FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

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

For the fiscal year ended December 31, 2021

FDIC Insurance Certificate Number: 35095

TOWNE BANK

(Exact name of registrant as specified in its charter)

VIRGINIA	**54-1910608**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5716 High Street, Portsmouth, VA	**23703**
(Address of principal executive offices)	(Zip Code)

(757) 638-7500

(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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** [X] **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, 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 ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

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

The aggregate market value of the common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $2.03 billion.

Number of shares of common stock outstanding at February 18, 2022: 72,676,704 shares

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Registrant's 2021 Annual Report to Shareholders are incorporated by reference into Parts I, II, and IV; and
(2) Portions of the Registrant's 2022 Proxy Statement for its Annual Meeting of Shareholders to be held May 25, 2022, are incorporated by reference into Part III.

TOWNE BANK

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only the beliefs, expectations, or opinions of TowneBank and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward-looking statements may be identified by the use of such words as: "believe," "expect," "anticipate," "intend," "plan," "estimate," or words of similar meaning, or future or conditional terms, such as "will," "would," "should," "could," "may," "likely," "probably," or "possibly." These statements may address issues that involve significant risks, uncertainties, estimates, and assumptions made by management. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include the impact of the COVID-19 pandemic and the associated efforts to limit the spread of the virus; 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; changes in the creditworthiness of customers and the possible impairment of the collectability of loans; 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; changes in the legislative or regulatory environment, including changes in accounting standards and tax laws, that may adversely affect our business; costs or difficulties related to the integration of the businesses we have acquired may be greater than expected; expected cost savings associated with pending or recently completed acquisitions may not be fully realized or realized within the expected time frame; cybersecurity threats or attacks, the implementation of new technologies, and the ability to develop and maintain reliable electronic systems; our competitors may have greater financial resources and develop products that enable them to compete more successfully; changes in business conditions; changes in the securities market; and changes in our local economy with regard to our market area. Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events, or otherwise. For additional information on factors that could materially influence forward-looking statements included in this report, see the risk factors in "Item 1A, Risk Factors" in this report.

Item 1. BUSINESS

Overview

TowneBank began operations as a Virginia chartered bank in April 1999. We offer retail and commercial banking services to numerous markets in Virginia and North Carolina. We place special emphasis on serving the financial needs of individuals, commercial enterprises, and professionals.

Our foundation was built on providing banking services and, since inception, we have expanded to provide our members with complete residential real estate services, mortgage, personal and commercial insurance services, title-related services for both residential and commercial transactions, employee benefit services, and investment services. We offer a diversified range of financial services through our banking and non-banking subsidiaries. Additionally, through two controlled divisions, we provide investment and asset management services and originate mortgage loans, the majority of which are sold to investors on the national secondary market. Unless

indicated otherwise, the terms "Company," "we," "us," and "our" refer to TowneBank and our consolidated subsidiaries.

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

A list of our subsidiaries is filed as Exhibit 21, and additional information relating to our business and our subsidiaries is included in the 2021 Annual Report to Shareholders ("Annual Report") filed as Exhibit 13 and incorporated herein by reference.

Organization

We were organized and incorporated under the laws of the Commonwealth of Virginia on September 3, 1998, and commenced operations on April 8, 1999. We have three reportable segments: Banking, Realty, and Insurance.

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

Realty Segment. The Realty segment provides residential real estate services and originations of a variety of mortgage loans. We also provide resort property management and residential and commercial title insurance.

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

Operating Strategy

Our business strategy focuses on building strong relationships with our members, employees, and communities, while maintaining disciplined underwriting standards and continuing our focus on operational efficiency. We emphasize the making of marketing and member decisions at the local level (within centrally mandated and monitored control standards) with administrative and operational decisions at the central Company level. In order to accomplish this, we have established a "TowneBanking Group" ("Banking Group") for each of our targeted markets.

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

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

Our business model is unique, with revenues from our Realty and Insurance segments providing a counter cyclical balance to our Banking revenues. Our strategic plan places increased emphasis on developing and generating

noninterest, or fee, income. Such development involves looking for opportunities to grow that income source, including acquisitions of non-bank financial service providers. Noninterest income includes income generated by our subsidiaries and divisions, as well as service charges on deposit accounts and other fee income.

Services

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

Banking and Other Financial Services. The foundation of our banking services is built on being a reliable and consistent source of credit with loans that are priced based upon the overall banking relationship. Our capitalization provides a lending capacity to meet the credit needs of our targeted market segment. Further, we have various loan participation agreements with other financial institutions should the need arise to meet the additional credit needs of our members.

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

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

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

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

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

Realty Services. The full spectrum of services offered in our Realty segment allows us to realize certain operational synergies in providing quality residential real estate services, originations of a variety of residential mortgages, and title services for residential and commercial title transactions.

We assist customers with the process of buying or selling a home. Additionally, we also provide other realty-related services, including relocation services for individuals and families, including those in the military; and property management services for single-family homes, condominiums, townhomes, apartments, offices, vacation rentals, and retail establishments. Our vacation rentals business specializes in resort property management, offering vacation rentals with many of the most distinctive resort properties in Hilton Head, South Carolina; McHenry, Maryland; and Oak Island, North Carolina. In July 2021, TowneBank acquired Venture Resorts, Inc. ("Venture Resorts") one of the largest cabin rental companies in the Smoky Mountains. With close to 400 rental properties near the Tennessee destinations of Gatlinburg, Pigeon Forge, Wears Valley, and Sevierville, Venture Resorts provides accommodations for groups of all sizes visiting the Great Smoky Mountains National Park, the most visited national park in the United States.

TowneBank Mortgage processes residential mortgage loans, from application acceptance to loan closing and funds disbursement. Once finalized, they are packaged and sold principally in the secondary market through purchase commitments from investors. In addition to relocation and property management services, we offer title and settlement services, perform real estate closings for residential properties, and issue title insurance policies for both residential and commercial transactions.

Insurance Services. The Insurance segment provides individual and business members with a wide array of insurance products, including life, property, casualty, and health insurance. Through Towne Insurance, we offer a full line of commercial and consumer insurance products and financial services. Through Towne Benefits, we offer individual and group life and health insurance. The Company sold Red Sky Travel Insurance ("Red Sky"), a travel insurance joint venture, in third quarter 2020.

Competition

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

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

Despite the intense level of competition, we believe the existing and future banking and financial services market in our market areas represents excellent opportunities for a locally owned and managed financial services company with a strong community philanthropic philosophy, such as Towne. Among other factors, the economic outlook

for the areas and the size and growth potential of existing markets for banking and other financial services point to a growing demand for such services. Further, in view of the continuing trend in the financial services industry toward consolidations into larger, sometimes impersonal, national institutions, our company fulfills a market demand for the personal and customized financial services an independent, locally run company can offer.

Concentrations

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

	December 31, 2021			
(Amounts in millions)	**Deposits**	**%**	**Loans**	**%**
Virginia Beach	$ 2,453	18.07 %	$ 1,592	16.75 %
Portsmouth	1,217	8.97 %	630	6.63 %
Chesapeake	1,347	9.92 %	700	7.36 %
Norfolk	1,538	11.33 %	927	9.75 %
Peninsula	1,191	8.77 %	789	8.30 %
Williamsburg	620	4.57 %	217	2.28 %
Richmond	1,232	9.08 %	1,080	11.36 %
Chesterfield	143	1.05 %	25	0.26 %
Virginia	9,741	71.76 %	5,960	62.70 %
Raleigh	1,270	9.36 %	1,130	11.89 %
Cary	216	1.59 %	325	3.42 %
Greenville	149	1.10 %	151	1.59 %
Charlotte	1,079	7.95 %	870	9.15 %
Triad	130	0.96 %	126	1.33 %
Currituck	780	5.75 %	285	3.00 %
North Carolina	3,624	26.70 %	2,887	30.37 %
SBA PPP	—	— %	158	1.66 %
Other	209	1.54 %	501	5.27 %
TOTAL	$ 13,574	100.00 %	$ 9,506	100.00 %

Governmental Monetary Policies

Our earnings and growth are affected not only by general economic conditions, but also by the monetary policies of various governmental regulatory authorities, particularly the Board of Governors of the Federal Reserve System ("Federal Reserve"). The Federal Reserve implements national monetary policy through its open market operations in United States government securities, control of the discount rate, and establishment of reserve requirements against both member and nonmember financial institutions' deposits.

These actions have a significant effect on the overall growth and distribution of loans, investments, and deposits, as well as rates earned on loans or paid on deposits. Federal Reserve monetary policies have had a significant effect

on the operating results of commercial banks in the past and are expected to do so in the future. Management is unable to predict the effect of possible changes in monetary policies upon our future operating results.

Development of Business

The following is a summary of developments in our business since January 1, 2021:

- TowneBank opened a full service banking office in Charlotte, North Carolina in 2021. The new 12,000-square-foot Myers Park financial center provides a full array of financial services to individuals, businesses, and community organizations.

- TowneBank remained in first place in the latest Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area ("MSA") Annual Deposit Market Share Report released by the FDIC. The report ranks institutions by share of FDIC-insured deposits in the Hampton Roads area as of June 30, 2021. TowneBank had a 27.49% share of deposits in Hampton Roads and was the only community bank with a share greater than 5%. TowneBank was in sixth place in the Richmond, VA MSA in the FDIC's Annual Deposit Market Share Report with $1.34 billion in deposits as of June 30, 2021. In our North Carolina markets, TowneBank ranked seventh in the Raleigh, NC MSA with a 3.29% market share, ninth in the Greenville, NC MSA with a 4.20% market share, and 10th in the Charlotte, NC MSA with a 0.32% market share.

Prior to 2021, our most significant acquisitions included the following:

- On January 26, 2018, the Company acquired Paragon and its wholly owned bank subsidiary, Paragon Commercial Bank, a Raleigh, North Carolina-based bank with three banking offices servicing Raleigh, Cary, and Charlotte, North Carolina. The acquisition added approximately $1.43 billion in loans and assumed approximately $1.25 billion in deposits.

- On June 24, 2016, TowneBank acquired Monarch Financial Holdings, Inc., and its wholly owned bank subsidiary, Monarch Bank, headquartered in Chesapeake, Virginia. The acquisition added approximately $808.14 million in loans and approximately $1.06 billion in deposits.

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

Supervision and Regulation

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

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

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

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

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

In July 2013, the FDIC and other federal bank regulatory agencies approved final rules known as the "Basel III Capital Rules," which substantially revised the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions, including the Company. The Basel III Capital Rules went into effect for the Company on January 1, 2015, subject to a phase-in period that ended on January 1, 2019.

The Basel III Capital Rules, among other things, (i) established the capital measure "Common Equity Tier 1" ("CET1"), (ii) specified that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) defined CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expanded the scope of the adjustments as compared to existing regulations. CET1 capital consists of common stock instruments that meet eligibility criteria in the final rules, retained earnings, and common equity Tier 1 minority interest. The capital rules require banks to include accumulated other comprehensive income ("AOCI") into CET1 unless the bank used a one-time election to exclude AOCI from its regulatory capital metrics. We elected to exclude AOCI from CET1.

The Basel III Capital Rules require banking organizations to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%); (iii) a minimum ratio of total capital (that is, Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5%); and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to adjusted average quarterly assets.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions that fail to meet the effective minimum ratios once the capital conservation buffer is taken into account, as detailed above, will face limitations on the payment of dividends, common stock repurchases, and discretionary cash payments to executive officers based on the amount of the shortfall and the institution's "eligible

retained income" (the greater of: four quarter trailing net income and four quarter trailing net income, net of distributions and tax effects not reflected in net income).

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. In July 2019, the federal banking agencies adopted final rules (the "Capital Simplification Rules") that, among other things, revised these deductions and adjustments. Following the adoption of the Capital Simplification Rules, certain deferred tax assets and significant investments in non-consolidated financial entities must be deducted from CET1 to the extent that any one such category exceeds 25% of CET1. Prior to the adoption of the Capital Simplification Rules, amounts were deducted from CET1 to the extent that any one such category exceeded 10% of CET1 or all such items, in the aggregate, exceeded 15% of CET1. The Capital Simplification Rules took effect for the Company as of January 1, 2020. These limitations did not impact our regulatory capital during any of the reported periods.

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expanded the risk-weighting categories from the general risk-based capital rules to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures (and higher percentages for certain other types of interests), resulting in higher risk weights for a variety of asset categories. In November 2019, the federal banking agencies adopted a rule revising the scope of commercial real estate mortgages subject to a 150% risk weight.

In December 2017, the Basel Committee on Banking Supervision (the "Basel Committee") published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulatory agencies.

In response to COVID-19, the joint federal bank regulatory agencies issued an interim final rule that allowed banking organizations that adopted CECL in 2020 to mitigate the effects of the standard in their regulatory capital for two years. This two-year delay was in addition to the three-year transition period the agencies had already made available. The Company elected to adopt the option provided by the interim final rule, which largely delayed the effects of CECL on its regulatory capital for 2020 and 2021, after which time the effects will be phased in over a three-year period from January 1, 2022, through December 31, 2024. Under the interim final rule, the amount of the adjustments to regulatory capital deferred until the phase-in period included both the initial impact of the adoption of CECL at January 1, 2020, and 25% of subsequent changes in the allowance for credit losses during each quarter of the two-year period ended December 31, 2021.

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

In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization is required to have at least an 8% total risk-based capital ratio, a 6% Tier 1 risk-based capital ratio, a 4.5% CET1 risk-based capital ratio, and a 4% Tier 1 leverage ratio. To be well-capitalized, a banking organization is required to have at least a 10% total risk-based capital ratio, an 8% Tier 1 risk-based capital ratio, a 6.5% CET1 risk-based capital ratio, and a 5% Tier 1 leverage ratio. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition

or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

At December 31, 2021, we had the following risk-based capital and leverage ratios relative to regulatory minimums.

Ratio	TowneBank	Adequately Capitalized	Minimum Capital Requirements Including Conservation Buffer	Well Capitalized Under Prompt Corrective Action
Common equity Tier 1	12.36%	4.50%	7.00%	6.50%
Tier 1 risk-based capital	12.51%	6.00%	8.50%	8.00%
Total risk-based capital	15.56%	8.00%	10.50%	10.00%
Tier 1 leverage	9.11%	4.00%	4.00%	5.00%

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

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

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

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

Because our assets exceed $10 billion, we are subject to the Durbin Amendment promulgated under the Dodd-Frank Act. Under the rule, the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and five basis points multiplied by the value of the transaction. The rules also allow for

an upward adjustment of no more than 1 cent to an issuer's debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve certain fraud-prevention standards. This limitation on interchange fees began impacting our noninterest income in the third quarter of 2019.

The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, which was signed into law on May 24, 2018 (the "EGRRCPA"), amended the Dodd-Frank Act to provide regulatory relief for certain smaller and regional financial institutions. The EGRRCPA, among other things, exempted banks with less than $250 billion in total consolidated assets, such as the Company, from the enhanced prudential standards and the company-run and supervisory stress tests previously required under the Dodd-Frank Act. The amendments to the Dodd-Frank Act were effective for the Company in November 2019.

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

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

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

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are now based on average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act required the FDIC to increase the reserve ratio of the DIF from 1.15% to 1.35% of insured deposits by 2020, and eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeded certain thresholds. On September 30, 2018, the DIF reserve ratio reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35% ahead of the 2020 deadline, which ended surcharges on insured depository institutions with assets greater than $10 billion. Banks with assets of less than $10 billion were awarded assessment credits for their portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%. Beginning in the second quarter of 2019, when the reserve ratio exceeded 1.38%, the FDIC applied credits to TowneBank's assessment invoices because our assessments contributing to the growth in the reserve ratio occurred prior to our total assets exceeding $10 billion. The Company's total assessment credit in 2019 was $2.53 million. No additional credits are expected.

FDIC insurance expense totaled $2.89 million, $3.87 million, and $0.85 million in 2021, 2020, and 2019. FDIC insurance expense previously included deposit insurance assessments and Financing Corporation ("FICO") assessments related to outstanding FICO bonds. These assessments have ceased as all FICO bonds matured in 2019.

Because our total consolidated assets exceed $10 billion, the FDIC uses a performance score and a loss-severity score to calculate our assessment rate. In calculating these scores, the FDIC uses a bank's capital level and regulatory supervisory ratings and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances.

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

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

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

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

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

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

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

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

money laundering activities of the applicants. To comply with these obligations, the Company has implemented appropriate internal practices, procedures, and controls.

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

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

Section 956 of the Dodd-Frank Act requires the federal bank regulatory agencies and the Securities and Exchange Commission to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities that encourage inappropriate risk-taking by providing an executive officer, employee, director, or principal shareholder with excessive compensation, fees, or benefits, or which could lead to material financial loss to the entity. The federal bank regulatory agencies issued such proposed rules in March 2011 and issued a revised proposed rule in June 2016 implementing the requirements and prohibitions set forth in Section 956. The revised proposed rule would apply to all banks, among other institutions, with at least $1 billion in average total consolidated assets, for which it would go beyond the existing *Interagency Guidance on Sound Incentive Compensation Policies* to (i) prohibit certain types and features of incentive-based compensation arrangements for senior executive officers, (ii) require incentive-based compensation arrangements to adhere to certain basic principles to avoid a presumption of encouraging inappropriate risk, (iii) require appropriate board or committee oversight, (iv) establish minimum recordkeeping, and (v) mandate disclosures to the appropriate federal bank regulatory agency. These proposed rules have not yet been finalized.

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

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

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

Mortgage Banking Regulation. In connection with making mortgage loans, we are subject to rules and regulations that, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers, in some cases restrict certain loan features and fix maximum interest rates and fees, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level. We are also subject to rules and regulations that require the collection and reporting of significant amounts of information with respect to mortgage loans and borrowers. Our mortgage origination activities are subject to the Federal Reserve's Regulation Z, which implements the Truth in Lending Act. Certain provisions of Regulation Z require creditors to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms.

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

On November 18, 2021, the federal bank regulatory agencies issued a final rule, effective April 1, 2022, imposing new notification requirements for cybersecurity incidents. The rule requires financial institutions to notify their primary federal regulator as soon as possible and no later than 36 hours after the institution determines that a cybersecurity incident has occurred that has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the institution's: (i) ability to carry out banking operations, activities, or processes, or deliver banking products and services to a material portion of its customer base, in the ordinary course of business, (ii) business line(s), including associated operations, services, functions, and support, that upon failure would result in a material loss of revenue, profit, or franchise value, or (iii) operations, including associated services, functions and

support, as applicable, the failure or discontinuance of which would pose a threat to the financial stability of the United States.

To date, we have not experienced a significant compromise, significant data loss, or any material financial losses related to cybersecurity attacks, but our systems and those of our customers and third-party service providers are under constant threat, and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of internet banking, mobile banking, and other technology-based products and services by us and our customers.

Reporting Obligation Under Securities Laws. We are subject to the periodic reporting requirements of the Securities Exchange Act of 1934 ("Exchange Act") as adopted by the FDIC, including the filing of annual, quarterly, and other reports with the FDIC. As an Exchange Act reporting bank with over $500 million in assets, we are directly affected by the Sarbanes-Oxley Act of 2002 and regulations promulgated thereunder, which are aimed at improving corporate governance and reporting procedures. We are also subject to the rules and listing standards adopted by The Nasdaq Stock Market, LLC. We are complying with the rules and regulations implemented pursuant to the Sarbanes-Oxley Act and by The Nasdaq Stock Market, LLC, and intend to comply with any applicable rules and regulations implemented in the future.

Coronavirus Aid, Relief, and Economic Security Act and Consolidated Appropriations Act, 2021. In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020, and the Consolidated Appropriations Act, 2021 ("Appropriations Act") was signed into law on December 27, 2020. Among other things, the CARES Act and Appropriations Act include the following provisions impacting financial institutions:

- Temporary Troubled Debt Restructurings Relief. The CARES Act allowed banks to elect to suspend requirements under GAAP for loan modifications related to the COVID-19 pandemic (for loans that were not more than 30 days past due as of December 31, 2019) that would otherwise be categorized as a troubled debt restructuring, including impairment for accounting purposes, until the earlier of 60 days after the termination date of the national emergency or December 31, 2020. Federal banking agencies are required to defer to the determination of the banks making such suspension. The Appropriations Act extended this temporary relief until the earlier of 60 days after the termination date of the national emergency or January 1, 2022.

- Small Business Administration Paycheck Protection Program. The CARES Act created the Small Business Administration's Paycheck Protection Program ("PPP") and it was extended by the Appropriations Act. Under the PPP, money was authorized for small business loans to pay payroll and group health costs, salaries and commissions, mortgage and rent payments, utilities, and interest on other debt. The loans were provided through participating financial institutions, such as TowneBank, which processed loan applications and service the loans.

Future Legislation and Regulation. Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which we operate and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to business strategy, and limit the ability to pursue business opportunities in an efficient manner.

PART I

Human Capital

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

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

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

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

The Company has an active learning and development program designed to provide ongoing opportunities for teams to grow in existing roles and to be prepared for future opportunities. For over 14 consecutive years, the Company has had a management development program designed to develop leadership and managerial talent for the future. Over this time, 146 employees have participated in this program, and many of these graduates have moved into leadership roles in the Company.

As of December 31, 2021, we had 2,617 full-time equivalent employees, excluding real estate sales agents. Our real estate agents are independent contractors and not included as our employees. None of our employees are represented by any collective bargaining agreements, and relations with employees are considered good.

Available Information

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

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

PART I

Item 1A. RISK FACTORS

In addition to the other information contained in this report, the following risks may affect us. This listing should not be considered all-inclusive. Additional risks and uncertainties, including those not presently known to us or that we currently consider immaterial, may also impair our business, financial condition, or operating results.

Strategic Risk

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

As of December 31, 2021, we had $507.57 million of goodwill and other intangible assets. A significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates, or a significant and sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. If we were to conclude that a future write-down of goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

Our methods for reducing risk exposures may not be effective.

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

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

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

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

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

Operational Risk

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

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

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

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

Reliance on certain external vendors could adversely affect our operations.

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

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

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

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

We continually encounter technological change.

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

Credit Risk

Transition away from the benchmark rate London Interbank Offered Rate ("LIBOR") to another benchmark rate could adversely affect operations.

The administrator of LIBOR announced that the most commonly used U.S. dollar LIBOR settings would cease to be published or cease to be representative after June 30, 2023. The publication of all other LIBOR settings ceased to be published as of December 31, 2021. Given consumer protection, litigation, and reputation risks, the bank regulatory agencies have indicated that entering into new contracts which use LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks and that they will examine bank practices accordingly. Therefore, the agencies encouraged banks to cease entering into new contracts that use LIBOR as a reference rate as soon as practicable, and in any event by December 31, 2021. We discontinued originating LIBOR-based loans effective December 31, 2021 and will negotiate loans using our preferred replacement index, the American Interbank Offered Rate ("AMERIBOR"), a benchmark developed by the American Financial Exchange, the Secured Overnight Financing Rate ("SOFR"), or prime.

As of December 31, 2021, approximately $0.83 billion of our outstanding loans, borrowings, and other financial instruments are either directly or indirectly dependent on LIBOR. The transition away from LIBOR has resulted in, and could continue to result in, added costs and could present additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing

LIBOR. There continues to be substantial uncertainty as to the ultimate effects of the LIBOR transition, including with respect to the acceptance and use of AMERIBOR, SOFR, and other benchmark rates. Since AMERIBOR and SOFR rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR, which may lead to increased volatility as compared to LIBOR. The transition has impacted our market risk profiles and required changes to our risk and pricing models, valuation tools, product design, and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition, and results of operations.

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

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

Focus on commercial loans may increase the risk of substantial credit losses.

We offer a variety of loan products, including residential mortgage, consumer, construction, and commercial loans. At December 31, 2021, approximately 55.98% of loans were commercial and industrial loans and commercial loans secured by commercial real estate. It is expected that, as we grow, this percentage will remain fairly constant.

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

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

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

Our allowance for credit losses may prove to be insufficient.

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

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

- Deterioration in economic conditions affecting borrowers and securities issuers
- New information regarding existing loans, credit commitments, and securities holdings
- Identification of additional problem loans
- Ratings downgrades and other factors, both within and outside of our control

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

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

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

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

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

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

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

Liquidity Risk

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

Liquidity is essential to our businesses. Due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects third parties or the Company, our liquidity could be impaired by an inability to access the capital markets or an unforeseen outflow of cash or deposits which could constrain our ability to make new loans or meet our existing lending commitments and could ultimately jeopardize our overall liquidity and capitalization.

