690,422	2.26 %
Noninterest-bearing demand	4,305,783		4,633,856		4,408,712		4,265,971		4,873,945	
Total	<u>\$14,262,180</u>	<u>2.29 %</u>	<u>\$13,831,927</u>	<u>1.84 %</u>	<u>\$13,911,457</u>	<u>2.09 %</u>	<u>\$14,141,928</u>	<u>2.29 %</u>	<u>\$13,564,367</u>	<u>1.45 %</u>

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The following table provides the average balance and composition of our deposits by major classification for the periods presented (dollars in thousands):

	Average Balance and Composition			
	Three Months Ended			
	September 30,			
	2024		2023	
Interest-bearing demand and money market accounts	\$ 6,917,622	48.50 %	\$ 6,605,853	47.76 %
Regular savings	315,338	2.21 %	356,116	2.57 %
Certificates of deposit	2,723,437	19.10 %	2,236,102	16.17 %
Total interest-bearing	9,956,397	69.81 %	9,198,071	66.50 %
Noninterest-bearing	4,305,783	30.19 %	4,633,856	33.50 %
Total	<u>\$ 14,262,180</u>	100.00 %	<u>\$ 13,831,927</u>	100.00 %

**Advances from the Federal Home Loan Bank of Atlanta.** Advances from the FHLB at September 30, 2024, were \$3.41 million, compared to \$203.96 million at December 31, 2023. The average borrowing cost for FHLB advances in third quarter 2024 was 3.23%, and 5.42% in fourth quarter 2023.

The scheduled maturity dates, call dates, and related fixed interest rates on advances from the FHLB at September 30, 2024, are summarized as follows (dollars in thousands):

Maturity	Interest Rate	Call / Reset Date	Outstanding Amount
11/15/2028	3.43%	—	\$ 1,998
12/01/2028	2.83%	—	1,407
<b>Total FHLB Loans</b>			<u>\$ 3,405</u>

At September 30, 2024, certain residential, HELOCs, agency securities, and commercial mortgages secured by real estate with carrying values of \$3.09 billion collateralized the advances from the FHLB. At December 31, 2023, certain residential HELOCs, second mortgages, agency securities, and commercial mortgages secured by real estate with carrying values of \$2.83 billion collateralized the advances from the FHLB.

In addition to borrowings from the FHLB, we maintain various borrowing arrangements with financial institutions to support liquidity needs. Average total borrowings, including FHLB advances, were \$33.87 million during third quarter 2024, compared with \$114.15 million for fourth quarter 2023, while the average cost of these funds was (0.29)% and 3.28%, respectively. The third quarter interest credit is related to a combination of low average borrowings during the quarter and the effects of interest capitalization on our construction in progress.

**Subordinated Debt, net.** 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.

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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.

The following table provides summarized information on our subordinated notes as of the dates indicated (in thousands):

	September 30, 2024		December 31, 2023	
Carrying value of subordinated notes	\$	256,444	\$	255,796
Average subordinate debt for the quarter ended	\$	256,309	\$	255,663
Average cost of subordinated notes for the quarter ended		3.49 %		3.50 %

**Common Stock and Dividends.** Our common stock is listed on the Nasdaq Global Select Market under the symbol TOWN.

On August 28, 2024, we declared a quarterly shareholder cash dividend of \$0.25 per common share. The dividend was paid October 11, 2024, to shareholders of record on September 30, 2024. On May 29, 2024, we declared a quarterly shareholder cash dividend of \$0.25 per common share. The dividend was paid July 12, 2024, to shareholders of record on June 28, 2024. On February 28, 2024, we declared a quarterly shareholder cash dividend of \$0.25 per common share. The dividend was paid April 12, 2024, to shareholders of record on March 29, 2024.

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.