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

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

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

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

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

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

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

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

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

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

Financial Risk

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

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

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

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

We rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. While we have policies and procedures designed to prevent or limit the effect of a possible security breach, our computer systems, software, and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have a security impact. If one or more such events occur, this potentially could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our or our customers' operations, or result in the loss of money. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

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

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

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

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

Certain provisions of our articles of incorporation and bylaws could delay or frustrate the removal of incumbent directors and could make a merger, tender offer, or proxy contest more difficult, even in instances where shareholders deem the proposed transaction to be beneficial to their interests. These provisions, among others, provide for staggered terms for the Board of Directors and that a plan of merger, share exchange, sale of all or substantially all of our assets, or similar transaction must be approved and recommended by the affirmative vote of at least two-thirds of the directors in office or, if not so approved and recommended, by the affirmative vote of the holders of 80% of our outstanding shares, and limit the ability of shareholders to call a special meeting. In addition, certain provisions of state and federal law may also have the effect of discouraging or prohibiting a future

takeover attempt in which our shareholders might otherwise receive a substantial premium for their shares over then-current market prices. To the extent that these provisions discourage or prevent takeover attempts, they may tend to reduce the market price for our common stock.

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

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

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

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

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

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

General Business Risk

The outbreak of the COVID-19 pandemic caused a significant global economic downturn that had an adverse affect on our business through margin compression and excess liquidity. With newer strains still emerging, the future impacts of the COVID-19 pandemic on the global economy and our business, results of operations, liquidity, and financial condition remain uncertain.

COVID-19 continues to cause economic disruption both worldwide and in the markets we operate, as well as a destabilization effect on financial markets. The ultimate impacts of COVID-19 are uncertain and could have a material adverse effect on our business, financial condition, liquidity, and results of operations. The extent of these impacts will depend on future developments, including among others, governmental, regulatory, and private sector actions and responses, new information that may emerge concerning COVID-19, and actions taken to contain or prevent further spread, each of which are highly uncertain and cannot be predicted.

Our business is dependent upon the ability and willingness of our customers to conduct banking and other financial transactions, including the payment of loan obligations. COVID-19 has and continues to disrupt the business, activities, and operations of our customers, which may cause a decline in demand for our products and services,

which may, in turn, result in a significant decrease in our business, negatively impacting our liquidity position and financial results. Our financial results could also be impacted due to an inability of our customers to meet their loan commitments because of their losses associated with the effects of COVID-19, resulting in increased risk of delinquencies, defaults, foreclosures, declining collateral values, and other losses to TowneBank. Moreover, current and future governmental action may temporarily require the Company to conduct business differently with respect to foreclosures, repossessions, payments, deferrals, and other customer-related transactions.

Although the Company has established a pandemic response plan and procedures, our workforce has been, is, and may continue to be impacted by COVID-19. We are taking precautions to protect the safety and well-being of our employees and customers, but no assurance can be given that our actions will be adequate or appropriate, nor can we predict the level of disruption which will occur to our employees' ability to provide customer support and service. The spread could also negatively impact availability of key personnel and employee productivity, as well as the business and operations of third-party service providers who perform critical services for us, which could adversely impact our ability to deliver products and services to our customers.

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

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

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

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

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

We are subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, regulators implement changes to these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and/or other regulatory requirements, our financial condition would be materially and adversely affected. The Basel III Capital Rules require us to maintain

significantly more capital as a result of higher required capital levels and more demanding regulatory capital risk weightings and calculations. We must also comply with the capital requirements set forth in the "prompt corrective action" regulations pursuant to Section 38 of the FDIA. Satisfying capital requirements may require us to limit our banking operations, retain net income or reduce dividends to improve regulatory capital levels, which could negatively affect our business, financial condition and results of operations.

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

The CFPB has broad rule-making authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers. Pursuant to the Dodd-Frank Act, the CFPB established a rule effective January 10, 2014, requiring mortgage lenders to make a reasonable and good-faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms, or to originate "qualified mortgages" that meet specific requirements with respect to terms, pricing, and fees. The rule also contains disclosure requirements at mortgage loan origination and in monthly statements. These requirements could limit our ability to make certain types of loans or loans to certain borrowers, or could make it more expensive and/or time-consuming to make these loans, which could adversely impact our profitability

Extensive government regulation and monetary policy could adversely affect operations.

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

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

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

In addition, the U.S. military has a major presence in Greater Hampton Roads and is an important aspect of the Greater Hampton Roads economy. Actual and proposed cuts to defense and other security spending could have an adverse impact on the Greater Hampton Roads economy, which could adversely affect our business, financial condition, and results of operations.

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

We are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to our ESG practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to climate risk, hiring practices, the diversity of the work force, and racial and social justice issues. Increased ESG related compliance costs could result in

increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

PART I

Item 2. PROPERTIES

Our bank's main office is located in Portsmouth, Virginia, and our Corporate Administration and Member Service Center is located in Suffolk, Virginia; we own both of these locations. As of December 31, 2021, we occupied an additional 143 properties, of which we own 47, in the cities and counties in which we operate. We consider our properties to be suitable and adequate for our present needs. Additional information with respect to the amounts at which company premises and equipment are carried and commitments under long-term leases is set forth in Note 7 - "Premises and Equipment" and Note 8 - "Leases" in the Annual Report and incorporated herein.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

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

Holders

As of December 31, 2021, we had issued and outstanding 72,683,985 shares of common stock. These shares were held by approximately 13,185 shareholders of record.

Dividends

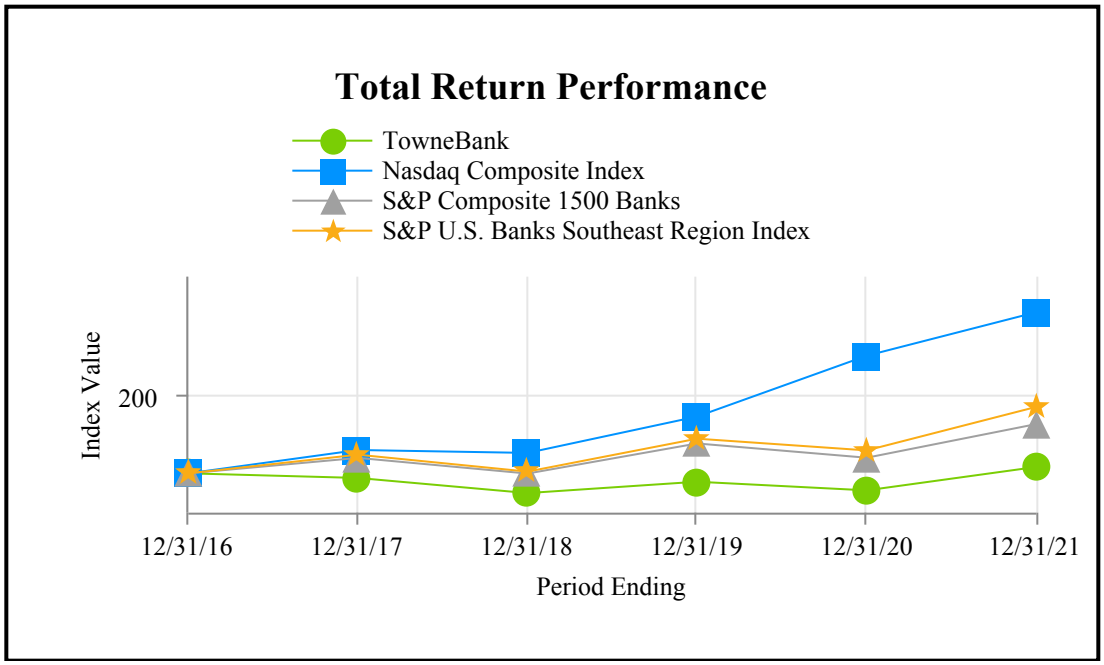
Beginning in second quarter 2021 through first quarter 2022, we declared quarterly cash dividends of $0.20 per common share. In first quarter 2020 through first quarter 2021, the Company declared quarterly cash dividends of $0.18 per common share. All dividends paid are limited by the requirement to meet capital guidelines issued by regulatory authorities, and future declarations are subject to financial performance and regulatory guidelines.

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

Stock Performance Graph

The following stock performance graph presents the cumulative total return comparison through December 31, 2021, of stock appreciation for our common stock, the Nasdaq Composite Index measuring all Nasdaq domestic and international-based common type stocks listed on the Nasdaq Stock Market ("Nasdaq Composite"), the SNL Securities Index including banks greater than $10 billion in total assets ("SNL Bank > $10B Index"), and the SNL

Securities Index including only banks in the Southeast ("SNL Southeast Bank Index"). Returns assume an initial investment of $100 at the market close of December 31, 2016, and reinvestment of dividends.



Index	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
TowneBank	$ 100.00	$ 94.12	$ 74.91	$ 89.32	$ 78.36	$ 108.11
Nasdaq Composite Index	100.00	129.64	125.96	172.18	249.51	304.85
S&P Composite 1500 Banks	100.00	119.64	99.74	137.96	119.84	162.62
S&P U.S. Banks Southeast Region Index	100.00	123.70	102.20	144.05	129.15	184.47

Item 6. RESERVED

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

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

PART II

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

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) was carried out as of December 31, 2021, under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer, and several other members of our senior management. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

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

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

Item 9B. OTHER INFORMATION

None.

Item 9C. DISCLOSURES REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Reference is made to the information in the sections entitled, "Election of Directors," "Delinquent Section 16(a) Reports," and "Board of Directors and Committees," of our definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 25, 2022 ("2022 Proxy Statement"), which sections are incorporated herein by reference. The following information is provided, as of February 25, 2022, for those executive officers who are not directors.

Name (Age)	Principal Occupation During Past Five Years
Matthew C. Davis (54)	Senior Executive Vice President and Chief Strategy and Risk Officer since September 2019; President, NC Region of TowneBank from February 2019 to August 2019; Chief Operating Officer Paragon Bank from December 2012 to January 2019; Chief Credit Officer Paragon Bank from June 2002 to November 2012.
Denys J Diaz (55)	Executive Vice President and Chief Information Officer since June, 2016; Executive Vice President and Chief Information Officer at Monarch Bank from March 2011 to June 2016; Executive Vice President and Chief Information Officer at Lone Star National Bank from March 2010 to March 2011.
Kevin L. Fly (56)	Senior Executive Vice President and Chief Accounting Officer since May 2018; Executive Vice President - Financial Reporting, Tax, and Policy from June 2013 to May 2018; Senior Vice President and Director of Financial Reporting from December 2007 to June 2013.
Dawn S. Glynn (54)	President Hampton Roads and Northeastern North Carolina since August 2020; President, Retail and Private Banking since January 2019; President and Regional Executive Officer for Portsmouth/Chesapeake/Suffolk from 2016 to 2018; President for Portsmouth/Chesapeake/Suffolk from 2013 to 2016; President for Chesapeake from 2010 to 2013.
William B. Littreal (51)	Senior Executive Vice President and Chief Financial Officer since March 2018; Senior Executive Vice President and Chief Strategy Officer and Director of Investor Relations since June 2016; Senior Executive Vice President and Chief Operating Officer from April 2011 to June 2016; Executive Vice President and Director of Finance from April 2008 to April 2011.
Phil M. Rudisill (56)	Senior Executive Vice President and Chief Credit Officer since July 2011, Senior Executive Vice President of TowneBank Loan Administration from March 2006 to July 2011; Senior Lender and Portsmouth City Executive for BB&T from 1999-2006
Brian K. Skinner (51)	President and Chief Executive Officer of Towne Financial Services Group since May 2021; Senior Executive Vice President and Chief Banking Officer from January 2019 to May 2021; Regional Executive Officer of Peninsula/ Williamsburg from 2007 to 2018.
George P. Whitley (69)	Senior Executive Vice President and Chief Legal Officer since October 2016; Partner, LeClairRyan, Richmond, Virginia, from May 1994 to September 2016.

Code of Ethical Conduct

We have adopted a Code of Ethical Conduct that applies to our Executive Chairman, Chief Executive Officer, and other executive officers and senior financial officers, including our Chief Financial Officer, Chief Accounting

PART III

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

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

Item 11. EXECUTIVE COMPENSATION

Reference is made to the information in the sections entitled, "Compensation Committee Report," "Compensation Discussion and Analysis," "Named Executive Officers Compensation," "Compensation of Directors," and "Board of Directors and Committees," of the 2022 Proxy Statement, which sections are incorporated herein by reference.

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

Reference is made to the information in the section entitled, "Ownership of Company Common Stock," of the 2022 Proxy Statement, which section is incorporated herein by reference.

The following table summarizes information, as of December 31, 2021, relating to our stock incentive plans, pursuant to which grants of options to acquire shares of common stock may be awarded from time to time.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans [1]
	(A)	(B)	(C)
Equity compensation plans approved by security holders	—	—	1,679,693
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	1,679,693

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

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

Reference is made to the information in the sections entitled, "Related Party Transactions," "Election of Directors," and "Board of Directors and Committees," of the 2022 Proxy Statement, which sections are incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Reference is made to the information in the section entitled, "Accounting Firm Fees," of the 2022 Proxy Statement, which section is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements

The following documents are included in the 2021 Annual Report to Shareholders and are incorporated by reference in this report:

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

(2) Financial Statement Schedules

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

(3) Exhibits

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

Exhibit No.	Description
1.1	Purchase Agreement, dated February 2, 2022, by and between TowneBank and Piper Sandler & Co. (incorporated herein by reference to Exhibit 1.1 to our Form 8-K, previously filed with the FDIC on February 2, 2022).
1.2	Purchase Agreement, dated July 12, 2017, by and between TowneBank and Sandler O'Neill + Partners, L.P. (incorporated herein by reference to Exhibit 1.1 to our Form 8-K, previously filed with the FDIC on July 14, 2017).
3.1	Articles of Incorporation, as amended (incorporated herein by reference to Exhibit 3.1 to our Form 10-Q, previously filed with the FDIC on August 6, 2014).
3.2	Articles of Amendment to the Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form 8-K, previously filed with the FDIC on December 14, 2018).
3.3	Bylaws, as amended (incorporated herein by reference to Exhibit 3.2 to our Form 8-K, previously filed with the FDIC on March 31, 2020).
4.1	Form of Global 3.125% Subordinated Note due 2032 (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, previously filed with the FDIC on February 9, 2022).
4.2	Issuing and Paying Agency Agreement, dated February 9, 2022, between TowneBank and U.S. Bank Trust Company, N.A. (incorporated herein by reference to Exhibit 4.2 to our Form 8-K, previously filed with the FDIC on February 9, 2022).

PART IV

Exhibits continued

4.3	Form of Global 4.50% Subordinated Note due 2027 (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, previously filed with the FDIC on July 17, 2017).
4.4	Description of TowneBank's Securities.
10.1	Employment Agreement, dated October 1, 2005, between TowneBank and Jacqueline B. Amato (incorporated herein by reference to Exhibit 10 to our Form 8-K, previously filed with the FDIC on February 15, 2006).
10.2	Form of Employment Agreement entered into between TowneBank and each of G. Robert Aston, Jr., J. Morgan Davis, and Philip M. Rudisill (incorporated herein by reference to Exhibit 10.5 to our 2002 Form 10-K, previously filed with the FDIC on March 26, 2003).
10.3	Form of Employment Agreement entered into between TowneBank and each of William I. Foster, III, Thomas L. Hasty, III, and Keith D. Horton, (incorporated herein by reference to Exhibit 10.4 to our 2002 Form 10-K, previously filed with the FDIC on March 26, 2003).
10.4	Form of Change in Control Agreement entered into between TowneBank and each of G. Robert Aston, Jr., J. Morgan Davis, and Philip M. Rudisill (incorporated herein by reference to Exhibit 10.4 to our 2003 Form 10-K, previously filed with the FDIC on February 25, 2004).
10.5	First Amendment to the Amended and Restated Change in Control Employment Agreement, dated May 15, 2019, between TowneBank and G. Robert Aston, Jr. (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on May 15, 2019).
10.6	First Amendment to the Amended and Restated Change in Control Employment Agreement, dated May 15, 2019, between TowneBank and J. Morgan Davis (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, previously filed with the FDIC on May 15, 2019).
10.7	Form of Change in Control Agreement entered into between TowneBank and each of William I. Foster, III, Thomas L. Hasty, III, and Keith D. Horton (incorporated herein by reference to Exhibit 10.5 to our 2004 Form 10-K, previously filed with the FDIC on February 23, 2005).
10.8	Amended and Restated Employment Agreement, dated November 27, 2019, between TowneBank and William B. Littreal (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on November 27, 2019).
10.9	Change in Control Employment Agreement, dated November 27, 2019, by and between TowneBank and William B. Littreal (incorporated herein by reference to Exhibit 10.2 to our Form 10-Q, previously filed with the FDIC on November 27, 2019).
10.10	Form of Supplemental Executive Retirement Plan (incorporated herein by reference to Exhibit 10.7 to our 2008 Form 10-K, previously filed with the FDIC on March 13, 2009).
10.11	TowneBank 2008 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.8 to our 2008 Form 10-K, previously filed with the FDIC on March 13, 2009).
10.12	TowneBank 2017 Stock Incentive Plan (incorporated herein by reference to Appendix A to the Proxy Statement for the 2017 Annual Meeting of Shareholders on Schedule 14A, previously filed with the FDIC on April 21, 2017).

PART IV

Exhibits continued

10.13	TowneBank Annual Incentive Compensation Plan (incorporated herein by reference to Appendix B to the Proxy Statement for the 2017 Annual Meeting of Shareholders on Schedule 14A, previously filed with the FDIC on April 21, 2017).
10.14	Amended and Restated Split Dollar Life Insurance Agreement, dated as of August 24, 2016, entered into between TowneBank and the trustees of two separate irrevocable life insurance trusts established by G. Robert Aston, Jr., for the benefit of certain family members (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on August 30, 2016).
10.15	Transition and Consulting Agreement, dated as of November 9, 2016, entered into between TowneBank and Jacqueline B. Amato (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, previously filed with the FDIC on November 15, 2016).
10.16	Employment Agreement, dated December 16, 2015, by and between TowneBank and Brad E. Schwartz (incorporated herein by reference to Exhibit 10.1 to our Form 10-Q, previously filed with the FDIC on August 9, 2016).
10.17	Employment Agreement, dated December 16, 2015, by and between TowneBank and William T. Morrison (incorporated herein by reference to Exhibit 10.3 to our Form 10-Q, previously filed with the FDIC on August 9, 2016).
10.18	Change in Control Employment Agreement, dated December 16, 2015, by and between TowneBank and Brad E. Schwartz (incorporated herein by reference to Exhibit 10.4 to our Form 10-Q, previously filed with the FDIC on August 9, 2016).
10.19	Change in Control Employment Agreement, dated December 16, 2015, by and between TowneBank and William T. Morrison (incorporated herein by reference to Exhibit 10.6 to our Form 10-Q, previously filed with the FDIC on August 9, 2016).
10.20	Employment and Consulting Agreement, dated April 26, 2017, by and between TowneBank and Robert C. Hatley (incorporated herein by reference to Exhibit 10.21 to our Form 10-K, previously filed with the FDIC on March 1, 2018).
13	2021 Annual Report to Shareholders.
14	Code of Ethical Conduct.
21	Subsidiaries of TowneBank.
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

b) See (a)(3) above for all exhibits filed herewith and the Exhibit Index.

c) All schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements or related Notes.

Item 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

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

TOWNE BANK

Registrant

February 25, 2022
Date

/s/ J. Morgan Davis
By: J. Morgan Davis
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 25, 2022:

SIGNATURES

/s/ Jacqueline B. Amato Jacqueline B. Amato	Director
/s/ G. Robert Aston, Jr. G. Robert Aston, Jr.	Executive Chairman of the Board, Director
/s/ E. Lee Baynor E. Lee Baynor	Director
/s/ Jeffrey F. Benson Jeffrey F. Benson	Vice Chairman of the Board, Director
/s/ Richard S. Bray Richard S. Bray	Lead Director
/s/ Thomas C. Broyles Thomas C. Broyles	Director

SIGNATURES

/s/ Bradford L. Cherry Bradford L. Cherry	Director
/s/ J. Morgan Davis J. Morgan Davis	Chief Executive Officer, Director (principal executive officer)
/s/ Douglas D. Ellis Douglas D. Ellis	Director
/s/ John W. Failes John W. Failes	Vice Chairman of the Board, Director
/s/ Andrew S. Fine Andrew S. Fine	Director
/s/ Kevin L. Fly Kevin L. Fly	Senior Executive Vice President and Chief Accounting Officer (principal accounting officer)
/s/ William I. Foster, III William I. Foster, III	President, Central Virginia and the Carolinas, Director
/s/ Robert C. Hatley Robert C. Hatley	Director
/s/ Howard J. Jung Howard J. Jung	Director

SIGNATURES

/s/ John R. Lawson, II John R. Lawson, II	Director
/s/ Harry T. Lester Harry T. Lester	Director
/s/ W. Ashton Lewis W. Ashton Lewis	Director
/s/ William B. Littreal William B. Littreal	Senior Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ Stephanie J. Marioneaux Stephanie J. Marioneaux	Director
/s/ Juan M. Montero, II Juan M. Montero, II	Director
/s/ R. Scott Morgan R. Scott Morgan	Director
/s/ William T. Morrison William T. Morrison	Chairman and Chief Executive Officer of TowneBank Mortgage and Realty Group, Director
/s/ Thomas K. Norment, Jr. Thomas K. Norment, Jr.	Director
/s/ Robert M. Oman Robert M. Oman	Director

SIGNATURES

/s/ R.V. Owens, III R.V. Owens, III	Director
/s/ Elizabeth T. Patterson Elizabeth T. Patterson	Director
/s/ Elizabeth W. Robertson Elizabeth W. Robertson	Director
/s/ Dwight C. Schaubach Dwight C. Schaubach	Director
/s/ Brad E. Schwartz Brad E. Schwartz	President and Chief Operating Officer, Director
/s/ Richard B. Thurmond Richard B. Thurmond	Director
/s/ Alan S. Witt Alan S. Witt	Director
/s/ F. Lewis Wood F. Lewis Wood	Director

Exhibit 13

TOWNE BANK

2021 Annual Report

TowneBank

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TOWNEBANK
GLOSSARY OF ACRONYMS AND DEFINED TERMS

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

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

LGD	Loss Given Default
LHFS	Loans Held for Sale
LIBOR	London InterBank Offered Rate
LIHTC	Low Income Housing Tax Credits
MBS	Mortgage-backed Security
N/M	Not Meaningful
OCI	Other Comprehensive Income
OIS	Overnight Index Swap
OREO	Other Real Estate Owned
OTTI	Other Than Temporary Impairment
Paragon	Paragon Commercial Corporation
Paragon Bank	Paragon Commercial Bank
PCD	Purchase Credit Deteriorated
PCI	Purchase Credit Impaired
PD	Probability of Default
PPP	Paycheck Protection Program
Red Sky	Red Sky Travel Insurance
REPO	Retail Repurchase Agreement
Resi-Mort	Residential Mortgage
RJFS	Raymond James Financial Services, Inc.
ROA	Annualized Return on Average Assets
ROE	Annualized Return on Average Equity
SBA	U.S. Small Business Administration
SCC	Virginia State Corporation Commission
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SIL	Straus, Itzkowitz & LeCompte Insurance Agency, Inc.
SOFR	Secured Overnight Financing Rate
TCJA or Tax Act	Tax Cuts and Jobs Act of 2017
TBA	To Be Announced
TDR	Troubled Debt Restructuring
TIG	Towne Investment Group
TWM	Towne Wealth Management
U.S.	United States of America
Venture Resorts	Venture Resorts, Inc.
VIE	Variable Interest Entity

BUSINESS PROFILE

TowneBank was organized in 1998 under the laws of the Commonwealth of Virginia to engage in a general retail and commercial banking business and began operations on April 8, 1999. We place special emphasis on serving the financial needs of individuals, commercial enterprises, and professionals in Richmond, Virginia, the Greater Hampton Roads region in southeastern Virginia, northeastern North Carolina, Raleigh, Charlotte, Greensboro, and Greenville, North Carolina.