**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. Mortgage 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.

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The following table provides summarized information on our availability of liquid funds and borrowings as of September 30, 2024 (in thousands):

	September 30, 2024
<b>Available Liquid Funds:</b>	
Cash and cash equivalents	\$ 1,296,064
Unencumbered investment securities	1,770,798
<b>Availability of Borrowings:</b>	
Amount available from FHLB	1,637,421
Amount available from unsecured lines of credit with correspondent banks	150,000
Amount available from Federal Reserve discount window	1,966,572
	<u>\$ 6,820,855</u>

**Regulatory Capital Ratios.** Financial measures related to regulatory capital under Basel III are utilized by banking regulators as a basis for assessing a bank's capital adequacy. Management believes these ratios provide insight into the Company's financial condition, asset quality, and capital adequacy. These ratios include:

- Common equity Tier 1 to risk-based assets (CET1)
- Tier 1 capital to risk-based assets
- Total risk-based capital to risk-based assets
- Tier 1 capital to average quarterly assets (Tier 1 leverage)

Risk-based capital guidelines for United States banking organizations have been issued by the Federal Reserve System, the FDIC, and the Office of the Comptroller of the Currency. Per these guidelines, we consider our sources of liquidity to be adequate to meet our estimated needs and have sufficient alternative sources of liquidity to meet our funding commitments and growth plans.

Risk-based capital ratios, which include CET1, Tier 1 capital, total capital, and leverage capital, are calculated based on Basel III regulatory transitional guidance related to the measurement of capital, risk-weighted assets, and average assets. Under FDIC rules, we are considered "well capitalized" as of September 30, 2024.

The following table provides information on our risk-based capital position as of the dates indicated (dollars in thousands):

	September 30,		December 31,
	2024	2023	2023
<b>Risk-based capital ratios (1):</b>			
Common equity Tier 1 (4.5% minimum requirement)	12.63 %	12.19 %	12.18 %
Tier 1 (6.0% minimum requirement)	12.76 %	12.31 %	12.29 %
Total (8.0% minimum requirement)	15.54 %	15.09 %	15.06 %
Tier 1 leverage ratio (4.0% minimum requirement)	10.38 %	10.06 %	10.17 %

(1) Well-capitalized requirements under Prompt Corrective Action: Common equity Tier 1 of 6.5%, Tier 1 of 8.0%, Total of 10.0%, and Tier 1 leverage ratio of 5%.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Non-GAAP Financial Measures

This document contains GAAP financial measures and non-GAAP financial measures where management believes it to be helpful in understanding Towne's results of operations or financial position. We encourage readers to consider the unaudited Consolidated Financial Statements and other financial information contained in this Form 10-Q in their entirety, and not to rely on any single financial measure.

**Taxable Equivalent Basis.** Interest income, yields, and ratios on a taxable equivalent basis are considered non-GAAP financial measures. Management believes net interest income on a taxable equivalent basis provides an insightful picture of the interest margin for comparison purposes. The taxable equivalent basis also allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources. The taxable equivalent basis assumes a federal statutory tax rate of 21%.

The Company presents return on average assets, return on average tangible assets, return on average equity, and return on average tangible equity. Management excludes the balance of average goodwill and other intangible assets from the Company's 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.

**Non-GAAP Reconciliations.** Where non-GAAP financial measures are used, the comparable GAAP financial measure, as well as the reconciliation to the comparable GAAP financial measure, can be found in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(dollars in thousands)</i>				
Average assets (GAAP)	\$ 17,028,141	\$ 16,762,859	\$ 16,958,540	\$ 16,647,804
Less: average goodwill and intangible assets	522,219	526,445	523,335	526,375
Average tangible assets (non-GAAP)	\$ 16,505,922	\$ 16,236,414	\$ 16,435,205	\$ 16,121,429
Average equity (GAAP)	\$ 2,105,049	\$ 1,986,469	\$ 2,063,800	\$ 1,970,510
Less: average goodwill and intangible assets	522,219	526,445	523,335	526,375
Average tangible equity (non-GAAP)	\$ 1,582,830	\$ 1,460,024	\$ 1,540,465	\$ 1,444,135
Average common equity (GAAP)	\$ 2,088,674	\$ 1,969,898	\$ 2,047,482	\$ 1,954,850
Less: average goodwill and intangible assets	522,219	526,445	523,335	526,375
Average tangible common equity (non-GAAP)	\$ 1,566,455	\$ 1,443,453	\$ 1,524,147	\$ 1,428,475
Net income (GAAP)	\$ 42,949	\$ 44,862	\$ 120,492	\$ 124,911
Amortization of intangibles, net of tax	2,473	2,852	7,643	8,488
Tangible net income (non-GAAP)	\$ 45,422	\$ 47,714	\$ 128,135	\$ 133,399
Total revenue (GAAP)	\$ 174,518	\$ 172,864	\$ 516,590	\$ 538,575
Net (gain)/loss on investment securities	—	—	(74)	—
Gain on sale of equity investments	(20)	(554)	(20)	(9,386)
Operating income (non-GAAP)	\$ 174,498	\$ 172,310	\$ 516,496	\$ 529,189
Noninterest expense (GAAP)	\$ 126,900	\$ 117,702	\$ 376,475	\$ 367,328
Less: Amortization of intangibles	3,130	3,610	9,675	10,744
Noninterest expense net of amortization (non-GAAP)	\$ 123,770	\$ 114,092	\$ 366,800	\$ 356,584

## PART I. FINANCIAL INFORMATION

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

<b><u>Realty Segment</u></b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Total revenue (GAAP)	\$ 24,389	\$ 24,792	\$ 82,467	\$ 87,335
Less: Gain on sale of equity investments	—	—	—	8,833
Less: Real estate brokerage income, net	—	(63)	—	3,562
Total revenue excluding gain on sale of equity investment and related brokerage income (non-GAAP)	\$ 24,389	\$ 24,855	\$ 82,467	\$ 74,940
<b><u>Insurance Segment</u></b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Total revenue (GAAP)	\$ 30,396	\$ 29,373	\$ 90,052	\$ 84,013
Less: Gain on sale of equity investments	20	544	20	544
Total revenue excluding gain on sale of equity investment and related brokerage income (non-GAAP)	\$ 30,376	\$ 28,829	\$ 90,032	\$ 83,469
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Return on average assets (GAAP basis)	1.00 %	1.06 %	0.95 %	1.00 %
Impact of excluding average goodwill and other intangibles and amortization	0.09 %	0.11 %	0.09 %	0.11 %
Return on average tangible assets	1.09 %	1.17 %	1.04 %	1.11 %
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Return on average equity (GAAP basis)	8.12 %	8.96 %	7.80 %	8.48 %
Impact of excluding average goodwill and other intangibles and amortization	3.30 %	4.01 %	3.31 %	3.87 %
Return on average tangible equity	11.42 %	12.97 %	11.11 %	12.35 %
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Efficiency ratio (GAAP)	72.71 %	68.09 %	72.88 %	68.20 %
Impact of excluding goodwill and other intangibles and amortization	(1.78)%	(1.88)%	(1.86)%	(0.82)%
Efficiency ratio (non-GAAP)	70.93 %	66.21 %	71.02 %	67.38 %

The Company presents book value (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, goodwill and other intangible assets are excluded, allowing management to review the Company's core capital position.

	<b>September 30,</b>	
	<b>2024</b>	<b>2023</b>
Book value per share (GAAP basis)	\$ 28.59	\$ 26.28
Impact of excluding goodwill and other intangibles and amortization	(6.94)	(7.00)
Tangible book value per share	\$ 21.65	\$ 19.28



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## PART I. FINANCIAL INFORMATION

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

**Disclosures About Market Risk.** 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, 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 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, and adopts funding and balance sheet management strategies intended to ensure that the potential impact on earnings and liquidity as a result of fluctuations in interest rates is within acceptable standards.

*Market Risk.* 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 interest rate risk management 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.

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. 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.

*Interest Rate Risk.* We utilize a variety of measurement techniques to identify and manage our exposure to interest rates. We do not use off-balance-sheet financial instruments to manage interest rate sensitivity and net interest income. We do, however, 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 to protect ourselves from unanticipated rate movements by understanding the dynamic nature of our balance sheet components.

At September 30, 2024, we had \$4.81 billion more liabilities than assets subject to repricing within one year. This is a one-day position, which is continually changing and is not necessarily indicative of our position at any other time.