We offer a full range of banking and related financial services through our controlled divisions and subsidiaries. Unless indicated otherwise, the terms "Company," "we," "us," and "our" refer to TowneBank and our consolidated subsidiaries.

Since our inception, we have expanded our financial services to include banking, real estate, mortgage, title, insurance, employee benefit services, and investments. We have three reportable segments: Banking, Realty, and Insurance.

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

Realty Segment. The Realty segment provides residential real estate services, originations of a variety of mortgage loans, resort property management, and residential and commercial title insurance.

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

CORPORATE MISSION STATEMENT

TowneBank will be a relationship and friendship-driven local bank focused on basic human values that will serve to create a warm sense of belonging and financial well-being among our family of members.

We will offer a competitive array of business and personal financial services, delivered only with the highest ethical standards. Our commitment to exquisite service for our members will lead to our ability to create a reasonable rate of return for our shareholders, a bright future for our dedicated bankers, and a leadership role for our bank in promoting the social, cultural, and economic well-being of the communities we serve.

OVERVIEW

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

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

The following is a summary of the Company's 2021 financial performance:

- Net income increased to $215.38 million compared with $145.54 million in 2020. Diluted earnings were $2.97 per common share as compared to $2.01 per common share in 2020.

- Net interest income increased $22.23 million, or 5.85%, driven by a decline in costs of deposits and borrowing costs.

- The provision for credit losses was a benefit of $16.77 million compared to an expense of $67.18 million at December 31, 2020. This change is primarily attributable to a combination of net recoveries and an improved economic forecast, as compared to prior year end. The provision for credit losses includes a provision for losses on unfunded loan commitments. The allowance for credit losses on loans was 1.12% of period-end loans, as compared to 1.25% at December 31, 2020.

- Noninterest income decreased by $6.23 million, or 2.19%, compared to 2020. The decrease was driven by a $17.63 million nonrecurring gain in 2020 on the sale of Red Sky, a travel insurance joint venture. Additionally, a decline in residential mortgage brokerage income of $2.86 million, or 2.55%, and decrease in the gain on sale of investment securities of $8.38 million, or 87.00%, contributed to the decrease. Partially offsetting the decrease was growth in property management income of $15.70 million, or 59.31%.

- Noninterest expense increased $21.45 million, or 5.42%, compared to 2020. This increase was driven by growth in salaries and benefits, software expenses, data processing, charitable contributions, and advertising and marketing expense.

COVID-19 IMPACT

The early 2020 outbreak of the global COVID-19 pandemic and related preventive measures taken across the U.S. and worldwide resulted in an extended economic downturn. Throughout 2021, increased COVID-19 cases were noted in children and young adults, and evolving strains potentially resistant to the vaccine also emerged. A third vaccine dose, or booster, was introduced to help protect against new variants. Changes in the U.S. presidency resulted in more political division over how to contain the virus. Economically, inflation is on the rise and the unemployment rate has declined. In December 2021, the Federal Reserve announced their plans to reduce the pace of net asset purchases beginning in January 2022 but to keep the overnight funds target rate at zero to 0.25%. Median forecasts predict the Federal Reserve will increase the target rate three times in 2022.

Consumer spending is strong, but the state of the global supply chain continues to be a challenge that has been compounded by a shrinking workforce. Shortages of some goods, coupled with highly congested ports of entry for goods that are available, have added to the pressures of demand and driven prices upward. Economists continue to predict sharp increases in the cost of food and fuel in the coming months. Many industries are experiencing workforce shortages. Costs associated with construction and other areas of industry have increased significantly due to supply shortages, and the demand for many consumer durable goods, such as appliances and autos, exceed the short-term supply.

On March 27, 2020, the CARES Act was enacted, which provided temporary relief from TDR accounting for eligible loan modifications in addition to temporarily adding a new product, titled the Paycheck Protection Program, to the SBA's 7(a) Loan Program. On December 27, 2020, the Appropriations Act extended TDR relief and provided additional PPP funding. The Company participated in both PPP lending programs provided by the CARES Act and Appropriations Act. As of December 31, 2021, outstanding balances from the 2020 PPP lending program were $16.23 million, and outstanding balances from the 2021 PPP lending program totaled $141.48 million. The CARES Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under the PPP.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for credit losses on loans. Such agencies may require us to recognize additions to the allowance based on their judgments of information available to them at the time of their examination. The allowance represents our best estimate of incurred losses in the loan portfolio, but significant downturns in circumstances relating to

loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on our financial condition and results of operations. Significant accounting policies and effects of new accounting pronouncements are discussed in detail in Note 1, "Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements.

ANALYSIS OF RESULTS OF OPERATIONS

Consolidated Performance Summary

Results of Operations: We reported the following for the years ended December 31, 2021, 2020, and 2019:

(dollars in thousands, except per share data)	2021	2020	2019
Net income attributable to TowneBank	$ 215,383	$ 145,535	$ 138,783
Operating income (non-GAAP)	$ 679,108	$ 637,076	$ 564,788
Diluted earnings per share	$ 2.97	$ 2.01	$ 1.92
Return on average assets	1.40 %	1.03 %	1.19 %
Return on average tangible assets (non-GAAP)	1.51 %	1.13 %	1.33 %
Return on average equity	11.61 %	8.46 %	8.69 %
Return on average tangible equity (non-GAAP)	16.55 %	12.62 %	13.58 %

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

The Company utilizes various asset and liability management strategies to manage net interest income exposure to interest rate risk. Refer to the "Market Risk Management" and "Interest Sensitivity" sections of this financial review for further discussions regarding our asset and liability management policies.

Net interest income, on a tax-equivalent basis (non-GAAP), was $405.06 million for the year ended December 31, 2021, which was $22.62 million, or 5.92%, more than the $382.44 million reported in the previous year. In 2021, FOMC benchmark rates remained low, which had the impact of reducing yields on interest-earning assets and reducing the cost of interest-bearing liabilities. While adversely impacted by declines in rate for our interest-earning assets, net interest income was positively impacted by the change in our deposit mix coupled with the decline in the cost of deposits. Accretion from purchase accounting of 2 bp and PPP of 7 bp added to margin in the current year. Purchase accounting accretion added 5 bp and PPP added 10 bp to margin in 2020.

Interest income, on a tax-equivalent basis (non-GAAP), was $446.15 million for the year ended December 31, 2021, which was $16.31 million, or 3.53%, lower than the $462.45 million for the year ended December 31, 2020. Average earning assets grew to $14.14 billion in 2021 from $12.01 billion in 2020, an increase of $2.13 billion, or 17.74%. The yield on earning assets was 3.16% in the year ended December 31, 2021, compared to 3.85% in the prior year. Average loan balances, excluding nonaccrual loans of $10.63 million, were $41.86 million, or 0.44%, higher in 2021 than in 2020, while loan yields decreased by 17 bp. Related interest and fees on PPP loans were $33.27 million, compared to $26.94 million in 2020. Lower benchmark rates coupled with a shift in the composition of earning assets adversely impacted the overall yield on interest-earning assets.

Interest expense for the year ended December 31, 2021, decreased by $38.93 million, or 48.65%, to $41.08 million, compared to $80.01 million for the year ended December 31, 2020. The balance of average interest-bearing liabilities declined to $8.15 billion in 2021 from $8.26 billion in 2020, a decrease of $0.12 billion, or 1.44%. Changes in the mix of interest bearing liabilities also impacted the cost of deposits. Certificates of deposit declined $0.59 billion and borrowings declined $0.87 billion, while demand and money market balances increased $1.29 billion. The decrease in interest expense as compared to the prior year was driven by the change in deposit mix coupled with lower average rates on all interest-bearing liabilities. In the third quarter of 2020, the Company restructured FHLB borrowing facilities for future reductions in borrowing costs of approximately $2.63 million over the life of those borrowings.

Net interest margin, on a tax-equivalent basis (non-GAAP), which is net interest income expressed as a percentage of average earning assets, was 2.86% in the year ended December 31, 2021, which was 32 bp lower than the 3.18% one year ago. The margin decline in comparison to prior year periods was driven by the declines in earning asset yields outpacing the declines in liability costs. Margin was also affected by above-average liquidity throughout the year.

The purpose of volume and rate analysis is to describe the impact on interest income resulting from changes in average balances and average interest rates from those in effect during the previous year. The following tables include average balances, interest income and expense, average yields and costs, and volume and rate analysis (dollars in thousands):

	Year Ended December 31,								
	2021			2020			2019		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)
Assets:									
Loans (net of unearned income and deferred costs), excluding nonaccrual loans (2)(3)	$ 9,462,448	$ 397,877	4.20 %	$ 9,420,584	$ 411,421	4.37 %	$ 8,122,210	$ 405,511	4.99 %
Taxable investment securities	1,426,493	29,857	2.09 %	1,252,926	30,181	2.41 %	1,202,107	34,141	2.84 %
Tax-exempt investment securities	137,848	1,755	1.27 %	140,078	2,997	2.14 %	102,731	3,426	3.34 %
Total Securities	1,564,341	31,612	2.02 %	1,393,004	33,178	2.38 %	1,304,838	37,567	2.88 %
Interest-bearing deposits	2,640,191	3,432	0.13 %	689,715	2,603	0.38 %	665,903	13,825	2.08 %
Mortgage loans held for sale	471,767	13,227	2.80 %	505,502	15,252	3.02 %	335,588	13,379	3.99 %
Total earning assets	14,138,747	446,148	3.16 %	12,008,805	462,454	3.85 %	10,428,539	470,282	4.51 %
Less: allowance for loan losses	(113,113)			(85,570)			(54,476)		
Total nonearning assets	1,359,028			2,248,971			1,264,363		
Total assets	$15,384,662			$14,172,206			$11,638,426		
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	$ 5,359,321	$ 8,323	0.16 %	$ 4,070,562	$ 13,105	0.32 %	$ 3,351,135	$ 26,909	0.80 %
Savings	352,333	2,117	0.60 %	297,441	2,254	0.76 %	280,894	3,296	1.17 %
Certificates of deposit	1,788,985	16,669	0.93 %	2,378,281	42,502	1.79 %	2,478,663	56,050	2.26 %
Total interest-bearing deposits	7,500,639	27,109	0.36 %	6,746,284	57,861	0.86 %	6,110,692	86,255	1.41 %
Borrowings	395,045	2,159	0.54 %	1,269,064	10,306	0.80 %	609,142	11,368	1.84 %
Subordinated debt, net	249,335	11,816	4.74 %	248,736	11,847	4.76 %	248,139	11,847	4.77 %
Total interest-bearing liabilities	8,145,019	41,084	0.50 %	8,264,084	80,014	0.97 %	6,967,973	109,470	1.57 %
Noninterest-bearing liabilities									
Demand deposits	5,034,851			3,924,797			2,844,178		
Other noninterest-bearing liabilities	348,844			262,266			228,994		
Total liabilities	13,528,714			12,451,147			10,041,145		
Shareholders' equity	1,855,948			1,721,059			1,597,281		
Total liabilities and equity	$15,384,662			$14,172,206			$11,638,426		
Net interest income (tax-equivalent basis)(6)		$ 405,064			$ 382,440			$ 360,812	
Reconcilement of Non-GAAP Financial Measures:									
Tax-equivalent basis adjustment		(2,695)			(2,296)			(2,457)	
Net interest income (GAAP)		$ 402,369			$ 380,144			$ 358,355	
Interest rate spread (4)(6)			2.66 %			2.88 %			2.94 %
Interest expense as a percent of average earning assets			0.29 %			0.67 %			1.05 %
Net interest margin (tax-equivalent basis) (5)(6)			2.86 %			3.18 %			3.46 %
Total cost of deposits			0.22 %			0.54 %			0.96 %

(1) Yields and interest income are presented on a taxable-equivalent basis using the federal statutory tax rate of 21%.
(2) December 31, 2021, and December 31, 2020, balances include average PPP balances of $0.53 billion and $0.74 billion and related interest and fee income of $33.27 million and $26.94 million, respectively. There were no PPP balances at December 31, 2019.
(3) Excludes average nonaccrual loans of $10.63 million in 2021, $16.04 million in 2020, and $11.52 million in 2019.
(4) Interest rate spread is the average yield earned on earning assets less the average rate paid on interest-bearing liabilities.
(5) Net interest margin is net interest income expressed as a percentage of average earning assets. Fully tax equivalent.
(6) Non-GAAP

(in thousands)	2021 vs 2020 Increase (Decrease) Due to Changes In			2020 vs 2019 Increase (Decrease) Due to Changes In		
	Volume	Rate (1)	Total	Volume	Rate (1)	Total
Assets:						
Loans (net of unearned income and deferred costs), excluding nonaccrual loans	$ 1,688	$ (15,232)	$ (13,544)	$ 60,270	$ (54,360)	$ 5,910
Taxable investment securities	3,899	(4,223)	(324)	1,396	(5,356)	(3,960)
Tax-exempt investment securities	(47)	(1,195)	(1,242)	1,021	(1,450)	(429)
Interest-bearing deposits	3,433	(2,604)	829	477	(11,700)	(11,223)
Loans held for sale	(983)	(1,042)	(2,025)	5,661	(3,788)	1,873
Total earning assets	7,990	(24,296)	(16,306)	68,825	(76,654)	(7,829)
Liabilities and Equity:						
Interest-bearing deposits:						
Demand and money market accounts	3,312	(8,094)	(4,782)	4,864	(18,668)	(13,804)
Savings	372	(509)	(137)	184	(1,226)	(1,042)
Certificates of deposit	(8,829)	(17,004)	(25,833)	(2,193)	(11,355)	(13,548)
Total interest-bearing deposits	(5,145)	(25,607)	(30,752)	2,855	(31,249)	(28,394)
FHLB advances and repurchase agreements	(5,534)	(2,613)	(8,147)	7,779	(8,841)	(1,062)
Subordinated debt	28	(59)	(31)	29	(29)	—
Total interest-bearing liabilities	(10,651)	(28,279)	(38,930)	10,663	(40,119)	(29,456)
Net interest income (tax equivalent basis)(2)	$ 18,641	$ 3,983	$ 22,624	$ 58,162	$ (36,535)	$ 21,627

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

(2) Non-GAAP.

Provision for Credit Losses: Effective January 1, 2020, with the adoption of ASU 326, financial assets with the contractual right to receive cash, including loans, HTM debt securities, trade receivables, net investments in leases, and off-balance-sheet credit exposures, are required to be measured at amortized cost and to be presented at the net amount expected to be collected. ASC 326 also made changes to the accounting for AFS debt securities, requiring credit losses be accounted for as an allowance rather than as a direct write-down of the AFS debt securities. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value and the amount expected to be collected on the financial asset. The allowance is established through a provision for credit losses charged against earnings.

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

	Year Ended December 31,		
	2021	2020	2019
Provision for loan losses	$ (14,271)	$ 61,223	$ 9,371
Provision for off-balance-sheet exposures	(2,362)	5,738	—
Provision for (recovery of) HTM security losses	(3)	(57)	—
Provision for (recovery of) AFS security losses	(138)	273	—
Total provision for credit losses	$ (16,774)	$ 67,177	$ 9,371

For loans, losses are required to be estimated over the life of a loan and recorded at origination or acquisition. Additionally, management is required to employ a prospective approach to reasonable and supportable forecasts to inform credit loss estimates. The provisions for credit losses recorded in 2021, 2020, and 2019 were a benefit of $16.77 million, and expenses of $67.18 million and $9.37 million, respectively. Net recoveries were $0.17 million for 2021, and net charge-offs were $0.24 million and $3.23 million for 2020 and 2019, respectively. The reserve release in 2021 was driven by a combination of net recoveries and improvements in the economic forecast offset by modest core loan growth. In 2020, the provision increased significantly, driven by a heavier weighting given to adverse macroeconomic forecasts in our credit loss models due to the notable weakening of small businesses in the wake of the extended COVID-19 pandemic. The allowance for loan losses as a percentage of period-end loans was 1.12% and 1.25% at December 31, 2021 and 2020, respectively.

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

Noninterest Income: Total noninterest income for the year ended December 31, 2021, was $277.96 million, or $6.23 million, and 2.19%, less than 2020. Total noninterest income for the year ended December 31, 2020, was $284.19 million, representing a $78.60 million, or 38.23%, increase from 2019. Noninterest income, excluding securities gains or losses, for the year ended December 31, 2021, was 40.75% of total operating income, compared with 43.10% for 2020 and 36.55% for 2019.

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

				2021 over 2020 Increase/(Decrease)		2020 over 2019 Increase/(Decrease)	
For the Year Ended December 31,	**2021**	**2020**	**2019**	**Amount**	**%**	**Amount**	**%**
Residential mortgage banking income, net	$ 109,304	$ 112,166	$ 66,812	$ (2,862)	(2.55)%	$ 45,354	67.88 %
Insurance commissions and other title fees and income, net	67,541	65,840	64,478	1,701	2.58 %	1,362	2.11 %
Property management income, net	42,175	26,473	24,427	15,702	59.31 %	2,046	8.38 %
Real estate brokerage income, net	13,290	11,776	9,865	1,514	12.86 %	1,911	19.37 %
Service charges on deposit accounts	9,584	8,021	10,544	1,563	19.49 %	(2,523)	(23.93)%
Credit card merchant fees, net	6,042	5,170	4,746	872	16.87 %	424	8.93 %
BOLI	7,265	8,285	9,215	(1,020)	(12.31)%	(930)	(10.09)%
Other income							
Towne Investment income, net	10,160	7,833	6,807	2,327	29.71 %	1,026	15.07 %
Service fees on loans	5,221	3,967	3,020	1,254	31.61 %	947	31.36 %
Income from equity method investments	1,334	2,102	703	(768)	(36.54)%	1,399	199.00 %
Commercial mortgage brokerage fees, net	240	192	331	48	25.00 %	(139)	(41.99)%
Other	4,553	22,732	5,485	(18,179)	(79.97)%	17,247	314.44 %
Total other income	21,508	36,826	16,346	(15,318)	(41.60)%	20,480	125.29 %
Noninterest income before securities gain/(loss)	276,709	274,557	206,433	2,152	0.78 %	68,124	33.00 %
Gain/(loss) on securities available for sale	1,252	9,634	(845)	(8,382)	(87.00)%	10,479	N/M
Total noninterest income	$ 277,961	$ 284,191	$ 205,588	$ (6,230)	(2.19)%	$ 78,603	38.23 %

N/M = not meaningful

For the year ended December 31, 2021, residential mortgage banking income, net of commission expense, was $109.30 million, reflecting a decrease of $2.86 million, or 2.55%, compared to 2020, which was $45.35 million, or 67.88%, higher than 2019. Production volume was $5.52 billion in 2021, a decrease of $0.36 billion, as compared to 2020. Mortgage rates were more volatile in 2021, which resulted in lower refinance activities. The increase in 2020 over 2019 was driven by historically low mortgage rates and strong refinance activity. Refinance activity represented 29.25% of total volume in 2021 and 41.69% in 2020, compared to 23.76% in 2019. The 2021 income statement impact of the value of rate lock commitments and forward contracts recorded was a loss $8.68 million, compared to a gain of $0.18 million in 2020 and a gain of $2.56 million in 2019. For further information, refer to our discussion of the Realty segment in this Annual Report, which provides a comparative schedule of operations.

Property management income, net, for the year ended December 31, 2021, was $42.18 million, an increase of $15.70 million, or 59.31%, from 2020, which was $2.05 million, or 8.38%, higher than 2019. The increase year over year was driven primarily by strong reservation activity in all locations. International travel restrictions and sustained higher levels of a remote workforce resulted in more travel to local vacation rental locations, a longer vacation season, and high occupancy levels throughout the year. In July 2021, the Company purchased Venture Resorts, a cabin rental company in the Smoky Mountains of Tennessee that brought in an additional $5.02 million in management fee revenue.

Real estate brokerage income, net, increased $1.51 million in 2021 compared to 2020, after increasing $1.91 million in 2020 compared to 2019. Sales volume increased $288.91 million in 2021 compared to 2020. Sales volume increased $255.36 million in 2020 compared to 2019. The number of units sold totaled 5,436 in 2021, 5,137 in 2020, and 4,822 in 2019.

For the year ended December 31, 2021, insurance commissions and other title income, net of commission expense, were $67.54 million, which was $1.70 million, or 2.58%, higher than comparative 2020. Property and

casualty insurance commissions, net of commission expense, increased $5.53 million, driven by organic growth and income from a December 2020 acquisition. Benefit insurance commissions, net of commission expense, decreased $0.46 million in 2021 compared to 2020. In third quarter 2020, the Company sold its travel insurance joint venture, Red Sky, which resulted in a decline in commissions from travel insurance of $3.53 million compared to 2020.

Service charges on deposit accounts were $9.58 million for 2021, compared with $8.02 million and $10.54 million for 2020 and 2019, respectively. Service charges increased in 2021 after declining in the two years prior due to fees on organic deposit growth. The decrease in 2020 from 2019 was due to several factors, including fee waivers for members experiencing financial hardship, fee waivers related to the Company's core banking system conversion, and new interchange fee regulations applicable to financial institutions that have assets of $10 billion or more, which took effect in third quarter 2019. Average deposits increased 17.47% and 19.17% in the years ended December 31, 2021 and 2020, respectively.

For the year ended December 31, 2021, credit card merchant fees totaled $6.04 million, which was $0.87 million, or 16.87%, higher than comparative 2020, which was $0.42 million, or 8.93%, higher than 2019. Income from BOLI was $7.27 million in 2021, compared to $8.29 million in 2020 and $9.22 million in 2019. BOLI income included varying levels of life insurance proceeds, in the three years presented, which resulted in the fluctuations between years.

Other noninterest income for the year ended December 31, 2021, was $21.51 million, compared with $36.83 million for the year ended December 31, 2020, and $16.35 million for the year ended December 31, 2019. The decline in other noninterest income in 2021 compared to 2020 was due to nonrecurring income that was generated in 2020. In third quarter 2020, the Company sold Red Sky and recorded a gain of $17.63 million in other income. After distributions to noncontrolling interests, the Company retained $6.52 million of the pre-tax gain on sale of Red Sky. Other noninterest income includes income generated by TIG and TWM, net of commission expense of $10.16 million, $7.83 million, and $6.81 million for the years ended December 31, 2021, 2020, and 2019, respectively. The yearly increase in TIG and TWM income was driven by growth in assets under management.

We sold seven investment securities with a carrying value of $17.57 million in 2021, 47 investment securities with a carrying value of $333.51 million in 2020, and nine investment securities with a carrying value of $187.08 million in 2019. We recorded net gains of $1.25 million in 2021 and $9.63 million in 2020, compared to net losses of $0.85 million in 2019.

Noninterest Expense: Total noninterest expense for 2021 was $417.27 million, which was $21.45 million, or 5.42%, higher than 2020. Total noninterest expense to total operating income was 61.44% for the year ended December 31, 2021, compared with 62.13% for 2020 and 66.98% for 2019.