## PART I. FINANCIAL INFORMATION

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

**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 are 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>
+ 200 basis points	8.70 %
+ 100 basis points	6.11 %
- 100 basis points	2.31 %
- 200 basis points	4.45 %

**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 (dollars in thousands)</u>
+ 200 basis points	\$ (64,255)
+ 100 basis points	\$ (81,770)
- 100 basis points	\$ 60,777
- 200 basis points	\$ 96,276

Rates of loan prepayments are based on historical experience of similar loans in rising and falling rate environments. Assumptions used on non-maturity deposit rate changes, or betas, are based on historical experience of similar account types. Time deposit pricing is assumed to change consistent with the changes in other market yield curves, such as U.S. Treasury rates. Those loan and deposit assumptions are subject to the risk of rates changing faster or slower or by a higher absolute amount, as well as differing competitive environments. Because these correlations are based on competitive and market conditions, the Company notes that future results may be different from estimates, and such differences could be material.

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## **PART I. FINANCIAL INFORMATION**

### **Item 4. Controls and Procedures**

As of September 30, 2024, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are adequate and effective.

Management assessed the effectiveness of our internal control over financial reporting as of September 30, 2024. There were no changes that occurred during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

For information regarding factors that could affect the Company's results of operations, financial condition, or liquidity, see the risk factors discussed in Part I, Item 1A, of TowneBank's 2023 Annual Report. See also "Forward-Looking Statements," included in Part I, Item 2, of this Quarterly Report on Form 10-Q. There have been no material changes from the risk factors previously disclosed in TowneBank's 2023 Annual Report on Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

Not applicable

### Item 5. Other Information

None

### Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
(2.1)	Agreement and Plan of Reorganization, dated as of September 23, 2024, by and among TowneBank, Cardinal Sub, Inc., Village Bank and Trust Financial Corp. and Village Bank (incorporated by reference to Exhibit 2.1 to our Form 8-K, previously filed with the FDIC on September 25, 2024).
(31.1)	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31.2)	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Certification Pursuant to 18 U.S.C. Section 1350 as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
(99)	Report of Independent Registered Public Accounting Firm dated November 6, 2024.

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**TOWNEBANK**

November 6, 2024  
\_\_\_\_\_  
Date

By: /s/ William I. Foster III  
\_\_\_\_\_  
William I. Foster III  
President and Chief Executive Officer

November 6, 2024  
\_\_\_\_\_  
Date

By: /s/ William B. Littreal  
\_\_\_\_\_  
William B. Littreal  
Senior Executive Vice President/Chief  
Financial Officer

CERTIFICATIONS

I, William I. Foster III, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2024, of TowneBank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors, and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2024

Date

/s/ William I. Foster III

William I. Foster III

President and Chief Executive Officer

CERTIFICATIONS

I, William B. Littreal, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2024, of TowneBank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors, and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2024

Date

/s/ William B. Littreal

William B. Littreal

Senior Executive Vice President/Chief Financial Officer

**Exhibit (32)**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350, as adopted by §906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of TowneBank do hereby certify, to such officer's knowledge, that:

1. Our Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, our financial condition and results of operations as of and for the period covered by the Report.

November 6, 2024

Date

/s/ William I. Foster III

William I. Foster III

President and Chief Executive Officer

November 6, 2024

Date

/s/ William B. Littreal

William B. Littreal

Senior Executive Vice President/Chief Financial  
Officer

*A signed original of this written statement required by Section 906 has been provided to TowneBank and will be retained by TowneBank and furnished to the Federal Deposit Insurance Corporation or its staff upon request.*





Forvis Mazars, LLP  
4350 Congress Street, Suite 900  
Charlotte, NC 28209  
P 704.367.7020 | F 704.367.7760  
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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and  
Shareholders of TowneBank

### ***Results of Review of Interim Financial Statements***

We have reviewed the condensed consolidated balance sheet of TowneBank (the "Company") as of September 30, 2024, and the related condensed consolidated statements of income, comprehensive income (loss) and equity for the three and nine-month periods ended September 30, 2024 and 2023, and the statement of cash flows for the nine-month periods ended September 30, 2024, and 2023, and the related notes (collectively referred to as the "interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of the Company as of December 31, 2023, and the related consolidated statements of income, comprehensive income (loss), cash flows and equity for the year then ended (not presented herein), and in our report dated February 28, 2024, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2023, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

### ***Basis for Review Results***

These interim financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the 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 review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

*Forvis Mazars, LLP*

Charlotte, NC

November 6, 2024