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

For the year ended December 31,	2021	2020	2019	2021 over 2020 Increase/(Decrease) Amount	%	2020 over 2019 Increase/(Decrease) Amount	%
Salaries and benefits	$ 245,844	$ 235,676	$ 218,920	$ 10,168	4.31 %	$ 16,756	7.65 %
Occupancy	31,657	31,317	31,381	340	1.09 %	(64)	(0.20)%
Furniture and equipment	14,175	13,914	14,351	261	1.88 %	(437)	(3.05)%
Amortization - intangibles	11,127	11,498	12,370	(371)	(3.23)%	(872)	(7.05)%
Software expenses	16,911	14,622	11,717	2,289	15.65 %	2,905	24.79 %
Data processing	13,779	10,985	11,825	2,794	25.43 %	(840)	(7.10)%
Professional fees	9,548	11,268	12,943	(1,720)	(15.26)%	(1,675)	(12.94)%
Advertising and marketing	13,504	9,643	12,279	3,861	40.04 %	(2,636)	(21.47)%
Other expenses							
Acquisition-related expenses	1,022	(68)	657	1,090	(1,602.94)%	(725)	(110.35)%
Bank franchise tax/SCC fees	8,841	8,688	7,251	153	1.76 %	1,437	19.82 %
Charitable contributions	13,611	9,492	9,339	4,119	43.39 %	153	1.64 %
Directors' expense	2,145	1,864	2,136	281	15.08 %	(272)	(12.73)%
FDIC and other insurance	5,449	6,202	3,119	(753)	(12.14)%	3,083	98.85 %
Foreclosed property expenses	357	1,763	985	(1,406)	(79.75)%	778	78.98 %
Other	17,759	17,709	15,807	50	0.28 %	1,902	12.03 %
Stationery and office supplies	2,701	2,571	2,962	130	5.06 %	(391)	(13.20)%
Telephone and postage	6,975	6,811	6,426	164	2.41 %	385	5.99 %
Travel/Meals/Entertainment	1,867	1,870	3,834	(3)	(0.16)%	(1,964)	(51.23)%
Total other expenses	60,727	56,902	52,516	3,825	6.72 %	4,386	8.35 %
Total noninterest expense	$ 417,272	$ 395,825	$ 378,302	$ 21,447	5.42 %	$ 17,523	4.63 %

Salaries and employee benefits, the largest portion of noninterest expense, were $245.84 million, representing 58.92% of total noninterest expense for the year ended December 31, 2021. This was a $10.17 million, or 4.31%, increase over comparative 2020. Annual base salary adjustments in second quarter 2021, business acquisitions, and year-end production-related bonuses were all contributing factors to this increase. We acquired an insurance agency at the end of fourth quarter 2020 and a vacation rental company in third quarter 2021. Salaries and benefits expense for the year ended December 31, 2020, was $235.68 million, up 7.65%, or $16.76 million, over 2019. This increase was primarily due to annual base salary adjustments that occurred mid-2019, market expansion, production-driven incentive, and core banking system conversion and production-related overtime.

In our Banking segment, we had a total of 1,207 FTEs at December 31, 2021, which was up from 1,146 and 1,145 at December 31, 2020 and 2019, respectively. In our non-Banking segments at December 31, 2021, we had a total of 1,410 FTEs, excluding real estate sales agents, an increase from 1,344 at December 31, 2020, which had increased from 1,301 at December 31, 2019. Real estate sales agents are independent contractors and, therefore, not included as the Company's employees. There were 405 real estate sales agents at December 31, 2021.

For the year ended December 31, 2021, occupancy expense totaled $31.66 million, representing an increase of $0.34 million, or 1.09%, over comparative 2020. Occupancy expense for 2020 was $0.06 million, or 0.20%, lower than the 2019 expense of $31.38 million. The Company opened a full service branch in Charlotte, North Carolina, in March 2021, purchased McKinnon Tower in Norfolk, Virginia, mid-2020, and acquired an insurance agency in late 2020, all of which impacted full-year occupancy expense in 2021. Additionally, members from our

regional insurance teams relocated to McKinnon Tower in 2021, resulting in relocation expenses. Teams from our Realty segment will be moving into the building in 2022.

Furniture and equipment expense was $14.18 million for 2021, or $0.26 million and 1.88% higher than 2020. This increase was related to purchases for McKinnon Tower. Furniture and equipment expense was $13.91 million for 2020, or $0.44 million and 3.05% lower than comparative 2019. With a large percentage of our employees working remotely in 2020, expansion activities in that year were limited.

Software expense was $16.91 million in 2021, $2.29 million, or 15.65%, higher than 2020, while data processing expense increased by $2.79 million, or 25.43%, to $13.78 million. Software expense was $14.62 million in 2020, a $2.91 million, or 24.79%, increase over 2019. Data processing decreased $0.84 million, or 7.10%, in 2020 compared to 2019. In 2020, the Company converted to a new core processing system and a new modeling system for calculating CECL. The conversion and additional software resulted in increases in both software and data processing expenses. Additionally, in 2021, higher credit card fees on vacation property reservation activities resulted in higher data processing costs.

Other expenses for 2021 were $60.73 million, which was $3.83 million, or 6.72%, higher than the 2020 amount of $56.90 million. Charitable contributions increased $4.12 million and acquisition expenses increased $1.09 million in 2021, while foreclosed property expenses declined $1.41 million.

Income Taxes: Income taxes for the year ended December 31, 2021, were $54.80 million. This was $22.90 million higher than the 2020 amount of $31.90 million, which was $0.70 million lower than the 2019 amount of $32.60 million. The effective tax rate increased to 20.28% in 2021 compared to 17.98% in 2020, primarily due to a decrease in one-time benefits that occurred in the prior year.

SEGMENT PERFORMANCE SUMMARY

Our reportable segments are a traditional full-service community bank, a full-service realty business, and a full-service insurance agency. In this section, we discuss the performance and financial results of our segments. For further financial details, see Note 28, "Segment Reporting," in the Notes to Consolidated Financial Statements.

Banking Segment: For the year ended December 31, 2021, the Banking segment represented 78.70%, or $169.51 million, of our total consolidated net income, compared to 62.40% and 86.25% for 2020 and 2019, respectively.

Pre-tax earnings for the year ended December 31, 2021, for the Banking segment were $207.10 million, increasing $101.83 million, or 96.73%, from comparative 2020. Total revenues increased $18.23 million, or 4.42%, while total expenses increased $0.56 million, or 0.23%. For 2021, the Banking segment recorded a provision benefit of $15.86 million compared to a provision expense of $65.80 million in 2020, for a year-over-year decrease of $81.66 million, or 124.10%, due primarily to a combination of net recoveries for the year and improvements in the economic forecast, offset by core loan growth. The provision for income tax increased $23.12 million on higher earnings. Overall earnings increased $78.70 million, or 86.67%.

The increase in net interest income for the year ended December 31, 2021, of $24.40 million, or 6.64%, was driven by the decline in interest expense, due to lower rates on deposits and other interest-bearing liabilities, outpacing the decline in interest income due to lower yields on interest-bearing assets. In addition to margin compression due to an extended low rate environment, excess liquidity has also created earnings challenges during 2021.

Noninterest income decreased $6.17 million, or 13.83%, primarily due to the decline in investment securities gains of $8.38 million in 2021 compared to 2020. Service charges increased $1.56 million year over year, and credit card merchant fees increased $0.87 million. Included in other income is income from BOLI policies of $7.04 million and Towne Investment income of $10.116 million.

Noninterest expense for the year ended December 31, 2021, increased $0.56 million, or 0.23%, over 2020. Salaries and employee benefits expense decreased $2.22 million, or 1.56%. Occupancy expense decreased $0.04 million, or 0.18%, while furniture and equipment expense increased $0.23 million, or 2.23%. Included in other expenses is an increase in charitable contributions of $4.00 million.

Pre-tax earnings for the year ended December 31, 2020, for the Banking segment were $105.27 million, decreasing $40.14 million, or 27.61%, from comparative 2019. A $25.95 million, or 6.72%, increase in total revenues was outpaced by a $56.43 million increase in the provision for credit losses. The 2020 adoption of CECL, coupled with a weakening economic forecast in the wake of COVID-19, resulted in a large provision expense in that year.

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

	Year Ended December 31,			Increase/(Decrease)			
				2021 over 2020		2020 over 2019	
	2021	2020	2019	Amount	Percent	Amount	Percent
Revenue							
Net interest income	$ 391,751	$ 367,353	$ 351,969	$ 24,398	6.64 %	$ 15,384	4.37 %
Noninterest income							
Service charges on deposit accounts	9,584	8,021	10,544	1,563	19.49 %	(2,523)	(23.93)%
Credit card merchant fees	6,042	5,169	4,746	873	16.89 %	423	8.91 %
Other income	21,584	21,809	19,620	(225)	(1.03)%	2,189	11.16 %
Subtotal	37,210	34,999	34,910	2,211	6.32 %	89	0.25 %
Gain (loss) on investment securities	1,252	9,634	(845)	(8,382)	N/M	10,479	N/M
Total noninterest income	38,462	44,633	34,065	(6,171)	(13.83)%	10,568	31.02 %
Total revenue	430,213	411,986	386,034	18,227	4.42 %	25,952	6.72 %
Provision for credit losses	(15,859)	65,799	9,371	(81,658)	(124.10)%	56,428	602.16 %
Expenses							
Salaries and employee benefits	140,105	142,328	131,149	(2,223)	(1.56)%	11,179	8.52 %
Occupancy expense	21,198	21,237	20,419	(39)	(0.18)%	818	4.01 %
Furniture and equipment	10,657	10,425	10,240	232	2.23 %	185	1.81 %
Amortization of intangible assets	3,549	4,354	5,160	(805)	(18.49)%	(806)	(15.62)%
Other expenses	68,504	65,107	66,295	3,397	5.22 %	(1,188)	(1.79)%
Total expenses	244,013	243,451	233,263	562	0.23 %	10,188	4.37 %
Income before income tax expense and corporate allocation	202,059	102,736	143,400	99,323	96.68 %	(40,664)	(28.36)%
Corporate allocation	5,041	2,534	2,011	2,507	98.93 %	523	26.01 %
Income before income tax provision	207,100	105,270	145,411	101,830	96.73 %	(40,141)	(27.61)%
Provision for income tax expense	37,584	14,467	25,706	23,117	159.79 %	(11,239)	(43.72)%
Net income	169,516	90,803	119,705	78,713	86.69 %	(28,902)	(24.14)%
Noncontrolling interest	(4)	6	2	(10)	(166.67)%	4	200.00 %
Net income attributable to TowneBank	$ 169,512	$ 90,809	$ 119,707	$ 78,703	86.67 %	$ (28,898)	(24.14)%

Realty Segment: For the year ended December 31, 2021, the Realty segment represented 16.78%, or $36.15 million, of our total consolidated net income, compared to 27.20%, or $39.59 million, for 2020, and 7.05%, or $9.78 million, for 2019.

Earnings before income tax provision and noncontrolling interest for the Realty segment for the year ended December 31, 2021, were $59.71 million, decreasing 5.88% from 2020. Total revenue increased to $184.46 million in 2021 from $170.46 million in 2020. A provision benefit of $0.92 million was recorded in 2021, compared to a provision expense for credit losses on loans of $1.38 million in 2020.

Net residential mortgage banking income decreased by $1.43 million to $113.16 million from 2020 driven by lower production volume and the income statement impact of the value of rate lock commitments and forward contracts. Mortgage rates were more volatile in 2021, which adversely impacted refinance activities after a notable increase in 2020, driven by historically low mortgage rates. Refinance activity represented 29.25% of production in 2021, compared to 41.69% in 2020, and 23.76% in 2019. The 2021 income statement impact of the value of rate lock commitments and forward contracts recorded was a loss of $8.69 million, compared to a gain of $0.18 million in 2020, and a gain of $2.56 million in 2019.

Property management fees, net, were $42.18 million in 2021, increasing $15.70 million, or 59.31%, from 2020. The increase year over year was driven primarily by strong reservation activity in all locations. International travel restrictions and sustained higher levels of a remote workforce, resulted in more travel to local vacation rentals and high occupancy levels throughout the year. In July 2021, the Company purchased Venture Resorts, a cabin rental company in the Smoky Mountains of Tennessee that brought in an additional $5.02 million in management fee revenue.

Net real estate brokerage income increased $1.51 million, or 12.86%, to $13.29 million in 2021. This increase was driven by a $288.91 million increase in sales volume in 2021. The number of units sold increased by 299 and the average price of the homes sold increased to $393 thousand from $359 thousand in 2020.

Expenses for the Realty segment increased 16.85%, or $17.54 million, when compared to 2020. Salaries and benefits expense increased $9.66 million, or 16.58%, data processing increased $2.19 million, or 55.31%, and marketing and advertising increased $2.67 million, or 54.92%, when compared to 2020. Salary and benefits increases were related to the high levels of staffing and overtime for vacation properties, production bonuses and incentives. High credit card fees on vacation property reservation activities drove up the cost of data processing, while production-driven advertising programs in our property management and residential mortgage companies resulted in higher advertising and marketing. The Venture Resorts acquisition resulted in an additional $7.29 million in noninterest expenses in 2021.

Earnings before income tax provision and noncontrolling interest for the year ended December 31, 2020, for the Realty segment were $63.44 million, increasing 268.88% from 2019. Net residential mortgage banking income increased by $46.15 million to $114.59 million in 2020, primarily as a result of a $2.72 billion increase in production volume. The increase in property management fees from 2019 was primarily due to increased reservation level due to limitations on international travel.

Expenses for the Realty segment increased 9.92%, or $9.40 million, when compared to 2019. Salaries and benefits expense increased $5.64 million, or 10.73%, and loan expenses increased $3.48 million, or 48.37%, when compared to 2019. Salaries and benefits expenses were related to the high levels of mortgage loan production, specifically in overtime and incentive-based compensation. The increase in loan expenses was also production-related.

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

	Year Ended December 31,			Increase/(Decrease)			
				2021 over 2020		2020 over 2019	
	2021	2020	2019	Amount	Percent	Amount	Percent
Revenue							
Residential mortgage banking income, net	113,155	114,589	68,443	$ (1,434)	(1.25)%	$ 46,146	67.42 %
Real estate brokerage income, net	13,290	11,776	9,865	1,514	12.86 %	1,911	19.37 %
Title insurance and settlement fees	2,527	2,397	2,111	130	5.42 %	286	13.55 %
Property management fees, net	42,175	26,473	24,427	15,702	59.31 %	2,046	8.38 %
Income from unconsolidated subsidiary	1,077	1,336	516	(259)	(19.39)%	820	158.91 %
Net interest and other income	12,232	13,889	7,724	(1,657)	(11.93)%	6,165	79.82 %
Total revenue	184,456	170,460	113,086	13,996	8.21 %	57,374	50.73 %
Provision for credit losses	(915)	1,378	—	(2,293)	N/M	1,378	N/M
Expenses							
Salaries and employee benefits	67,922	58,263	52,619	9,659	16.58 %	5,644	10.73 %
Occupancy expense	7,689	7,465	8,285	224	3.00 %	(820)	(9.90)%
Furniture and equipment	2,661	2,622	3,099	39	1.49 %	(477)	(15.39)%
Amortization of intangible assets	2,813	2,630	2,741	183	6.96 %	(111)	(4.05)%
Other expenses	40,579	33,143	27,982	7,436	22.44 %	5,161	18.44 %
Total expenses	121,664	104,123	94,726	17,541	16.85 %	9,397	9.92 %
Income before income tax, corporate allocation, and noncontrolling interest	63,707	64,959	18,360	(1,252)	(1.93)%	46,599	253.81 %
Corporate allocation	(4,000)	(1,522)	(1,163)	(2,478)	162.81 %	(359)	30.87 %
Income before income tax provision and noncontrolling interest	59,707	63,437	17,197	(3,730)	(5.88)%	46,240	268.88 %
Provision for income tax	13,911	12,035	3,707	1,876	15.59 %	8,328	224.66 %
Net income	45,796	51,402	13,490	(5,606)	(10.91)%	37,912	281.04 %
Noncontrolling interest	(9,647)	(11,809)	(3,711)	2,162	(18.31)%	(8,098)	218.22 %
Net income attributable to TowneBank	$ 36,149	$ 39,593	$ 9,779	$ (3,444)	(8.70)%	$ 29,814	304.88 %

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

	Year Ended December 31,			Increase/(Decrease)			
				2021 over 2020		2020 over 2019	
	2021	2020	2019	Amount	Percent	Amount	Percent
Key data							
Number of units sold	5,436	5,137	4,822	299	5.82 %	315	6.53 %
Volume of units sold	2,134,019	1,845,110	1,589,753	$ 288,909	15.66 %	$ 255,357	16.06 %
Number of real estate agents	405	407	407	(2)	(0.49)	—	— %
Loans originated, mortgage	$4,028,552	$4,386,227	$2,273,483	$ (357,675)	(8.15)%	$2,112,744	92.93 %
Loans originated, joint ventures	1,495,268	1,490,285	884,997	4,983	0.33 %	605,288	68.39 %
Total loans originated	$5,523,820	$5,876,512	$3,158,480	$ (352,692)	(6.00)%	$2,718,032	86.06 %
Number of loans, mortgage	11,731	13,443	7,729	(1,712)	(12.74)%	5,714	73.93 %
Number of loans, joint ventures	5,273	5,698	3,714	(425)	(7.46)%	1,984	53.42 %
Total number of loans	17,004	19,141	11,443	(2,137)	(11.16)%	7,698	67.27 %
Average loan amount, mortgage	$ 343	$ 326	$ 294	$ 17	5.21 %	$ 32	10.88 %
Average loan amount, joint ventures	284	262	238	22	8.40 %	24	10.08 %
Average loan amount	$ 325	$ 307	$ 276	$ 18	5.86 %	$ 31	11.23 %
Number of originators, mortgage	149	164	155	(15)	(9.15)%	9	5.81 %
Number of originators, joint ventures	59	65	62	(6)	(9.23)%	3	4.84 %
Number of originators	208	229	217	(21)	(9.17)%	12	5.53 %

Insurance Segment: The Insurance segment is comprised of property and casualty and group benefits divisions. The Insurance segment represented 4.52%, or $9.72 million, of our total consolidated net income in 2021 compared to 10.40%, or $15.13 million, in 2020. Earnings before taxes and noncontrolling interest for the Insurance segment were $13.03 million in 2021, as compared to $32.63 million in 2020, and $13.66 million in 2019. The 2021 decline compared to prior year was driven by the third quarter 2020 sale of Red Sky, a travel insurance joint venture, which resulted in the Company recording a gross gain on sale of $17.63 million in other income in the Insurance segment in that year. After distributions to noncontrolling interests, the Company retained $6.52 million of the pre-tax gain on sale of Red Sky.

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

	Year Ended December 31,			Increase/(Decrease)			
				2021 over 2020		2020 over 2019	
	2021	2020	2019	Amount	Percent	Amount	Percent
Commission and fee income							
Property and casualty	$ 57,603	$ 52,726	$ 50,380	$ 4,877	9.25 %	$ 2,346	4.66 %
Employee benefits	14,817	15,259	14,726	(442)	(2.90)%	533	3.62 %
Travel insurance	—	3,526	4,085	(3,526)	(100.00)%	(559)	(13.68)%
Specialized benefit services	666	664	672	2	0.30 %	(8)	(1.19)%
Total commissions and fees	73,086	72,175	69,863	911	1.26 %	2,312	3.31 %
Contingency and bonus revenue	8,977	6,230	6,307	2,747	44.09 %	(77)	(1.22)%
Other income	196	17,976	2,032	(17,780)	(98.91)%	15,944	784.65 %
Total revenue	82,259	96,381	78,202	(14,122)	(14.65)%	18,179	23.25 %
Employee commission expense	16,598	14,492	13,379	2,106	14.53 %	1,113	8.32 %
Revenue, net of commission expense	$ 65,661	$ 81,889	$ 64,823	$ (16,228)	(19.82)%	$ 17,066	26.33 %
Salaries and employee benefits	37,817	35,085	35,152	2,732	7.79 %	(67)	(0.19)%
Occupancy expense	2,770	2,615	2,677	155	5.93 %	(62)	(2.32)%
Furniture and equipment	857	867	1,012	(10)	(1.15)%	(145)	(14.33)%
Amortization of intangible assets	4,765	4,514	4,469	251	5.56 %	45	1.01 %
Other expenses	5,386	5,170	7,003	216	4.18 %	(1,833)	(26.17)%
Total expenses	51,595	48,251	50,313	3,344	6.93 %	(2,062)	(4.10)%
Income before income tax, corporate allocation, and noncontrolling interest	14,066	33,638	14,510	(19,572)	(58.18)%	19,128	131.83 %
Corporate allocation	(1,041)	(1,012)	(848)	(29)	2.87 %	(164)	19.34 %
Income before income tax provision and noncontrolling interest	13,025	32,626	13,662	(19,601)	(60.08)%	18,964	138.81 %
Provision for income tax expense	3,303	5,398	3,183	(2,095)	(38.81)%	2,215	69.59 %
Net income	9,722	27,228	10,479	(17,506)	(64.29)%	16,749	159.83 %
Noncontrolling interest	—	(12,095)	(1,182)	12,095	(100.00)%	(10,913)	923.27 %
Net income attributable to TowneBank	$ 9,722	$ 15,133	$ 9,297	$ (5,411)	(35.76)%	$ 5,836	62.77 %

Property and casualty commissions and fees increased $4.88 million, or 9.25%, over 2020, contingency and bonus revenue increased $2.75 million, or 44.09%, while employee benefits decreased $0.44 million, or 2.90%. There was no income from travel insurance in 2021, compared to $3.53 million in 2020. The Company acquired an insurance agency in December 2020 that contributed $2.38 million in net revenues in 2021. The remaining increase in income was due to organic growth. Employee benefits commissions were down marginally for the year. Contingent revenue, which increased in 2021, consists primarily of amounts received from various property and casualty insurance carriers. These carriers use several nonclient-specific factors to determine the amount of contingency payments made to insurance brokers. Such factors include the aggregate loss performance of insurance policies previously placed and the volume of business, among other things.

Salaries and employee benefits expense increased $2.73 million, or 7.79%, when comparing 2021 to 2020, and decreased $0.07 million, or 0.19%, when comparing 2020 to 2019. An insurance agency acquisition in December 2020, contractual incentives, and benefits increases resulted in an increase in salaries in 2021.

Occupancy expense increased $0.16 million, or 5.93%, when comparing 2021 to 2020, after declining $0.06 million, or 2.32%, when comparing 2020 to 2019. Several groups from the Insurance segment moved to McKinnon Tower in 2021, resulting in increases in occupancy expense in the year.

Amortization of intangible assets increased by $0.25 million, or 5.56%, during the year ended December 31, 2021, compared to 2020, and increased $0.05 million, or 1.01%, when comparing 2020 to 2019, due to acquisitions.

ANALYSIS OF FINANCIAL CONDITION

Overview: Our total assets increased $1.73 billion, or 11.86%, to $16.36 billion at December 31, 2021, from $14.63 billion at December 31, 2020. Our loan portfolio declined by 1.28%, or $0.12 billion, to $9.51 billion at December 31, 2021, from $9.63 billion at December 31, 2020.

Our total average assets were $15.38 billion for 2021, reflecting an increase of $1.21 billion, or 8.56%, compared to the 2020 average of $14.17 billion. Total average assets for 2020 increased $2.53 billion, or 21.77%, compared to the 2019 average of $11.64 billion. Average earning assets were $14.14 billion in 2021, reflecting an increase of $2.13 billion, or 17.74%, compared to 2020.

Our average total deposits were $12.54 billion in 2021, reflecting growth of $1.86 billion, or 17.47%, compared to 2020. Growth continued in average noninterest-bearing deposits, which increased $1.11 billion, or 28.28%.

Interest-Bearing Deposits in Financial Institutions: Interest-bearing deposits in other banks, at the FRB-Richmond, and federal funds sold are used for daily cash management purposes, management of short-term interest rate opportunities, and liquidity. At December 31, 2021, these balances were $3.28 billion and consisted mainly of overnight deposits with the FRB-Richmond and deposits in other banks.

The average balance of interest-bearing deposits at the FRB-Richmond, in other banks, and federal funds sold in 2021 was $2.64 billion, or 18.67%, of average total earning assets, compared with $0.69 billion, or 5.74%, of average total earning assets in 2020.

Securities: Our securities consist of AFS debt securities, HTM debt securities, and other equity securities. Our AFS debt securities portfolio, which is held primarily for earnings, liquidity, and asset/liability management purposes, is reported at fair value based on market prices for similar instruments. Our HTM debt securities portfolio, which is held primarily for yield and pledging purposes, is valued at amortized cost. Our investment portfolio totaled $1.98 billion as of December 31, 2021, with a balance of $1.81 billion in AFS, $0.15 billion in HTM, $0.01 billion in other equity securities, and $0.01 billion in FHLB stock. Average yield on AFS debt securities was 1.82% at December 31, 2021, compared with 2.05% at December 31, 2020, and 2.67% at December 31, 2019. Average yield on HTM debt securities was 1.24% at December 31, 2021, compared to 2.90% at December 31, 2020, and 3.22% at December 31, 2019.

We record an allowance for credit losses on our AFS debt securities portfolio and on our HTM debt securities portfolio. These portfolios are reviewed quarterly to assess whether an allowance for credit losses is required. The allowance is charged through a provision for credit losses on our Consolidated Statements of Income. At December 31, 2021, our allowance for credit losses on AFS debt securities was $210 thousand and our allowance for credit losses on HTM debt securities was $94 thousand, compared to $348 thousand and $97 thousand, respectively, at December 31, 2020.

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

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

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

	Year Ended December 31,								
	2021			2020			2019		
	Amortized Cost	Estimated Fair Value	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Securities Available for Sale:									
U.S. agency securities	$ 311,665	$ 310,587	1.47 %	$ 183,514	$ 184,657	1.39 %	$ 128,451	$ 129,038	2.22 %
U.S. Treasury notes	1,000	1,000	0.08 %	1,000	1,000	1.56 %	1,000	1,000	2.56 %
Municipal securities	375,327	385,569	2.15 %	331,850	353,641	2.35 %	217,911	223,106	2.94 %
Trust preferred corporate securities	53,484	53,844	4.05 %	30,983	31,161	4.91 %	51,724	53,367	4.72 %
Mortgage-backed securities	1,047,377	1,055,183	1.69 %	762,903	797,765	1.96 %	1,022,487	1,034,797	2.57 %
Total securities available for sale	1,788,853	1,806,183	1.82 %	1,310,250	1,368,224	2.05 %	1,421,573	1,441,308	2.67 %
Securities Held to Maturity:									
U.S. agency securities	73,360	73,394	1.19 %	—	—	—	—	—	—
U.S. Treasury notes	66,326	66,253	0.89 %	—	—	—	—	—	—
Trust preferred corporate securities	2,272	2,524	3.49 %	2,321	2,552	3.45 %	2,369	2,599	3.42 %
Municipal securities	5,095	6,162	3.96 %	5,012	6,247	3.96 %	29,167	30,388	3.70 %
Mortgage-backed securities	7,168	7,343	2.43 %	9,179	9,670	2.18 %	12,152	12,184	2.05 %
Total securities held to maturity	154,221	155,676	1.24 %	16,512	18,469	2.90 %	43,688	45,171	3.22 %
Total Portfolio	$ 1,943,074	$ 1,961,859	1.77 %	$ 1,326,762	$ 1,386,693	2.06 %	$ 1,465,261	$1,486,479	2.69 %

The following table indicates the maturities of securities at December 31, 2021 (dollars in thousands):

	Available for Sale			Held to Maturity		
	Amortized Cost	Fair Market Value	Weighted Average Yield (1)	Amortized Cost	Fair Market Value	Weighted Average Yield (1)
U.S. Treasury notes						
Due in one year or less	$ 1,000	$ 1,000	0.08 %	$ —	$ —	— %
After one year through five years	—	—	— %	66,326	66,253	0.89 %
After five years through ten years	—	—	— %	—	—	— %
After ten years	—	—	— %	—	—	— %
U.S. agency securities						
Due in one year or less	$ 24,549	$ 25,000	2.35 %	$ —	$ —	— %
After one year through five years	—	—	— %	73,360	73,394	1.19 %
After five years through ten years	130,863	130,817	1.35 %	—	—	— %
After ten years	156,253	154,770	1.42 %	—	—	— %
Municipal securities						
Due in one year or less	412	413	2.20 %	—	—	— %
After one year through five years	60,739	62,831	2.30 %	—	—	— %
After five years through ten years	212,280	216,187	2.01 %	—	—	— %
After ten years	101,896	106,138	2.37 %	5,095	6,162	3.96 %
Mortgage-backed securities						
Due in one year or less	2	2	0.89 %	43	43	0.58 %
After one year through five years	93,322	94,962	2.18 %	6,719	6,880	2.11 %
After five years through ten years	607,638	612,999	1.61 %	—	—	— %
After ten years	346,415	347,220	1.70 %	406	420	7.77 %
Trust preferred corporate securities						
Due in one year or less	—	—	—	—	—	—
After one year through five years	—	—	—	—	—	—
After five years through ten years	53,484	53,844	4.05 %	500	752	8.75 %
After ten years	—	—	—	1,772	1,772	2.00 %
Total Portfolio	$ 1,788,853	$ 1,806,183	1.82 %	$ 154,221	$ 155,676	1.24 %

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

Loans Held for Sale: At December 31, 2021, we held $358.30 million in mortgage loans originated and intended for sale in the secondary market, compared with $540.80 million at December 31, 2020. Average loans held for sale were 3.34% and 4.21% of average earning assets for the years ended December 31, 2021 and 2020, respectively.

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

fair value of the derivatives during the commitment period are recorded in current earnings and included in net residential mortgage banking income in the Consolidated Statements of Income.

Loan Portfolio: Our loan portfolio, net of unearned income and deferred costs, totaled $9.51 billion at December 31, 2021. As a percentage of total average earning assets, average loans were 66.93% in 2021, compared with 78.45% in 2020 and 77.88% in 2019. Lending activities represent our primary source of income. Excluding PPP, management expects annualized loan growth to be in the high-single digits for 2022. The following tables provide the balance and composition of the loan portfolio by major classification for the periods indicated (dollars in thousands):

Year Ended December 31,	2021	2020
Commercial Real Estate		
Construction and land development	$ 1,125,863	$ 1,199,772
Owner occupied	1,494,000	1,380,516
Non-owner occupied	2,620,334	2,335,235
Multi-family	332,659	295,488
Total Commercial Real Estate	5,572,856	5,211,011
Residential 1-4 family	1,305,915	1,216,629
HELOC	380,834	412,476
Commercial and industrial business	1,206,911	1,990,808
Government	525,358	379,243
Indirect	394,802	271,459
Consumer loans and other	119,576	147,442
Loans, net of unearned income and deferred costs	$ 9,506,252	$ 9,629,068

Year Ended December 31,	2021	2020
Commercial Real Estate		
Construction and land development	11.84 %	12.46 %
Owner occupied	15.72 %	14.34 %
Non-owner occupied	27.55 %	24.26 %
Multi-family	3.50 %	3.07 %
Total Commercial Real Estate	58.61 %	54.13 %
Residential 1-4 family	13.74 %	12.63 %
HELOC	4.01 %	4.28 %
Commercial and industrial business	12.70 %	20.67 %
Government	5.53 %	3.94 %
Indirect	4.15 %	2.82 %
Consumer loans and other	1.26 %	1.53 %
Loans, net of unearned income and deferred costs	100.00 %	100.00 %

The table below provides the maturity and sensitivity of the loan portfolio at December 31, 2021 (in thousands):

						Due After One Year	
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years through Fifteen Years	Due after Fifteen Years	Totals	Fixed Rates	Adjustable Rates
Commercial Real Estate							
Construction and land development	$ 607,897	$ 430,457	$ 84,306	$ 3,203	$ 1,125,863	$ 314,151	$ 203,815
Owner occupied	75,118	284,412	911,825	222,645	1,494,000	1,306,670	112,212
Non-owner occupied	217,426	929,370	1,139,879	333,659	2,620,334	2,084,088	318,820
Multi-family	28,309	94,159	179,811	30,380	332,659	277,896	26,454
Residential 1- 4 family	62,787	191,521	263,277	788,330	1,305,915	800,844	442,284
HELOC	42,313	46,176	43,858	248,487	380,834	13,890	324,631
Commercial and industrial business	450,844	489,910	255,818	10,339	1,206,911	618,444	137,623
Government	14,564	36,311	119,143	355,340	525,358	365,640	145,154
Indirect	13,362	183,096	198,344	—	394,802	381,440	—
Consumer loans and other	57,146	39,929	18,607	3,894	119,576	52,610	9,820
Loans, net of unearned income and deferred costs	$ 1,569,766	$ 2,725,341	$ 3,214,868	$ 1,996,277	$ 9,506,252	$ 6,215,673	$ 1,720,813

The following table is a summary of our floating rate loan portfolio and contractual interest rate indices at December 31, 2021 (in thousands):

Contractual Interest Rate Index	Floating Rate (at floor rate)	Floating Rate (not at floor or ceiling rate)	Floating Rate (at ceiling rate)	Total Floating Rate	Percentage of Floating Rate Loans
Wall Street Journal Prime	$ 831,106	$ 434,561	$ —	$ 1,265,667	48.9 %
LIBOR	425,521	407,460	—	832,981	32.2 %
AMERIBOR	—	27,183	—	27,183	1.0 %
SOFR	—	22,284	—	22,284	0.9 %
Other contractual interest rate indices	13,323	428,863	—	442,186	17.1 %
	$ 1,269,950	$ 1,320,351	$ —	$ 2,590,301	100.0 %

At December 31, 2021, the majority of our floating rate loans are tied to LIBOR interest rates or Wall Street Journal Prime interest rates. LIBOR is the global benchmark rate supporting a diverse range of financial activities in the U.S. and abroad. Although the Financial Conduct Authority, which is the governing body responsible for collecting and communicating LIBOR rates, announced they would cease their activities in 2021, that deadline has now been extended until June 30, 2023. The Company is no longer originating loans tied to LIBOR. New originations and renewals of existing loans that would typically be tied to LIBOR are being tied to SOFR or AMERIBOR. The transition to a replacement benchmark index is expected to have a financial impact on the banking industry as a whole but the extent of the impact cannot be determined at this time.

Allowance for Credit Losses and Asset Quality: We incorporate reasonable and supportable forecasts into our credit loss estimates and losses are estimated over the life of the loan and recorded at origination or acquisition. The allowance for credit losses on funded loans is established through a provision for credit losses charged against earnings. The allowance for credit losses on unfunded commitments, is recorded in other liabilities, with a provision for credit losses charged against earnings. The level of the allowance for credit losses is an estimate of expected losses inherent in the Company's portfolio at December 31, 2021.

The allowance for credit losses on funded loans at December 31, 2021, 2020, and 2019, was $106.06 million, $120.16 million, and $58.23 million, respectively. In 2021, the Company released $14.10 million of the allowance for credit losses on funded loans, driven by minimal charge-offs, a reduction in loans deferred under the CARES Act, and improved economic conditions, partially offset by modest loan growth. Expected loss estimates consider various factors, including the impacts of changes in economic activity and unemployment rates, customer-specific credit information and the potential mitigating benefits of government stimulus and industry-wide loan modification efforts. The increase in allowance between 2019 and 2020 was primarily attributable to the change in methodology from incurred loss to life of loan expected loss estimates, compounded by a heavy weighting given to adverse economic forecasts in our credit loss models due to expectation of continued economic weakness driven by a number of uncertainties impacting the local and national economy. The allowance was equal to 1.12% of total loans outstanding at December 31, 2021, compared with 1.25% at December 31, 2020, and 0.69% at December 31, 2019. PPP loans, which totaled $0.16 billion at December 31, 2021, and $0.86 billion at December 31, 2020, are included in our loan portfolio. Consistent with regulatory guidance, there is no associated allowance for credit losses on PPP because the loans are fully guaranteed by the SBA. Excluding PPP loans, the allowance for credit losses on loans was 1.13% and 1.37% of total loans outstanding at December 31, 2021 and 2020, respectively.

Classified loans, defined as loans in the substandard and doubtful categories, remained low at 0.29% of total loans at December 31, 2021, down from 0.43% at December 31, 2020. Loans 30 to 89 days past due were $4.00 million at December 31, 2021, compared to $10.19 million at December 31, 2020. The allowance for credit losses on funded loans was equal to 17.75x of nonperforming loans at December 31, 2021, compared with 10.74x at December 31, 2020. Our allowance for unfunded commitments was $6.88 million and $9.24 million, at December 31, 2021 and 2020, respectively.

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

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

	December 31, 2021	%	December 31, 2020	%
Real estate - construction and development	$ 18,337	17.29 %	$ 23,681	19.71 %
Real estate - commercial owner occupied	12,760	12.03 %	16,158	13.45 %
Real estate - commercial non-owner occupied	25,487	24.04 %	27,567	22.95 %
Real estate - multi-family	1,828	1.72 %	2,054	1.71 %
Real estate - residential 1-4 family	18,014	16.98 %	13,779	11.47 %
HELOC	14,550	13.72 %	15,240	12.68 %
Commercial and industrial business loans	6,935	6.54 %	11,056	9.20 %
Government	3,458	3.26 %	2,334	1.94 %
Indirect	2,133	2.01 %	2,901	2.41 %
Consumer and other loans	2,557	2.41 %	5,387	4.48 %
Total	$ 106,059	100.00 %	$ 120,157	100.00 %

*Post-adoption of ASU 326.

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

Year Ended December 31,	2021	2020
Nonperforming assets:		
Nonperforming loans	$ 5,974	$ 11,188
Former bank premises	—	750
Foreclosed property	4,583	4,276
Total nonperforming assets	$ 10,557	$ 16,214
Loans past due 90 days accruing interest	$ 372	$ 528
Asset Quality Ratios		
Allowance for loan losses to nonperforming loans	17.75x	10.74x
Allowance to nonperforming assets	10.05x	7.41x
Allowance for loan losses to period end loans	1.12 %	1.25 %
Allowance for loan losses to period end loans excluding PPP loans	1.13 %	1.37 %
Nonperforming loans to period end loans	0.06 %	0.12 %
Nonperforming assets to period end assets	0.06 %	0.11 %
Net charge-offs to average loans	— %	— %

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

	December 31, 2021		December 31, 2020	
	Charge-offs	Recoveries	Charge-offs	Recoveries
CRE - Construction and development	$ 173	$ 84	$ 28	$ 206
CRE - Owner occupied	23	34	0	9
CRE - Non-owner occupied	469	62	35	32
CRE - Multi-family	—	—	—	—
Residential 1-4 family	132	423	398	162
HELOC	36	583	143	497
Commercial and industrial business	295	212	357	410
Government	—	—	—	—
Indirect	482	375	914	325
Consumer and other loans	60	70	54	50
Total charge-offs and recoveries	$ 1,670	$ 1,843	$ 1,929	$ 1,691

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

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

	December 31, 2021	December 31, 2020
CRE - Construction and development	$ —	$ —
CRE - Owner occupied	607	387
CRE - Non-owner occupied	—	1,163
CRE - Multi-family	—	—
Residential 1-4 family	1,839	3,432
HELOC	481	1,072
Commercial and industrial business	2,433	4,414
Government	—	—
Indirect	613	717
Consumer and other loans	—	3
Total nonperforming loans	$ 5,973	$ 11,188

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

At December 31, 2021, we had $10.56 million in nonperforming assets, which amounted to 0.06% of total assets. Nonperforming assets consist of $5.97 million in nonperforming loans and $4.58 million in foreclosed property. Nonperforming loans decreased by $5.21 million from December 31, 2020. At December 31, 2021, foreclosed property totaled $4.58 million, a slight increase from $4.28 million at December 31, 2020. Foreclosed property consists of one residential property, two commercial properties, and three construction and development properties.

At December 31, 2021, loans 60-89 days past due, excluding nonperforming loans, totaled $1.21 million. All loans in these categories are subject to constant management attention, and their status is reviewed on a regular basis.

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

At December 31, 2021, nonaccruing TDRs, which are included in nonperforming loans, totaled $0.22 million and accruing TDRs totaled $9.79 million. Nonaccruing loans that are modified can be placed back on accrual status when both principal and interest are current, there is a sustained repayment performance of six months or longer, and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

Section 4013 of the CARES Act provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP from the period beginning March 1, 2020, until the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak was declared by the president of the United States under the National Emergencies Act terminates. On December 27, 2020, the Appropriations Act amended Section 4013 and extended TDR relief to January 1, 2022. Accordingly, we offered short-term modifications made in response to COVID-19 to borrowers who were current and otherwise not past due. These generally included short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that were insignificant. As of December 31, 2021, we had one loan with modification under Section 4013 with total outstanding balances of $17 thousand, compared to 210 loans with modifications under on Section 4013 with total outstanding balances of $340.81 million at December 31, 2020.

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

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

Deposit accounts held as of December 31, 2021, totaled $13.57 billion. This represented an increase of $2.00 billion, or 17.29%, over 2020, which was $2.30 billion, or 24.83%, over 2019. Deposit accounts represent our primary source of funds and are provided by individuals, professionals, and small- to medium-sized businesses in our market area. The deposits consist of demand deposits, interest-bearing checking accounts, money market deposit accounts, and time deposits. Some of our interest-bearing deposits were obtained through brokered transactions and our participation in CDARS. We had brokered time deposits of $43.15 million and CDARS deposits of $110.56 million at December 31, 2021, and $277.60 million and $108.77 million, respectively, at December 31, 2020.

Management considers how the interest rate risk position could be impacted by changes in balance sheet mix. Liquidity in the banking industry has been very strong during the current economic cycle. Much of this liquidity increase has resulted from growth in deposits. Consistent with the industry, we have seen a significant increase in this funding source. A decrease in the amount of these deposits in the future may impact earnings and liquidity.

The following table provides the average balance and cost rate of interest-bearing deposits for the periods indicated (dollars in thousands). The aggregate amount of time deposits of $250,000 or more was $620.86 million and $723.24 million at December 31, 2021 and 2020, respectively. See Note 11, "Deposits," in the Notes to Consolidated Financial Statements for additional information on deposits.

	Average Balance			Average Cost Rate		
For the Year Ended December 31,	**2021**	**2020**	**2019**	**2021**	**2020**	**2019**
Noninterest-bearing demand deposits	$ 5,034,851	$ 3,924,798	$ 2,844,178	—	—	—
Demand and money markets	5,359,321	4,070,562	3,351,135	0.16 %	0.32 %	0.80 %
Savings	352,333	297,441	280,894	0.60 %	0.76 %	1.17 %
Certificates of deposit:						
Less than $250,000	1,119,399	1,487,401	1,609,151	0.33 %	1.68 %	2.07 %
$250,000 or more	669,586	890,880	869,512	1.94 %	1.97 %	2.62 %
Total interest-bearing deposits	7,500,639	6,746,284	6,110,692	0.36 %	0.86 %	1.41 %
Total deposits	$12,535,490	$10,671,082	$ 8,954,870	0.22 %	0.54 %	0.96 %

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

For the Year Ended December 31,	**2021**	**2020**
Months to maturity:		
Three or less	$ 184,410	$ 133,415
Over three through six	87,723	171,217
Over six through twelve	215,294	242,182
Over twelve	133,436	176,423
Total	$ 620,863	$ 723,237

Average noninterest-bearing demand deposits were 40.16% of average total deposits during the year ended December 31, 2021, and 36.78% and 31.76% during 2020 and 2019, respectively. The average cost of interest-bearing deposits was 0.36% for the year ended December 31, 2021, compared with 0.86% for 2020, and 1.41% for 2019.

Advances from the Federal Home Loan Bank: Our ability to borrow funds through nondeposit sources provides additional flexibility in meeting the liquidity needs of customers while enhancing our cost of funds structure. Average funds borrowed from the FHLB were $232.84 million and $753.74 million for the years ended December 31, 2021 and 2020, respectively. The balance at December 31, 2021, of $155.37 million, decreased $300.67 million from the balance at December 31, 2020, of $456.04 million.

In addition to borrowings from the FHLB, we maintain various borrowing arrangements with financial institutions to support liquidity needs. As of December 31, 2021, we had no outstanding balances on these borrowing agreements with other financial institutions. In 2020, to facilitate the funding of PPP loans, the FRB offered a PPP lending facility. The Company had $0 and $182.85 million in borrowings under this facility at December 31, 2021 and 2020, respectively. Average total borrowings, including FHLB advances and the PPP lending facility, during 2020 were $0.40 billion, compared with $1.27 billion at December 31, 2020, while the average cost of these funds was 0.54% and 0.80%, respectively. Refer to Note 12, "Borrowings," in the Notes to Consolidated Financial Statements for additional disclosures related to borrowing arrangements.

Subordinated Debt: On July 17, 2017, the Company issued $250 million of fixed-to-floating rate subordinated notes due July 30, 2027, in a public offering. The Company received $247.07 million in net proceeds after deducting discounts and issuance costs. The subordinated notes accrue interest at a fixed rate of 4.50% for the first five years until July 30, 2022. 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 LIBOR plus 2.55%. The Company may redeem the subordinated notes, in whole or in part, on or after July 30, 2022. At December 31, 2021, the

carrying value of the notes totaled $249.65 million, and average subordinated debt during 2021 was $249.34 million, while the average cost of the debentures was 4.74%. At December 31, 2020, the carrying value of the notes totaled $249.06 million and average subordinated debt during 2020 was $248.74 million, while the average cost of the debentures was 4.76%.

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 approximately $247.00 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 term SOFR plus 1.68%. The Company may redeem the subordinated notes, in whole or in part, on or after February 15, 2027. The Company expects to use the net proceeds from the offering for general corporate purposes, which may include, among other things, redeeming the Company's subordinated notes issued July 17, 2017 after they become callable on July 30, 2022.

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

Liquidity Sources (*in thousands*)	**December 31, 2021**
Available Liquid Funds:	
Cash and cash equivalents	$ 3,296,636
Unencumbered investment securities	1,399,173
Availability of Borrowings:	
Amount available from FHLB	1,147,875
Amount available from unsecured liens of credit with correspondent banks	135,000
Amount available for Federal Reserve discount window	372,512

We maintained an average of $2.64 billion outstanding in overnight interest-bearing deposits during 2021, compared with $689.72 million for 2020. This increase has been driven by the build-up in demand deposits related to the offering of PPP loans beginning in second quarter 2020. On average, non-interest bearing demand deposits increased $1.11 billion, or 28.28%, in 2021 after increasing $1.08 billion, or 37.99%, in 2020. Given their origin, it was initially anticipated these deposits were short-term and would be deployed by businesses to meet the demands of their daily operations, thus making investment in anything except overnight assets imprudent. However, continued uncertainties related to the COVID-19 pandemic have resulted in businesses holding on to their deposits. Due to the anticipation that this trend will continue, in fourth quarter 2021 we began to deploy excess liquidity to investment securities and expect to continue to deploy excess liquidity in the first half of 2022.

We intend to maintain sufficient liquidity at all times to meet our funding commitments and growth plans. During 2021, we primarily funded our growth in total assets with deposit growth.

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

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

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

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

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

An asset-sensitive balance sheet structure implies that assets, such as loans and securities, will reprice faster than liabilities; consequently, net interest income should be positively affected in an increasing interest rate environment. Conversely, a liability-sensitive balance sheet structure implies that liabilities, such as deposits, will reprice faster than assets; consequently, net interest income should be positively affected in a decreasing interest rate environment. At December 31, 2021, we had $1.29 billion more liabilities than assets subject to repricing within one year. This is a one-day position that is continually changing and is not necessarily indicative of our position at any other time.

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

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

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

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

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

Change in Prime Rate	% Change in Net Interest Income
+ 300 basis points	21.47 %
+ 200 basis points	13.74 %
+ 100 basis points	7.96 %
- 100 basis points	(3.25)%

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

Change in Prime Rate	Change in Net Market Value (in thousands)
+ 300 basis points	$ 175,407
+ 200 basis points	$ 129,162
+ 100 basis points	$ 100,661
- 100 basis points	$ (191,859)

Credit Risk Elements: We place commercial loans in nonaccrual status when management believes, after considering economic and business conditions and collections efforts, that the borrower's financial condition is such that full collection of principal and interest is doubtful or when the loan is past due for 90 days or more, unless the debt is both well-secured and in the process of collection. Residential mortgage loans and other consumer loans are placed on nonaccrual status when full collection of principal and interest becomes doubtful or when the loan is past due for 120 days or more, unless the debt is both well-secured and in the process of collection.

FORWARD-LOOKING STATEMENTS

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

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

- competitive pressures in the banking industry may increase significantly;
- the impact of the COVID-19 pandemic and the associated efforts to limit the spread of the virus;
- changes in the interest rate environment may reduce margins and/or the volumes and values of loans made or held, as well as the value of other financial assets held;
- changes in the creditworthiness of customers may possibly impair the collectability of loans;
- general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit or other services;
- changes in the legislative or regulatory environment, including changes in accounting standards and tax laws, may adversely affect our businesses;
- costs or difficulties related to the integration of the business and the businesses we have acquired may be greater than expected;
- expected cost savings associated with pending or recently completed acquisitions may not be fully realized or realized within the expected time frame;
- cybersecurity threats or attacks, the implementation of new technologies, and the ability to develop and maintain reliable electronic systems;
- our competitors may have greater financial resources and develop products that enable them to compete more successfully;
- changes in business conditions;
- changes in the securities market; and
- changes in our local economy with regard to our market area.

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

NON-GAAP FINANCIAL MEASURES

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

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

(dollars in thousands)

Year Ended December 31,	2021	2020	2019
Average assets (GAAP basis)	$ 15,384,662	$ 14,172,206	$ 11,638,426
Less: average goodwill and other intangibles	501,689	495,707	503,108
Average tangible assets (non-GAAP)	$ 14,882,973	$ 13,676,499	$ 11,135,318
Average equity (GAAP basis)	$ 1,855,948	$ 1,721,059	$ 1,597,281
Less: average goodwill and other intangibles	501,689	495,707	503,108
Average tangible equity (non-GAAP)	$ 1,354,259	$ 1,225,352	$ 1,094,173
Average common equity (GAAP)	$ 1,840,261	$ 1,707,635	1,585,238
Less: average goodwill and other intangibles	501,689	495,707	503,108
Average tangible common equity (non-GAAP)	$ 1,338,572	$ 1,211,928	$ 1,082,130
Net interest income (GAAP)	$ 402,369	$ 380,144	358,355
Add: Tax equivalent basis adjustment	2,695	2,296	2,457
Tax equivalent net interest income (non-GAAP)	$ 405,064	$ 382,440	$ 360,812
Net income (GAAP)	$ 215,383	$ 145,535	$ 138,783
Add: Amortization of intangibles, net of tax	8,790	9,086	9,772
Tangible net income (non-GAAP)	$ 224,173	$ 154,621	$ 148,555
Total revenue (GAAP)	$ 680,330	$ 664,335	$ 563,943
Net (gain)/loss on investment securities	(1,252)	(9,634)	845
Other nonrecurring income	30	(17,626)	—
Operating income (non-GAAP)	$ 679,108	$ 637,075	$ 564,788
Total noninterest expenses (GAAP)	$ 417,272	$ 395,825	$ 378,302
Less: Amortization of intangibles	11,127	11,498	12,370
Operating expense (non-GAAP)	$ 406,145	$ 384,327	$ 365,932
Net Income (GAAP)	$ 215,383	$ 145,535	$ 138,783
Provision for credit losses	(16,774)	67,177	9,371
Provision for income taxes	54,798	31,900	32,596
(Gain) loss on equity investment net of noncontrolling interest	30	(17,626)	—
Pre-provision, Pre-tax net revenues (non-GAAP)	$ 253,437	$ 226,986	$ 180,750

Year Ended December 31,	2021	2020	2019
Return on average assets (GAAP basis)	1.40 %	1.03 %	1.19 %
Impact of excluding average goodwill and other intangibles and amortization	0.11 %	0.10 %	0.14 %
Return on average tangible assets (non-GAAP)	1.51 %	1.13 %	1.33 %
Return on average equity (GAAP basis)	11.61 %	8.46 %	8.69 %
Impact of excluding average goodwill and other intangibles and amortization	4.94 %	4.16 %	4.89 %
Return on average tangible equity (non-GAAP)	16.55 %	12.62 %	13.58 %
Return on average common equity (GAAP basis)	11.70 %	8.52 %	8.75 %
Impact of excluding average goodwill and other intangibles and amortization	5.05 %	4.24 %	4.98 %
Return on average tangible common equity (non-GAAP)	16.75 %	12.76 %	13.73 %
Efficiency ratio (GAAP)	61.33 %	59.58 %	67.08 %
Impact of exclusions	(1.52)%	0.75 %	(2.29)%
Efficiency ratio (non-GAAP)	59.81 %	60.33 %	64.79 %

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

(dollars in thousands, except per share data)	Per share		
Year Ended December 31,	**2021**	**2020**	**2019**
Book value (GAAP basis)	$ 26.13	$ 24.31	$ 22.58
Impact of excluding average goodwill and other intangibles and amortization	(6.98)	(6.85)	(6.89)
Tangible book value (non-GAAP)	19.15	17.46	15.69
Period End:			
Common equity (GAAP basis)	$ 1,899,314	$ 1,766,848	$ 1,640,755
Less: goodwill and other intangibles	507,566	497,861	501,215
Tangible common equity (non-GAAP)	$ 1,391,748	$ 1,268,987	$ 1,139,540

DHG

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
TowneBank
Portsmouth, VA

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

We have audited the accompanying consolidated balance sheets of TowneBank (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). We have also audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

Basis for Opinions

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

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Adoption of New Accounting Standard

As discussed in Notes 1, 3 and 5 to the consolidated financial statements, the Company changed its method of accounting for credit losses effective January 1, 2020 due to the adoption of Accounting Standards Codification (ASC) Topic 326 *Financial Instruments – Credit Losses*.

Critical Audit Matter

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

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Allowance for Loan Credit Losses on Loans

As described in Notes 1 and 5 to the consolidated financial statements, the Company's consolidated allowance for loan credit losses on loans (ACL) was $106.10 million at December 31, 2021 and represents an estimate of expected losses inherent within the Company's loan portfolio. As described by management, estimating the ACL includes collectively assessing loans aggregated into pools with similar risk characteristics and individually evaluating loans that do not share similar risk characteristics.

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

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

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

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

Dixon Hughes Goodman LLP

We have served as the Company's auditor since 1999.
Charlotte, NC
February 25, 2022

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INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2021, including controls over regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for Consolidated Reports of Condition and Income. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on our assessment we believe that, as of December 31, 2021, our internal control over financial reporting is effective based on those criteria.

Financial Statements

Our management is responsible for the preparation, integrity, and fair presentation of our published consolidated financial statements as of December 31, 2021, and for the year then ended. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts, some of which are based on management's judgments and estimates.

Compliance with Designated Laws and Regulations

Our management is also responsible for compliance with federal and state laws and regulations concerning dividend restrictions and federal laws and regulations concerning loans to insiders designated by the FDIC as safety and soundness laws and regulations. Management assessed our compliance with the designated laws and regulations. Based on this assessment, our management believes that we complied, in all significant respects, with the designated laws and regulations relating to safety and soundness for the year ended December 31, 2021.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for Consolidated Reports of Condition and Income, as of December 31, 2021, has been audited by Dixon Hughes Goodman LLP, the independent registered public accounting firm, as stated in their report dated February 25, 2022. A copy of this report, which is combined with the report expressing an opinion on the consolidated financial statements, precedes.

February 25, 2022

/s/ J. Morgan Davis

J. Morgan Davis
Chief Executive Officer

/s/ William B. Littreal

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

TOWNEBANK

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

December 31, 2021 and 2020

ASSETS	2021	2020
Cash and due from banks	$ 17,373	$ 41,514
Interest-bearing deposits at FRB-Richmond	3,244,484	1,795,241
Interest-bearing deposits in financial institutions	34,779	27,532
Total Cash and Cash Equivalents	3,296,636	1,864,287
Securities available for sale, at fair value (amortized cost of $1,788,853 and $1,310,250, and allowance for credit losses of $210 and $348 at December 31, 2021 and 2020, respectively)	1,806,183	1,368,224
Securities held to maturity, at amortized cost (fair value of $155,676 and $18,469 at December 31, 2021 and 2020, respectively)	154,221	16,512
Less: allowance for credit losses	(94)	(97)
Securities held to maturity, net of allowance for credit losses	154,127	16,415
Other equity securities	6,759	6,492
FHLB stock	13,146	30,135
Total Securities	1,980,215	1,421,266
Mortgage loans held for sale	358,303	540,798
Loans, net of unearned income and deferred costs	9,506,252	9,629,068
Less: allowance for credit losses	(106,059)	(120,157)
Net Loans	9,400,193	9,508,911
Premises and equipment, net	270,772	260,242
Goodwill	457,187	452,328
Other intangible assets, net	50,379	45,533
BOLI	251,805	246,109
Other assets	295,897	286,970
TOTAL ASSETS	$ 16,361,387	$ 14,626,444
LIABILITIES AND EQUITY		
Deposits:		
Noninterest-bearing demand	$ 5,546,665	$ 4,374,566
Interest-bearing:		
Demand and money market accounts	6,139,714	4,819,604
Savings	371,356	330,091
Certificates of deposit	1,515,891	2,048,905
Total Deposits	13,573,626	11,573,166
Advances from the FHLB	155,367	456,038
Subordinated debt, net	249,652	249,055
FRB PPP Lending Facility	—	182,852
Repurchase agreements and other borrowings	76,797	67,786
Total Borrowings	481,816	955,731
Other liabilities	389,771	313,719
TOTAL LIABILITIES	14,445,213	12,842,616
Preferred stock		
Authorized and unissued shares - 2,000,000	—	—
Common stock, $1.667 par value: 150,000,000 shares authorized		
Issued and outstanding shares - 72,683,985 in 2021 and 72,667,541 in 2020	121,164	121,132
Capital surplus	1,050,948	1,046,642
Retained earnings	716,605	557,889
Common stock issued to deferred compensation trust, at cost		
911,458 shares in 2021 and 873,486 shares in 2020	(18,257)	(16,969)
Deferred compensation trust	18,257	16,969
Accumulated other comprehensive income	10,597	41,184
TOTAL SHAREHOLDERS' EQUITY	1,899,314	1,766,847
Noncontrolling interest	16,860	16,981
TOTAL EQUITY	1,916,174	1,783,828
TOTAL LIABILITIES AND EQUITY	$ 16,361,387	$ 14,626,444

See accompanying Notes to Consolidated Financial Statements.

TOWNEBANK

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per share data)

For the Years Ended December 31, 2021, 2020, and 2019

	2021	2020	2019
INTEREST INCOME:			
Loans, including fees	$ 395,322	$ 409,252	$ 403,675
Investment securities	31,472	33,052	36,946
Interest-bearing deposits in financial institutions and federal funds sold	3,432	2,603	13,825
Mortgage loans held for sale	13,227	15,252	13,379
Total interest income	443,453	460,159	467,825
INTEREST EXPENSE:			
Deposits	27,109	57,862	86,255
Advances from the FHLB	1,224	8,393	11,018
Subordinated debt, net	11,816	11,847	11,847
Repurchase agreements and other borrowings	935	1,913	350
Total interest expense	41,084	80,015	109,470
Net interest income	402,369	380,144	358,355
PROVISION FOR CREDIT LOSSES	(16,774)	67,177	9,371
Net interest income after provision for credit losses	419,143	312,967	348,984
NONINTEREST INCOME:			
Residential mortgage banking income, net	109,304	112,166	66,812
Insurance commissions and other title fees and income, net	67,541	65,840	64,478
Property management income, net	42,175	26,473	24,427
Real estate brokerage income, net	13,290	11,776	9,865
Service charges on deposit accounts	9,584	8,021	10,544
Credit card merchant fees, net	6,042	5,170	4,746
BOLI	7,265	8,285	9,215
Other income	21,508	36,826	16,346
Net gain (loss) on investment securities	1,252	9,634	(845)
Total noninterest income	277,961	284,191	205,588
NONINTEREST EXPENSE:			
Salaries and employee benefits	245,844	235,676	218,920
Occupancy	31,657	31,317	31,381
Furniture and equipment	14,175	13,914	14,351
Amortization - intangibles	11,127	11,498	12,370
Software expense	16,911	14,622	11,717
Data processing	13,779	10,985	11,825
Professional fees	9,548	11,268	12,943
Advertising and marketing	13,504	9,643	12,279
Other expenses	60,727	56,902	52,516
Total noninterest expense	417,272	395,825	378,302
Income before income tax expense and noncontrolling interest	279,832	201,333	176,270
Provision for income tax expense	54,798	31,900	32,596
Net income	$ 225,034	$ 169,433	$ 143,674
Net income attributable to noncontrolling interest	(9,651)	(23,898)	(4,891)
Net income attributable to TowneBank	$ 215,383	$ 145,535	$ 138,783
Per common share information			
Basic earnings	$ 2.97	$ 2.01	$ 1.93
Diluted earnings	$ 2.97	$ 2.01	$ 1.92

See accompanying Notes to Consolidated Financial Statements.

TOWNEBANK

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

For the Years Ended December 31, 2021, 2020, and 2019

	2021	2020	2019
Net income	$ 225,034	$ 169,433	$ 143,674
Other comprehensive income (loss)			
Unrealized gains (losses) on securities			
Unrealized holding gains (losses) arising during the period	(39,532)	48,225	30,797
Tax effect	8,687	(10,603)	(6,707)
Realized (gains) losses reclassified into earnings	(1,252)	(9,634)	845
Tax effect	263	2,023	(177)
Net unrealized gains (losses)	(31,834)	30,011	24,758
Pension and postretirement benefit plans			
Prior service costs	—	(558)	(2,704)
Tax effect	—	123	601
Actuarial gain (loss)	718	(741)	(2,754)
Tax effect	(159)	161	612
Amortization of prior service costs	684	675	613
Tax effect	(151)	(149)	(133)
Amortization of net actuarial (gain) loss	199	462	(645)
Tax effect	(44)	(102)	144
Change in retirement plans, net of tax	1,247	(129)	(4,266)
Other comprehensive income (loss), net of tax	(30,587)	29,882	20,492
Comprehensive income	$ 194,447	$ 199,315	$ 164,166
Comprehensive income attributable to noncontrolling interest	(9,651)	(23,898)	(4,891)
Comprehensive income attributable to TowneBank	$ 184,796	$ 175,417	$ 159,275

See accompanying Notes to Consolidated Financial Statements.

TOWNEBANK

CONSOLIDATED STATEMENTS OF EQUITY

(dollars in thousands, except share data)

For the Years Ended December 31, 2021, 2020, and 2019

	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
Balance, December 31, 2018	**72,465,923**	**$ 120,801**	**$ 1,034,676**	**$ 379,239**	**$ 13,955**	**$ (13,955)**	**$ (9,190)**	**$ 12,894**	**$1,538,420**
Net income	—	—	—	138,783	—	—	—	4,891	143,674
Other comprehensive loss, net of taxes	—	—	—	—	—	—	20,492	—	20,492
Cash dividends declared on common stock ($0.70 per share)	—	—	—	(50,836)	—	—	—	—	(50,836)
Directors' deferred compensation	—	—	—	—	1,600	(1,600)	—	—	—
Investment of noncontrolling interest in consolidated joint ventures	—	—	—	—	—	—	—	100	100
Distribution of interests in joint ventures, net	—	—	—	—	—	—	—	(4,946)	(4,946)
Issuance of common stock - stock compensation plans	130,943	219	5,107	—	—	—	—	—	5,326
Issuance of common stock - net contingent consideration earned on acquisitions	52,816	87	1,377	—	—	—	—	—	1,464
Balance, December 31, 2019	**72,649,682**	**$ 121,107**	**$ 1,041,160**	**$ 467,186**	**$ 15,555**	**$ (15,555)**	**$ 11,302**	**$ 12,939**	**$1,653,694**
Impact of adoption of new accounting standards (1)	—	—	—	(2,528)	—	—	—	—	(2,528)
Net income	—	—	—	145,535	—	—	—	23,898	169,433
Other comprehensive loss, net of taxes	—	—	—	—	—	—	29,882	—	29,882
Cash dividends declared on common stock ($0.72 per share)	—	—	—	(52,304)	—	—	—	—	(52,304)
Directors' deferred compensation	—	—	—	—	1,414	(1,414)	—	—	—
Distribution of interests in joint ventures, net	—	—	—	—	—	—	—	(19,856)	(19,856)
Conversion of convertible debt into common stock	69	—	1	—	—	—	—	—	1
Issuance of common stock - stock compensation plans	(25,908)	(49)	4,644	—	—	—	—	—	4,595
Issuance of common stock - net contingent consideration earned on acquisitions	43,698	74	837	—	—	—	—	—	911
Balance, December 31, 2020	**72,667,541**	**$ 121,132**	**$ 1,046,642**	**$ 557,889**	**$ 16,969**	**$ (16,969)**	**$ 41,184**	**$ 16,981**	**$1,783,828**
Net income	—	—	—	215,383	—	—	—	9,651	225,034
Other comprehensive income, net of taxes	—	—	—	—	—	—	(30,587)	—	(30,587)
Cash dividends declared on common stock ($0.78 per share)	—	—	—	(56,667)	—	—	—	—	(56,667)
Directors' deferred compensation	—	—	—	—	1,288	(1,288)	—	—	—
Distribution of interests in joint ventures, net	—	—	—	—	—	—	—	(9,772)	(9,772)
Issuance of common stock - stock compensation plans	16,444	32	4,306	—	—	—	—	—	4,338
Balance, December 31, 2021	**72,683,985**	**$ 121,164**	**$ 1,050,948**	**$ 716,605**	**$ 18,257**	**$ (18,257)**	**$ 10,597**	**$ 16,860**	**$1,916,174**

(1) Represents the impact of adopting ASU No. 2016-13.

See accompanying Notes to Consolidated Financial Statements.

TOWNEBANK

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

For the Years Ended December 31, 2021, 2020, and 2019

OPERATING ACTIVITIES:	2021	2020	2019
Net income	$ 225,034	$ 169,433	$ 143,674
Adjustments to reconcile net income to net cash from operating activities:			
Net amortization of securities	10,757	4,871	2,774
Investment securities (gains) losses	(1,252)	(9,634)	845
Depreciation, amortization, and other intangible amortization	28,798	29,061	29,371
Amortization of debt issuance costs	597	596	597
Provision for credit losses	(16,774)	67,177	9,371
BOLI income	(7,265)	(8,285)	(9,215)
Deferred income tax expense (benefit)	143	(16,869)	(4,783)
Share-based compensation expense	6,629	5,481	5,345
(Gain) loss on sale and write-down of foreclosed assets	(265)	1,059	(247)
Gain on sale of noncontrolling interest	—	(17,626)	—
Originations of mortgage loans held for sale	(5,539,965)	(5,888,565)	(3,175,797)
Proceeds from sales of mortgage loans held for sale	5,917,127	5,965,864	3,082,906
Gain on sales of mortgage loans held for sale	(194,667)	(198,864)	(105,356)
Changes in:			
Interest receivable	3,018	1,305	(46)
Other assets	3,522	(18,482)	(4,210)
Interest payable	(3,311)	(3,840)	1,065
Other liabilities	86,697	45,206	34,019
Net cash provided by operating activities	518,823	127,888	10,313
INVESTING ACTIVITIES:			
Purchase of available-for-sale securities	(688,748)	(421,225)	(778,538)
Purchase of held-to-maturity securities	(139,795)	—	(1,896)
Purchase of other securities	(443)	(75)	(1,669)
Sale of available-for-sale securities	18,819	347,757	186,043
Net change in FHLB stock	16,989	(41)	13,135
Proceeds from maturities, calls, and prepayments of available-for-sale securities	181,866	189,268	274,641
Proceeds from maturities, calls, and prepayments of held-to-maturity securities	2,039	27,467	8,718
Proceeds from maturities, calls, and prepayments of other securities	177	44	—
Net decrease (increase) in loans	119,877	(1,213,348)	(407,416)
Net change in investment in LIHTC	(10,037)	(33,002)	(26,348)
Purchases of premises and equipment	(31,205)	(45,788)	(36,717)
Proceeds from sales of premises and equipment	3,699	569	649
Proceeds from sales of foreclosed assets	3,818	14,512	8,041
Proceeds from sale of noncontrolling interest	—	16,942	—
Proceeds from BOLI	1,665	5,483	1,385
Investment from noncontrolling interest in consolidated joint ventures	—	—	100
Acquisition of business, net of cash acquired	(26,078)	(7,554)	(19,747)
Net cash used for investing activities	(547,357)	(1,118,991)	(779,619)
FINANCING ACTIVITIES:			
Net increase in deposit accounts	2,000,460	2,302,249	900,495
Net change in borrowings	(474,512)	182,598	(322,393)
Payments from share-based compensation activity	—	(884)	(19)
Proceeds from issuance of common stock	—	911	1,464
Distribution of interest in joint ventures	(9,772)	(19,856)	(4,946)
Cash dividends paid	(55,293)	(52,244)	(49,375)
Net cash from financing activities	1,460,883	2,412,774	525,226
Change in cash and cash equivalents	1,432,349	1,421,671	(244,080)
Cash and cash equivalents at beginning of year	1,864,287	442,616	686,696
Cash and cash equivalents at end of year	$ 3,296,636	$ 1,864,287	$ 442,616
Supplemental cash flow information:			
Cash paid for interest	$ 44,395	$ 83,854	$ 108,405
Cash paid for income taxes	$ 51,006	$ 35,154	$ 28,065
Noncash financing and investing activities:			
Transfer from loans to foreclosed property	$ 3,111	$ 4,762	$ 3,130
Sales of foreclosed assets financed by the Company	$ 475	$ 5,700	$ 227
Net unrealized gain (loss) on available-for-sale securities, net of tax	$ (31,834)	$ 30,011	$ 24,758
Dividends declared but not paid	$ 14,835	$ 13,461	$ 13,005
Right of use asset recognized upon adoption of ASC 842	$ —	$ —	$ 43,260

See accompanying Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation: The Consolidated Financial Statements include the accounts of the Company and all other entities in which the Company has a controlling financial interest. The accompanying Consolidated Financial Statements are prepared in conformity with GAAP and prevailing practices of the banking industry. All significant intercompany balances and transactions have been eliminated in consolidation. The following is a summary of the significant accounting and reporting policies used in preparing the Consolidated Financial Statements.

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

Within our Realty segment, certain refinance transactions related to residential mortgage banking entitle the borrower to a three-day right of rescission, which allows the borrower to nullify the transaction during the rescission period. The Company holds the funds for these transactions in a suspense account until the completion of the rescission period. In first quarter 2021, the Company determined the balance should be reclassified to other liabilities at period end. At December 31, 2021, the balance associated with these funds in other liabilities was $10.17 million. If the Company had reclassified these funds at December 31, 2020, it would have resulted in an increase in mortgage loans held for sale and a corresponding increase in other liabilities of $33.60 million. There was no income statement impact associated with the reclassification.

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

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

Current expected credit losses: The Company adopted ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* ("ASC 326") as of January 1, 2020, which unless excluded from the scope, affect financial assets with the contractual right to receive cash, including loans, HTM debt securities, trade receivables, net investments in leases, and off-balance-sheet credit exposures. Financial assets measured at amortized cost basis are presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value and the amount expected to be collected on the financial asset. AFS debt securities are accounted for as an allowance rather than as a direct write-down of the AFS debt securities which management does not intend to sell or does not believe that it is more likely than not they will be required to sell.

For financial assets measured at amortized cost, the Company adopted the standard utilizing the modified-retrospective method, which required a cumulative-effect adjustment to retained earnings. Acquired loans that were previously classified as purchased credit-impaired loans and accounted for under ASC 310-30 were transitioned over as purchased credit deteriorated under ASU 2016-13. Consistent with the requirements of ASU 2016-13, management did not reassess whether legacy purchased credit-impaired assets met the criteria of purchased credit deteriorated assets as of the date of adoption.

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

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

b) Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

c) Debt securities not classified as either HTM or trading securities are classified as AFS securities and reported at fair value, with unrealized holding gains and losses, not related to impairment, excluded from earnings and reported as other comprehensive income, a separate component of shareholders' equity, until realized.

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

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

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

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

If our assessment indicates that a credit loss exists, the Company records an allowance for credit losses for the excess of the amortized cost basis over the present value of cash flows expected to be collected, subject to the fair

value floor. Subsequent changes in the allowance for credit losses are recorded as an addition to (or reversal of) the provision for credit loss expense, in the period in which they occur. This change results in recognition and presentation of credit losses on the income statement.

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

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

The CARES Act, signed into law on March 27, 2020, included provisions that provide temporary relief from TDR accounting for certain types of modifications. Under these provisions, modifications deemed to be COVID-19-related would not be considered a TDR if the loan was not more than 30 days past due as of December 31, 2019, and the deferral was executed between March 1, 2020, and the earlier of 60 days after the date of termination of the COVID-19 national emergency or December 31, 2020. The termination of these provisions was extended, to the earlier of 60 days after the termination of the COVID-19 national emergency or January 1, 2022, with the Appropriations Act. The banking regulators issued similar guidance, which also clarified that a COVID-19-related modification should not be considered a TDR if the borrower was current on payments at the time the underlying loan modification program was implemented and if the modification was considered to be short-term. Modifications are first evaluated for eligibility under the CARES Act, then the interagency guidance if they do not qualify for CARES Act relief. Modifications that are not eligible for either program continue to follow the Company's established TDR policy. Additionally, loans with deferrals granted due to COVID-19 are not generally reported as past due.

Allowance for credit losses on loans: The allowance for loan losses is established through a provision for loan losses charged against earnings. It consists of reserves for expected losses that have been identified related to specific borrowing relationships, as well as expected losses inherent in the loan portfolio that are not specifically identified. The level of the allowance for loan losses is based on management's estimates of expected loss inherent in the portfolio using relevant available information from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. To facilitate the development of these estimates, management utilizes a model that deploys multiple economic scenarios with probability weightings, reasonable and supportable forecasting with reversion to long-term historical loss after two years, and in-depth portfolio analysis. For economic forecasts, the Company uses scenarios from an independent third party. Expected loss estimates consider various factors, including the impacts of decreased economic activity and higher unemployment rates, customer-specific credit information, and the potential mitigating benefits of government stimulus and industry-wide loan modification efforts.

It is our policy to assign internal risk grades to all loans as a component of the approval process. Based on the size of the loan, senior credit officers, regional credit administrators, and the Chief Credit Officer review the classification to ensure accuracy and consistency of classifications, which are then validated by the internal loan review process. Loan classifications are internally reviewed to determine if any changes in the circumstances of the loan require a different risk grade. To determine the most appropriate risk grade classification for each loan, the credit officers examine the borrower's liquidity level, asset quality, the amount of the borrower's other

indebtedness, cash flow, earnings, sources of financing, and existing lending relationships. The allowances established for expected losses on specific loans are based on a regular analysis and evaluation of classified loans.

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

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

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

Mortgage loans held for sale: Loans originated and intended for sale in the secondary market using "best efforts" delivery are carried at the lower of cost or estimated fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Loans originated and intended for sale in the secondary market using "mandatory" delivery are carried at estimated fair value.

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

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

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

Leases: Operating lease liabilities, which are included in other liabilities, reflect the Company's obligation to make future lease payments. Lease terms typically comprise contractual terms, but may include extension options reasonably certain of being exercised at lease inception. Payments are discounted using the rate the Company would pay to borrow amounts equal to the lease payments over the lease term (the Company's incremental borrowing rate). The Company does not separate lease and non-lease components for contracts in which it is the lessee. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are recognized as incurred. Common area maintenance and other executory costs are the main components of variable lease payments. Operating and variable lease expenses are recorded in net occupancy expense on the Consolidated Statements of Income.

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

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

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

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

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

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

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

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

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

Revenue recognition: Revenue earned on interest-earning assets is recognized based on the effective yield of the financial instrument. Revenue recognized from contracts with customers, which is accounted for under ASC 606, is primarily included in the Company's noninterest income. Interest income and certain other types of noninterest income are accounted for under other applicable accounting standards.

Service charges on deposit accounts are recognized as charged. Credit-related fees, including letter of credit fees, are recognized in noninterest income when earned. See Note 17 for additional information about revenue from contracts with customers.

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

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

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

Advertising costs: Advertising costs are expensed as incurred.

Segment information: Operating segments as defined by ASC 280, *Segment Reporting*, are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The accounting policies of operating segments are the same as those described elsewhere in this footnote. Revenue for all segments is derived from external sources. See Note 28 for further discussion of the Company's operating segments.

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

Income taxes: Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities that result in future taxable or deductible amounts. The effect on deferred taxes of a change in tax rates is recognized in the year of enactment and is measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized in the near term. Note 23 provides additional information on the Company's income taxes.

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

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

Earnings per share: Basic earnings per share are computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding for the year, less the average number of nonvested restricted stock awards. Diluted earnings per share reflect potential dilution from the issuance of additional shares of common stock caused by the exercise of stock options and restricted stock awards. See Note 29 for further discussion on the Company's earnings per share.

Recent accounting pronouncements:

Accounting standards adopted in current year		
Standard	**Summary of guidance**	**Effects on financial statements**
Topic 715 - Compensation - Retirement Benefits Subtopic 715 - 20 - Defined Benefit Plans - General: Disclosure Framework - Changes in the Disclosure Requirements for Defined Benefit Plans ASU 2018 - 14 Issued August 2018	Removes, adds, and clarifies certain required financial statement disclosures which apply to all employers that sponsor defined benefit pension or other postretirement plans.	The Company adopted this standard, effective January 1, 2021. The adoption of the accounting standard did not have a material impact on the Company's Consolidated Financial Statements.
Topic 740 - Income Taxes: Simplifying the Accounting for Income Taxes ASU 2019 - 12 Issued December 2019	Simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. Improves the consistent application and simplification of GAAP for other areas of Topic 740 by clarifying and amending existing guidance.	The Company adopted this standard, effective January 1, 2021. The adoption of the accounting standard did not have a material impact on the Company's Consolidated Financial Statements.

Accounting standards not yet adopted		
Standard	**Summary of guidance**	**Effects on financial statements**
Topic 470 - Debt and Topic 815 - Derivatives and Hedging Subtopics 470-20 - Debt with Conversion and Other Options and Subtopic 815-40 - Contracts in Entity's Own Equity ASU 2020 - 06 Issued August 2020	Simplifies an issuer's accounting for convertible debt instruments. Simplifies the settlement assessment that entities are required to perform to determine whether a contract qualifies for equity classification. Requires new disclosures about events that occur during the reporting period. Requires entities to use the if-converted method in the majority of diluted EPS calculations.	Effective for interim and annual periods beginning after December 15, 2021. Early adoption is permitted. The Company is evaluating the impact the pronouncement will have on its Consolidated Financial Statements, but does not expect the adoption of this guidance to have a material impact.

Accounting standards not yet adopted		
Standard	**Summary of guidance**	**Effects on financial statements**
Topic 848 - Reference Rate Reform - Facilitation of the Effects of Reference Rate Reform on Financial Reporting **ASU 2020 - 04** **Issued March 2020** **ASU 2021-01** **Issued January 2021**	Provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. In response to concerns about structural risks of interbank offered rates, and, particularly, the risk of cessation of the LIBOR, these ASUs provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform, if certain criteria are met. Clarifies that certain optional expedients and exceptions in Topic 848 do apply to derivatives that are affected by the discounting transition.	Effective for March 12, 2020, through December 31, 2022. An entity may elect to apply the amendments for contract modifications as of any date from the beginning of an interim period that includes, or is subsequent to, March 12, 2020, or prospectively from a date within the interim period that includes, or is subsequent to, March 12, 2020, up to the date that the financial statements are available to be issued. Once elected, the amendments in this Update must be applied prospectively for all eligible contract modifications. The Company is currently evaluating the impact the pronouncement will have on its Consolidated Financial Statements.

NOTE 2. MERGERS AND ACQUISITIONS

Venture Resorts, Inc.: Effective July 1, 2021, the Company acquired Venture Resorts, Inc., an independent resort property management company that was merged with the operations of Towne Vacations Venture Resorts, LLC, a division of TowneBank's Realty segment. The acquisition was accounted for as a business combination under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*, and, as such, the assets acquired and liabilities assumed in the transaction were recorded at their respective fair values as of the acquisition date. Such fair values were preliminary estimates and are subject to adjustment for up to one year after the merger date, or when additional information relative to the closing date fair values became available and such information is considered final, whichever is earlier. The primary areas of the preliminary allocation of the fair value of consideration transferred that are not yet finalized relate to the fair values of certain intangible assets acquired and the residual goodwill. The results of operations of the acquired business are included in the Company's Consolidated Statements of Income commencing July 1, 2021.

George Johnson Insurance Agency, Inc.: Effective December 31, 2020, the Company acquired G.C. Johnson, an independent insurance agency, which was merged into the operations of Towne Insurance Agency, LLC, a wholly owned subsidiary of TowneBank. The acquisition was accounted for as a business combination under the acquisition method of accounting in accordance with ASC 805, *Business Combinations,* and, as such, the assets acquired and liabilities assumed in the transaction were recorded at their respective fair values as of the acquisition date. The results of operations of the acquired business were included in the Company's Consolidated Statements of Income commencing December 31, 2020.

Angel Insurance and Financial Services, Inc.: Effective September 1, 2019, the Company acquired Angel, an independent insurance agency, which was merged into the operations of Towne Insurance Agency, LLC, a wholly owned subsidiary of TowneBank. The acquisition was accounted for as a business combination under the acquisition method of accounting in accordance with ASC 805, *Business Combinations,* and, as such, the assets acquired and liabilities assumed in the transaction were recorded at their respective fair values as of the acquisition date. The results of operations of the acquired business were included in the Company's Consolidated Statements of Income commencing September 1, 2019.

Straus, Itzkowitz & LeCompte Insurance Agency, Inc.: Effective January 1, 2019, the Company acquired SIL, an independent insurance agency, which was merged into the operations of Towne Insurance Agency, LLC, a wholly owned subsidiary of TowneBank. The acquisition was accounted for as a business combination under the acquisition method of accounting in accordance with ASC 805, *Business Combinations,* and, as such, the assets acquired and liabilities assumed in the transaction were recorded at their respective fair values as of the acquisition date. The results of operations of the acquired business were included in the Company's Consolidated Statements of Income commencing January 1, 2019.

These acquisitions, when considered individually or in the aggregate under relevant disclosure guidance, do not require the presentation of separate pro forma financial information and related disclosures and are not material to the financial statements as a whole.

NOTE 3. INVESTMENT SECURITIES

AFS debt securities are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. HTM debt securities are carried at amortized cost. Interest income on debt securities includes the amortization of purchase premiums and discounts. Premiums and discounts on securities are generally amortized on the effective yield method without anticipating prepayments, except for MBSs where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

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

Available-for-sale debt securities

The Company elected not to measure an allowance for credit losses for accrued interest receivables because uncollectible accrued interest receivables are written off in a timely manner and, as such, the accrued interest receivable on AFS debt securities amounting to $6.19 million as of December 31, 2021, and $5.21 million as of December 31, 2020, was excluded from the estimate of expected credit loss and included in other assets.

As of December 31, 2021, we have recognized no credit losses on Company-held MBSs issued by GSEs, U.S. government sponsored agency securities, and U.S. treasury securities because these securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. As such, the Company has excluded them, under the zero risk of loss expectation, from the impairment analysis under ASC 326-30.

Held-to-maturity debt securities

As of December 31, 2021, no credit losses on Company-held MBSs issued by GSEs, U.S. government sponsored agency securities, and U.S. treasury securities have been recognized because these securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. As such, the Company has excluded them under the zero risk of loss exception in the allowance for credit losses under ASC 326-20.

For the HTM debt securities not implicitly or explicitly guaranteed by the U.S. government, the Company measures expected credit losses on a collective basis, by major security type with each type sharing similar characteristics, utilizing published statistical information from annual default and recovery tables. Accrued interest receivable on HTM debt securities totaling $0.60 million as of December 31, 2021, and $0.92 million as of December 31, 2020, was included in other assets and excluded from the estimate of expected credit losses. At December 31, 2021, all HTM debt securities are current for both principal and interest. There were no in-scope collateral-dependent HTM debt securities at December 31, 2021.

Available-for-sale debt securities

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

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. agency securities	$ 311,665	$ 1,293	$ (2,371)	$ —	$ 310,587
U.S. Treasury notes	1,000	—	—	—	1,000
Municipal securities	375,327	13,075	(2,729)	(104)	385,569
Trust preferred and other corporate securities	53,484	805	(339)	(106)	53,844
MBS issued by GSEs and GNMA	1,047,377	16,881	(9,075)	—	1,055,183
Total available-for-sale securities	$ 1,788,853	$ 32,054	$ (14,514)	$ (210)	$ 1,806,183

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. agency securities	$ 183,514	$ 1,797	$ (654)	$ —	$ 184,657
U.S. Treasury notes	1,000	—	—	—	1,000
Municipal securities	331,850	21,952	(151)	(10)	353,641
Trust preferred and other corporate securities	30,983	692	(176)	(338)	31,161
MBS issued by GSEs and GNMA	762,903	35,584	(722)	—	797,765
Total available-for-sale securities	$ 1,310,250	$ 60,025	$ (1,703)	$ (348)	$ 1,368,224

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

	December 31, 2021	December 31, 2020	December 31, 2019
Gross gains	$ 1,252	$ 10,649	$ 432
Gross (losses)	—	(1,015)	(1,277)
Net gains (losses)	$ 1,252	$ 9,634	$ (845)
Sales proceeds	$ 18,819	$ 347,757	$ 186,043

Held-to-maturity debt securities

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

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
U.S. agency securities	$ 73,360	$ 67	$ (33)	$ 73,394	$ —
U.S. Treasury notes	66,326	—	(73)	66,253	—
Trust preferred and other corporate securities	2,272	252	—	2,524	(84)
Municipal securities	5,095	1,067	—	6,162	(10)
MBS issued by GSE	7,168	175	—	7,343	—
Total held-to-maturity securities	$ 154,221	$ 1,561	$ (106)	$ 155,676	$ (94)

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Trust preferred and other corporate securities	$ 2,321	$ 231	$ —	$ 2,552	$ (85)
Municipal securities	5,012	1,235	—	6,247	(12)
MBS issued by GSE	9,179	491	—	9,670	—
Total held-to-maturity securities	$ 16,512	$ 1,957	$ —	$ 18,469	$ (97)

Maturities of debt securities

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

December 31, 2021	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 25,963	$ 26,415	$ 43	$ 43
Due after one year through five years	154,061	157,793	146,404	146,527
Due after five years through ten years	1,004,265	1,013,847	5,595	6,913
Due after ten years	604,564	608,128	2,179	2,193
	1,788,853	1,806,183	154,221	155,676

December 31, 2020	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 6,254	$ 6,331	$ —	$ —
Due after one year through five years	64,839	67,814	2,850	2,890
Due after five years through ten years	693,699	726,808	9,693	11,031
Due after ten years	545,458	567,271	3,969	4,548
	1,310,250	1,368,224	16,512	18,469

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

December 31, 2021		Less than 12 months		12 months or more		Total	
Description of Securities	**Number**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
U.S. agency securities	23	$ 148,150	$ (830)	$ 51,535	$ (1,541)	$ 199,685	$ (2,371)
Municipal securities	20	58,314	(672)	15,950	(496)	74,264	(1,168)
MBSs issued by GSEs and GNMA	63	436,805	(6,846)	73,913	(2,229)	510,718	(9,075)
Total AFS securities	107	$ 644,269	$ (8,348)	$ 141,398	$ (4,266)	$ 785,667	$ (12,614)

December 31, 2020		Less than 12 months		12 months or more		Total	
Description of Securities	**Number**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
U.S. agency securities	13	$ 82,573	$ (533)	$ 24,628	$ (121)	$ 107,201	$ (654)
Municipal securities	12	35,279	(125)	—	—	35,279	(125)
MBSs issued by GSEs and GNMA	18	115,664	(704)	1,905	(18)	117,569	(722)
Total AFS securities	43	$ 233,516	$ (1,362)	$ 26,533	$ (139)	$ 260,049	$ (1,501)

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

Twelve Months Ended December 31, 2021	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Beginning balance	$ 10	$ 338	$ 348
Provision for (recovery of) credit losses	94	(232)	(138)
Reduction due to AFS securities sold	—	—	—
Ending balance	$ 104	$ 106	$ 210

Twelve Months Ended December 31, 2020	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Beginning balance	$ —	$ —	$ —
Impact of adopting ASC 326	76	—	76
Provision for (recovery of) credit losses	(62)	338	276
Reduction due to AFS securities sold	(4)	—	(4)
Ending balance	$ 10	$ 338	$ 348

We monitor the credit quality of HTM debt securities through the use of credit ratings. These ratings are updated on a monthly basis, and were last updated December 31, 2021. The following table reflects the credit ratings aggregated by investment category for HTM debt securities as of the dates indicated (dollars in thousands):

December 31, 2021	Credit Ratings						
Description of Securities	AAA	AA+	AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Total
U.S. agency securities	$ 73,360	$ —	$ —	$ —	$ —	$ —	$ 73,360
U.S. Treasury notes	66,326	—	—	—	—	—	66,326
Municipal securities	1,676	3,419	—	—	—	—	$ 5,095
Trust preferred and other corporate securities	—	—	—	—	2,272	—	2,272
Mortgage-backed securities issued by GSEs and GNMA	7,168	—	—	—	—	—	7,168
Total	$ 148,530	$ 3,419	$ —	$ —	$ 2,272	$ —	$ 154,221

December 31, 2020	Credit Ratings						
Description of Securities	AAA	AA+	AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Total
Municipal securities	$ 1,608	$ 3,404	$ —	$ —	$ —	$ —	$ 5,012
Trust preferred and other corporate securities	—	—	—	—	2,321	—	2,321
Mortgage-backed securities issued by GSEs and GNMA	9,179	—	—	—	—	—	9,179
Total	$ 10,787	$ 3,404	$ —	$ —	$ 2,321	$ —	$ 16,512

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

December 31, 2021							
Description of Securities	2021	2020	2019	2018	2017	Prior	Total
U.S. agency securities	$ 73,360	$ —	$ —	$ —	$ —	$ —	$ 73,360
U.S. Treasury notes	66,326	—	—	—	—	—	66,326
Municipal securities	—	—	—	—	—	5,095	5,095
Trust preferred and other corporate securities	—	—	1,772	—	—	500	2,272
Mortgage-backed securities issued by GSEs and GNMA	—	—	—	—	—	7,168	7,168
Total	$ 139,686	$ —	$ 1,772	$ —	$ —	$ 12,763	$ 154,221

December 31, 2020							
Description of Securities	2020	2019	2018	2017	2016	Prior	Total
Municipal securities	$ —	$ —	$ —	$ —	$ —	$ 5,012	$ 5,012
Trust preferred and other corporate securities	—	1,821	—	—	—	500	2,321
Mortgage-backed securities issued by GSEs and GNMA	—	—	—	—	5,788	3,391	9,179
Total	$ —	$ 1,821	$ —	$ —	$ 5,788	$ 8,903	$ 16,512

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

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

Twelve Months Ended December 31, 2020	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Beginning balance	$ —	$ —	$ —
Impact of adopting ASC 326	63	91	154
Provision for (recovery of) credit losses	(51)	(6)	(57)
Ending balance	$ 12	$ 85	$ 97

Equity securities

We hold certain securities that do not have a readily determinable fair value and are recognized using cost or other measurement principles. These equity securities include FHLB stock, private equity, and tax credit investments. At December 31, 2021, FHLB stock totaled $13.15 million and other equity securities totaled $6.76 million. At December 31, 2020, FHLB stock totaled $30.14 million and other equity securities totaled $6.49 million. No impairments or adjustments have been recorded on these investments.

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

Pledged securities

At December 31, 2021, and December 31, 2020, the Company had investment securities with market values of $375.55 million and $288.06 million, respectively, pledged to secure federal, state, and municipal deposits. Additionally, the Company had no investment securities pledged to secure borrowings from the FHLB or FRB - Richmond at December 31, 2021 or 2020. The Company also had $110.12 million in investment securities pledged against repurchase agreements with commercial customers at December 31, 2021, compared to $80.21 million at December 31, 2020.

NOTE 4. LOANS

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

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

	December 31, 2021 (1)	December 31, 2020 (1)
Commercial Real Estate		
Construction and land development	1,125,863	$ 1,199,772
Owner occupied	1,494,000	1,380,516
Non-owner occupied	2,620,334	2,335,235
Multi-family	332,659	295,488
Total Commercial Real Estate	5,572,856	5,211,011
Residential 1- 4 family	1,305,915	1,216,629
HELOC	380,834	412,476
Commercial and industrial business	1,206,911	1,990,808
Government	525,358	379,243
Indirect	394,802	271,459
Consumer loans and other	119,576	147,442
Loans, net of unearned income and deferred costs	$ 9,506,252	$ 9,629,068

(1) Paycheck Protection Program loans totaling $0.16 billion and $0.86 billion, primarily in C&I, are included in the December 31, 2021 and December 31, 2020 balances, respectively.

Unearned loan income was $5.71 million in excess of deferred loan costs at December 31, 2021, and $18.20 million at December 31, 2020. Unearned loan income on PPP totaled $4.16 million at December 31, 2021, and $14.79 million at December 31, 2020. Unaccreted discounts on PCD loans were $5.96 million and $8.02 million at December 31, 2021 and 2020, respectively. Unaccreted discounts on non-PCD loans were $4.09 million and $6.91 million at December 31, 2021 and 2020, respectively. There were $5.97 million and $11.19 million in nonaccrual loans at December 31, 2021 and 2020, respectively. The Company would have earned $0.10 million in 2021, and $0.33 million in 2020, if interest on the loans had been accruing. Of total loans, $2.04 billion was pledged as collateral to secure overnight borrowings with the FHLB, and $0.92 billion was pledged to secure borrowings from the discount window at the FRB-Richmond at December 31, 2021.

Nonaccrual Loans

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

Troubled Debt Restructuring

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

If the value of a TDR is determined to be less than the recorded investment in the loan, a valuation allowance is created with a corresponding charge-off. Measurement of the value of a TDR is generally based on the present value of expected future cash flows discounted at the loan's original effective interest rate before modification, or is based on the underlying collateral value less costs to sell, if repayment of the loan is collateral-dependent.

The Company determined that TDRs will continue to be pooled with other loans in the portfolio for purposes of estimating the ACL, as they share similar risk characteristics, unless the TDR no longer shares the common risk characteristics of its pool or if the concessions granted require a method for estimating expected credit losses that is inconsistent with the method applied to the pool. This method is used consistently for all segments of the portfolio.

At December 31, 2021, nonaccruing TDRs, which are included in nonperforming loans, totaled $0.22 million and accruing TDRs totaled $9.79 million. Nonaccruing loans that are modified can be placed back on accrual status when both principal and interest are current, there is a sustained repayment performance of six months or longer, and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

For the years ended December 31, 2021 and 2020, there were no loans modified as TDRs. There were no loans restructured in the past 12 months that have subsequently defaulted. Restructured loans generally include terms to reduce the interest rate and extended payments.

Section 4013 of the CARES Act provided that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020, until the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the president of the United States under the National Emergencies Act terminates. The Appropriations Act, passed December 27, 2020, extended TDR relief to the earlier of January 1, 2022, or 60 days after the national emergency terminates. Accordingly, we offered modifications made in response to COVID-19 to borrowers who were current and otherwise not past due. Management continues to review risk grades and update credit risk when additional modifications are needed. As of December 31, 2021, the Company had one eligible loan modification with an outstanding balance of $17 thousand. As of December 31, 2020, the Company had 210 eligible loan modifications with outstanding balances of $340.81 million.

NOTE 5. ALLOWANCE FOR CREDIT LOSSES ON LOANS

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

	Year Ended		
	December 31, 2021	December 31, 2020	December 31, 2019
Provision for loan losses	$ (14,271)	$ 61,223	$ 9,371
Provision for off-balance-sheet exposures	(2,362)	5,738	—
Provision for HTM security losses	(3)	(57)	—
Provision for AFS security losses	(138)	273	—
Total provision for credit losses	$ (16,774)	$ 67,177	$ 9,371

The allowance for credit losses on loans is applied to amortized cost, which is defined as the amount at which a financing receivable is originated or acquired, adjusted for applicable accrued interest, accretion of discount, or amortization of premium, discount, and net of deferred fees and costs, collection of cash, and write-offs. ASC 326 allows a company to make a separate accounting policy election to exclude accrued interest receivable balances

from the calculation of an allowance, contingent on the company having an accounting policy in place that results in the timely reversal, or write-off, of any unpaid accrued interest. The Company has such a policy in place, and has elected to exclude accrued interest from the calculation of its allowance for credit losses. Accrued interest receivable on loans excluded from the estimate of ECL and included in other assets was $21.65 million and $25.83 as of December 31, 2021 and 2020, respectively.

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

Credit risk is inherent in the business of extending loans to borrowers and is continuously monitored by management and reflected within the allowance for credit losses for loans. The allowance for credit losses is an estimate of expected losses inherent within the Company's loans held for investment portfolio. In estimating the allowance for credit losses, loans with similar risk characteristics are aggregated into pools and collectively assessed. Risk characteristics for pooling include, but are not limited to: loan purpose, underlying collateral, and similarities in performance and structure. Some loans are not sufficiently similar in risk characteristics to other loans. These loans are excluded from collective evaluation and evaluated on an individual basis. Loans identified for individual assessment include: substandard loans equal to or greater than $1.0 million, PCD loans with specific reserves, and/or loans identified as no longer sharing similar risk characteristics with other pooled loans. Individually assessed loans totaled $16.89 million with specific reserves of $0.34 million at December 31, 2021, compared to $26.50 million in individually assessed loans with specific reserves of $1.84 million at December 31, 2020.

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

Modeling Segment	Portfolio
CRE	Construction and development
	Commercial owner occupied
	Commercial non-owner occupied
	Multi-family
Resi-Mort	1 - 4 family mortgage and subordinated mortgage
HELOC	HELOC
C&I	Commercial and industrial
	Dealer floorplans
Government	Municipal loans / bonds
Indirect	Indirect auto
Consumer	Consumer and other loans

In determining the allowance for credit losses, the Company utilized two approaches:

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

For government and dealer floorplans, which have limited data history and limited history of defaults, baseline ECL estimates are adjusted quantitatively to determine the allowance for credit losses. Baseline ECL is defined as

the most likely scenario for financial outcome based on the current conditions of U.S. monetary policy, fiscal policy, U.S. dollar strength, and energy prices as provided through widely published macroeconomic modeling tools. For all other segments/portfolios, the Company builds an estimate of ECLs using an expected loss methodology that incorporates risk parameters which are derived from various vendor models, internally developed statistical models, or nonstatistical estimation approaches.

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

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

The Company's PD models share a common definition of default, which include loans that are 90 days past due, on nonaccrual status, and/or have a write-off or obligor bankruptcy. All of the Company's models utilize an eight-quarter reasonable and supportable forecast period followed by a four-quarter input reversion period. The Company's loan segments' LGD was developed from actual cumulative loss history. Based on model development results, the Company applies an average net charge-off rate for each modeling segment utilizing internal loss historical observations. For off-balance-sheet commitments, EAD includes estimates of amounts available to draw for loans considered not unconditionally cancellable. Calculations for EAD utilize a flat-rate assumption methodology based on median over time for C&I, consumer, and HELOC loans, and average utilization at default for CRE loans. No allowance for credit losses has been recognized for PPP loans because the loans are fully guaranteed by the SBA.

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

The following table presents a roll-forward of the allowance for our on-balance-sheet credit losses on our loans held for investment, at amortized cost, for the years ended December 31, 2021 and 2020 (in thousands):

	Commercial Real Estate					
Twelve Months Ended December 31, 2021	**Construction and Development**	**Owner Occupied**	**Non-Owner Occupied**	**Multi-Family**	**Residential 1-4 Family**	**HELOC**
Beginning balance	$ 23,681	$ 16,158	$ 27,567	$ 2,054	$ 13,779	$ 15,240
Provision for credit losses	(5,255)	(3,409)	(1,673)	(226)	3,944	(1,237)
Write-offs	(173)	(23)	(469)	—	(132)	(36)
Recoveries	84	34	62	—	423	583
Net (write-offs) recoveries	(89)	11	(407)	—	291	547
Balance, end of period	18,337	12,760	25,487	1,828	18,014	14,550

	Commercial and Industrial	**Government**	**Indirect**	**Consumer and Other**	**Total**
Beginning balance	$ 11,056	$ 2,334	$ 2,901	$ 5,387	$ 120,157
Provision for credit losses	(4,038)	1,124	(661)	(2,840)	(14,271)
Write-offs	(295)	—	(482)	(60)	(1,670)
Recoveries	212	—	375	70	1,843
Net (write-offs) recoveries	(83)	—	(107)	10	173
Balance, end of period	6,935	3,458	2,133	2,557	$ 106,059

	Commercial Real Estate					
Twelve Months Ended December 31, 2020	**Construction and Development**	**Owner Occupied**	**Non-Owner Occupied**	**Multi-Family**	**Residential 1-4 Family**	**HELOC**
Beginning balance, prior to adoption of ASC 326	$ 6,926	$ 9,356	$ 13,885	$ 1,047	$ 7,241	$ 3,382
Impact of adopting ASC 326	8,158	(2,192)	(2,214)	221	295	5,734
Provision for credit losses	8,419	8,985	15,899	786	6,479	5,770
Write-offs	(28)	—	(35)	—	(398)	(143)
Recoveries	206	9	32	—	162	497
Net (write-offs) recoveries	178	9	(3)	—	(236)	354
Balance, end of period	23,681	16,158	27,567	2,054	13,779	15,240

	Commercial and Industrial	**Government**	**Indirect**	**Consumer and Other**	**Total**
Beginning balance, prior to adoption of ASC 326	$ 7,899	$ 1,937	$ 6,064	$ 497	$ 58,234
Impact of adopting ASC 326	(4,001)	(566)	(4,920)	423	938
Provision for credit losses	7,105	963	2,346	4,471	61,223
Write-offs	(357)	—	(914)	(54)	(1,929)
Recoveries	410	—	325	50	1,691
Net (write-offs) recoveries	53	—	(589)	(4)	(238)
Balance, end of period	11,056	2,334	2,901	5,387	$ 120,157

The following table presents a roll-forward of the allowance for off-balance-sheet exposure for the years ended December 31, 2021 and 2020, related to loans held for investment, which is carried in other liabilities on our Consolidated Balance Sheets (in thousands):

	Commercial Real Estate					
Twelve Months Ended December 31, 2021	**Construction and Development**	**Owner Occupied**	**Non-Owner Occupied**	**Multi-Family**	**Residential 1-4 Family**	**HELOC**
Beginning balance	$ 1,535	$ 212	$ 265	$ 40	$ —	$ 2,686
Provision for credit losses	(895)	129	66	—	—	(118)
Ending balance	$ 640	$ 341	$ 331	$ 40	$ —	$ 2,568

	Commercial and Industrial	**Government**	**Indirect**	**Consumer and Other**	**Total**
Beginning balance	$ 2,903	$ —	$ —	$ 1,603	$ 9,244
Provision for credit losses	(1,469)	—	—	(75)	(2,362)
Ending balance	$ 1,434	$ —	$ —	$ 1,528	$ 6,882

	Commercial Real Estate					
Twelve Months Ended December 31, 2020	**Construction and Development**	**Owner Occupied**	**Non-Owner Occupied**	**Multi-Family**	**Residential 1-4 Family**	**HELOC**
Beginning balance, prior to adoption of ASC 326	$ —	$ —	$ —	$ —	$ —	$ —
Impact of adopting ASC 326	313	205	190	144	43	1,546
Provision for credit losses	1,222	7	75	(104)	(43)	1,140
Ending balance	$ 1,535	$ 212	$ 265	$ 40	$ —	$ 2,686

	Commercial and Industrial	**Government**	**Indirect**	**Consumer and Other**	**Total**
Beginning balance, prior to adoption of ASC 326	$ —	$ —	$ —	$ —	$ —
Impact of adopting ASC 326	683	—	—	382	3,506
Provision for credit losses	2,220	—	—	1,221	5,738
Ending balance	$ 2,903	$ —	$ —	$ 1,603	$ 9,244

Our provision for credit losses on funded and unfunded loan exposures was a benefit of $16.63 million in the year ended December 31, 2021, compared to a provision expense of $66.96 million in the year ended December 31, 2020 and a provision expense of $9.37 million in the year ended December 31, 2019. In 2021, the Company released $14.10 million of the allowance for credit losses on funded loans primarily driven by improvements in the economic forecasts. Also contributing to the decrease in the allowance were net loan recoveries, improvements in certain price indices utilized in the model, and decreases in reserves related to loans on deferral, partially offset by core loan growth. The increase between 2019 and 2020 was primarily attributable to the change in methodology from incurred loss to expected life of loan loss estimates, compounded by a heavy weighting given to adverse economic forecasts in our credit loss models due to expectation of continued economic weakness driven by a number of uncertainties impacting the local and national economy. Our provision could change significantly in future periods as changes in forecasted macroeconomic conditions and loan mix information become available, resulting in both increases and reductions to the reserve.

Credit quality indicators

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

Credit risk grades, which were last affirmed in October 2021, are refreshed semi-annually. No risk grades were automatically adjusted based on requesting an initial modification due to COVID-19. At affirmation, management analyzes the resulting scores, as well as external statistics and factors, to track loan performance. On an as-needed basis, credit risk grades may be updated between review periods if new information arises related to the customer's ability to repay the loan. The Company differentiates its loan segments based on shared risk characteristics for which expected credit loss is measured on a pool basis.

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

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

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

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

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

For consumer-related credits, the Company utilizes credit scores calculated and maintained by one of three credit bureaus. Credit scores range between 300 and 850, with a lower score indicating a potentially higher risk. Credit scores are updated semi-annually, with the last update in August 2021.

The following tables provide a breakdown of the Company's loans held for investment by credit score or risk grade and year of origination at December 31, 2021, and December 31, 2020 (in thousands):

December 31, 2021

	Term Loans By Origination								
	2021	2020	2019	2018	2017	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
CRE - Construction and Development									
Pass	$ 735,699	$ 294,630	$ 39,074	$ 7,049	$ 5,136	$ 11,343	$ 31,833	$ —	$ 1,124,764
Special Mention	—	—	—	—	—	526	—	—	526
Substandard	87	—	33	—	73	380	—	—	573
	$ 735,786	$ 294,630	$ 39,107	$ 7,049	$ 5,209	$ 12,249	$ 31,833	$ —	$ 1,125,863
CRE - Owner Occupied									
Pass	$ 454,049	$ 331,421	$ 195,828	$ 118,943	$ 94,506	$ 257,045	$ 17,110	$ 7	$ 1,468,909
Special Mention	1,457	1,544	50	—	2,595	4,749	1,833	—	12,228
Substandard	—	—	8,045	281	291	3,996	250	—	12,863
	$ 455,506	$ 332,965	$ 203,923	$ 119,224	$ 97,392	$ 265,790	$ 19,193	$ 7	$ 1,494,000
CRE - Non-Owner Occupied									
Pass	$ 933,267	$ 539,811	$ 401,560	$ 230,218	$ 194,603	$ 294,039	$ 12,470	$ —	$ 2,605,968
Special Mention	—	—	—	7,967	2,278	—	800	—	11,045
Substandard	—	3,119	—	—	—	202	—	—	3,321
	$ 933,267	$ 542,930	$ 401,560	$ 238,185	$ 196,881	$ 294,241	$ 13,270	$ —	$ 2,620,334
CRE - Multi-Family									
Pass	$ 104,872	$ 71,930	$ 60,027	$ 43,948	$ 11,978	$ 36,029	$ 3,606	$ —	$ 332,390
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	269	—	—	269
	$ 104,872	$ 71,930	$ 60,027	$ 43,948	$ 11,978	$ 36,298	$ 3,606	$ —	$ 332,659
Commercial and Industrial									
Pass	$ 437,453	$ 175,270	$ 95,141	$ 50,979	$ 24,276	$ 20,557	$ 392,876	$ 887	$ 1,197,439
Special Mention	254	2,415	1,328	239	84	11	815	510	5,656
Substandard	2,733	258	182	213	11	19	400	—	3,816
	$ 440,440	$ 177,943	$ 96,651	$ 51,431	$ 24,371	$ 20,587	$ 394,091	$ 1,397	$ 1,206,911
Government									
Pass	$ 55,299	$ 196,119	$ 23,093	$ 55,863	$ 14,603	$ 175,265	$ 5,116	$ —	$ 525,358
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
	$ 55,299	$ 196,119	$ 23,093	$ 55,863	$ 14,603	$ 175,265	$ 5,116	$ —	$ 525,358

	Term Loans By Origination								
	2021	2020	2019	2018	2017	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
Residential 1 - 4 Family									
Credit Score:									
> = 750	$ 429,997	$ 212,280	$ 123,067	$ 64,547	$ 74,420	$ 147,970	$ 4,735	$ 196	$ 1,057,212
650 - 749	82,697	58,086	16,368	28,811	10,028	41,215	—	—	237,205
450 - 649	1,715	1,041	599	1,168	1,335	5,640	—	—	11,498
300 - 449	—	—	—	—	—	—	—	—	—
	$ 514,409	$ 271,407	$ 140,034	$ 94,526	$ 85,783	$ 194,825	$ 4,735	$ 196	$ 1,305,915
HELOC									
Credit Score:									
> = 750	$ 2,492	$ 1,191	$ 190	$ 189	$ 545	$ 1,302	$ 287,783	$ 23	$ 293,715
650 - 749	979	110	1,031	268	323	2,618	74,770	216	80,315
450 - 649	479	238	121	98	243	1,124	4,422	79	6,804
300 - 449	—	—	—	—	—	—	—	—	—
	$ 3,950	$ 1,539	$ 1,342	$ 555	$ 1,111	$ 5,044	$ 366,975	$ 318	$ 380,834
Indirect									
Credit Score:									
> = 750	$ 120,668	$ 26,980	$ 17,074	$ 15,883	$ 6,116	$ 1,194	$ —	$ —	$ 187,915
650 - 749	111,602	36,472	14,976	12,926	3,200	1,722	—	—	180,898
450 - 649	5,452	7,482	4,890	5,241	1,607	1,288	—	—	25,960
300 - 449	—	—	29	—	—	—	—	—	29
	$ 237,722	$ 70,934	$ 36,969	$ 34,050	$ 10,923	$ 4,204	$ —	$ —	$ 394,802
Consumer and Other									
Credit Score:									
> = 750	$ 53,898	$ 8,962	$ 8,008	$ 2,497	$ 2,486	$ 1,274	$ 26,495	$ —	$ 103,620
650 - 749	4,077	1,988	1,151	1,099	207	233	5,613	72	14,440
450 - 649	188	226	190	26	179	6	550	1	1,366
300 - 449	—	—	—	—	—	150	—	—	150
	$ 58,163	$ 11,176	$ 9,349	$ 3,622	$ 2,872	$ 1,663	$ 32,658	$ 73	$ 119,576
Grand Total	$ 3,539,414	$ 1,971,573	$ 1,012,055	$ 648,453	$ 451,123	$ 1,010,166	$ 871,477	$ 1,991	$ 9,506,252

December 31, 2020 (1)

	Term Loans By Origination								
	2020	2019	2018	2017	2016	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
CRE - Construction and Development (1)									
Pass	$ 766,276	$ 283,692	$ 87,004	$ 7,925	$ 6,447	$ 12,204	$ 33,361	$ —	$ 1,196,909
Special Mention	808	514	—	124	—	—	668	—	2,114
Substandard	90	259	1	—	399	—	—	—	749
	$ 767,174	$ 284,465	$ 87,005	$ 8,049	$ 6,846	$ 12,204	$ 34,029	$ —	$ 1,199,772

	Term Loans By Origination								
	2020	2019	2018	2017	2016	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
CRE - Owner Occupied (1)									
Pass	$ 374,092	$ 294,097	$ 170,681	$ 122,545	$ 123,230	$ 243,358	$ 23,386	$ 69	$ 1,351,458
Special Mention	—	9,033	1,623	2,231	3,404	829	259	—	17,379
Substandard	1,146	286	1,335	2,028	864	5,547	473	—	11,679
	$ 375,238	$ 303,416	$ 173,639	$ 126,804	$ 127,498	$ 249,734	$ 24,118	$ 69	$ 1,380,516
CRE - Non-Owner Occupied (1)									
Pass	$ 678,660	$ 530,105	$ 339,758	$ 246,089	$ 202,176	$ 289,789	$ 18,696	$ 1,198	$ 2,306,471
Special Mention	—	2,814	14,859	—	—	5,500	949	—	24,122
Substandard	3,250	—	300	394	—	698	—	—	4,642
	$ 681,910	$ 532,919	$ 354,917	$ 246,483	$ 202,176	$ 295,987	$ 19,645	$ 1,198	$ 2,335,235
CRE - Multi-Family (1)									
Pass	$ 99,395	$ 86,876	$ 23,254	$ 17,612	$ 10,116	$ 46,492	$ 3,682	$ —	$ 287,427
Special Mention	—	—	4,775	—	—	—	—	—	4,775
Substandard	2,953	—	—	—	—	333	—	—	3,286
	$ 102,348	$ 86,876	$ 28,029	$ 17,612	$ 10,116	$ 46,825	$ 3,682	$ —	$ 295,488
Commercial and Industrial (1)									
Pass	$ 1,109,682	$ 169,359	$ 99,304	$ 37,937	$ 19,962	$ 18,779	$ 511,625	$ 337	$ 1,966,985
Special Mention	3,074	2,992	3,894	2,024	284	14	4,927	—	17,209
Substandard	814	1,876	408	2,159	217	226	914	—	6,614
	$ 1,113,570	$ 174,227	$ 103,606	$ 42,120	$ 20,463	$ 19,019	$ 517,466	$ 337	$ 1,990,808
Government (1)									
Pass	$ 89,667	$ 36,737	$ 48,485	$ 15,610	$ 50,528	$ 132,914	$ 3,388	$ —	$ 377,329
Special Mention	1,914	—	—	—	—	—	—	—	1,914
Substandard	—	—	—	—	—	—	—	—	—
	$ 91,581	$ 36,737	$ 48,485	$ 15,610	$ 50,528	$ 132,914	$ 3,388	$ —	$ 379,243
Residential 1 - 4 Family									
Credit Score:									
> = 750	$ 294,478	$ 186,829	$ 111,587	$ 108,038	$ 103,351	$ 138,147	$ 2,198	$ —	$ 944,628
650 - 749	78,001	39,116	44,803	18,712	26,082	36,239	—	78	243,031
450 - 649	5,977	4,110	4,743	2,709	874	10,556	—	—	28,969
300 - 449	—	—	—	—	—	1	—	—	1
	$ 378,456	$ 230,055	$ 161,133	$ 129,459	$ 130,307	$ 184,943	$ 2,198	$ 78	$ 1,216,629

	Term Loans By Origination								
	2020	2019	2018	2017	2016	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
HELOC									
Credit Score:									
> = 750	$ 876	$ 384	$ 364	$ 477	$ 447	$ 1,630	$ 297,662	$ 322	$ 302,162
650 - 749	852	64	150	417	15	1,500	91,906	1	94,905
450 - 649	551	79	73	158	376	3,246	10,926	—	15,409
300 - 449	—	—	—	—	—	—	—	—	—
	$ 2,279	$ 527	$ 587	$ 1,052	$ 838	$ 6,376	$ 400,494	$ 323	$ 412,476
Indirect									
Credit Score:									
> = 750	$ 42,370	$ 26,437	$ 29,224	$ 13,376	$ 3,811	$ 1,311	$ —	$ —	$ 116,529
650 - 749	57,120	28,451	24,900	7,378	4,179	1,457	—	—	123,485
450 - 649	5,022	8,756	10,176	3,628	2,793	1,012	—	—	31,387
300 - 449	—	24	18	16	—	—	—	—	58
	$ 104,512	$ 63,668	$ 64,318	$ 24,398	$ 10,783	$ 3,780	$ —	$ —	$ 271,459
Consumer and Other									
Credit Score:									
> = 750	$ 76,556	$ 13,487	$ 5,150	$ 3,536	$ 685	$ 1,613	$ 31,048	$ 28	$ 132,103
650 - 749	3,650	2,106	2,091	435	37	318	3,882	28	12,547
450 - 649	761	310	50	142	372	44	648	8	2,335
300 - 449	—	—	—	—	457	—	—	—	457
	$ 80,967	$ 15,903	$ 7,291	$ 4,113	$ 1,551	$ 1,975	$ 35,578	$ 64	$ 147,442
Grand Total	$ 3,698,035	$ 1,728,793	$ 1,029,010	$ 615,700	$ 561,106	$ 953,757	$ 1,040,598	$ 2,069	$ 9,269,068

(1) Loan balances in the Pass and Special Mention categories have been corrected for December 31, 2020, due to the identification of an error in which loans risk rated 60, which are Pass, were grouped with Special Mention. This error only impacts the tabular disclosure and is corrected for comparative purposes.

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, which may or may not be classified as TDRs, but 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 but as a practical expedient, if foreclosure is not probable, fair value measurement is optional. For those CDA loans measured at the fair value of collateral, a credit loss expense is recorded for loan amounts in excess of fair value.

The following table provides a breakdown between loans identified as CDAs and non-CDAs, by type and securing collateral, as well as collateral coverage for those loans at December 31, 2021, and December 31, 2020 (in thousands):

	Type of Collateral and Extent to Which Collateral Secures Financial Assets				Financial Assets Not Considered Collateral Dependent	
December 31, 2021	Residential Property	Investment Property	Commercial Property	Business Assets		Total
Commercial Real Estate						
Construction and development	$ —	$ 945	$ —	$ —	$ 1,124,918	$ 1,125,863
Owner occupied	—	—	3,953	—	1,490,047	1,494,000
Non-owner occupied	—	13,998	—	—	2,606,336	2,620,334
Multi-family	—	270	—	—	332,389	332,659
Residential 1-4 family	3,930	—	—	—	1,301,985	1,305,915
HELOC	506	—	—	—	380,328	380,834
Commercial and industrial	—	—	—	—	1,206,911	1,206,911
Government	—	—	—	—	525,358	525,358
Indirect	—	—	—	—	394,802	394,802
Consumer and other	—	—	—	—	119,576	119,576
Total, amortized cost	$ 4,436	$ 15,213	$ 3,953	$ —	$ 9,482,650	$ 9,506,252
Collateral value	$ 10,729	$ 29,206	$ 8,475	$ —		

	Type of Collateral and Extent to Which Collateral Secures Financial Assets				Financial Assets Not Considered Collateral Dependent	
December 31, 2020	Residential Property	Investment Property	Commercial Property	Business Assets		Total
Commercial Real Estate						
Construction and development	$ —	$ 1,124	$ —	$ —	$ 1,198,648	$ 1,199,772
Owner occupied	—	—	2,407	—	1,378,109	1,380,516
Non-owner occupied	—	27,536	—	—	2,307,699	2,335,235
Multi-family	—	8,062	—	—	287,426	295,488
Residential 1-4 family	4,414	—	—	—	1,212,215	1,216,629
HELOC	637	—	—	—	411,839	412,476
Commercial and industrial	—	—	—	3,619	1,987,189	1,990,808
Government	—	—	—	—	379,243	379,243
Indirect	—	—	—	—	271,459	271,459
Consumer and other	—	—	—	—	147,442	147,442
Total, amortized cost	$ 5,051	$ 36,722	$ 2,407	$ 3,619	$ 9,581,269	$ 9,629,068
Collateral value	$ 29,799	$ 82,571	$ 10,275	$ 25,191		

Nonaccrual and Past Due Loans

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

The following table is an aging analysis at amortized cost of the Company's loans held for investment portfolio at December 31, 2021, and December 31, 2020 (in thousands):

		Days Past Due					
December 31, 2021	Current	30-59	60-89	Over 90	Total Past Due	Total Loans	Accruing Loans Over 90 Days Past Due
Commercial Real Estate							
Construction and development	$ 1,125,863	$ —	$ —	$ —	$ —	$ 1,125,863	$ —
Owner occupied	1,492,631	763	—	606	1,369	1,494,000	—
Non-owner occupied	2,620,334	—	—	—	—	2,620,334	—
Multi-family	332,659	—	—	—	—	332,659	—
Residential 1-4 family	1,303,482	403	931	1,099	2,433	1,305,915	41
HELOC	380,206	383	220	25	628	380,834	—
Commercial and industrial	1,206,297	100	22	492	614	1,206,911	263
Government	525,358	—	—	—	—	525,358	—
Indirect	393,144	988	123	547	1,658	394,802	68
Consumer and other	119,512	40	24	—	64	119,576	—
Total	$ 9,499,486	$ 2,677	$ 1,320	$ 2,769	$ 6,766	$ 9,506,252	$ 372

		Days Past Due					
December 31, 2020	Current	30-59	60-89	Over 90	Total Past Due	Total Loans	Accruing Loans Over 90 Days Past Due
Commercial Real Estate							
Construction and development	$ 1,199,167	$ 601	$ 3	$ 1	$ 605	$ 1,199,772	$ —
Owner occupied	1,378,279	1,704	424	109	2,237	1,380,516	—
Non-owner occupied	2,333,112	469	974	680	2,123	2,335,235	—
Multi-family	295,488	—	—	—	—	295,488	—
Residential 1-4 family	1,211,928	2,001	411	2,289	4,701	1,216,629	484
HELOC	411,083	874	156	363	1,393	412,476	—
Commercial and industrial	1,986,460	641	789	2,918	4,348	1,990,808	—
Government	379,243	—	—	—	—	379,243	—
Indirect	269,496	779	333	851	1,963	271,459	44
Consumer and other	147,411	30	1	—	31	147,442	—
Total	$ 9,611,667	$ 7,099	$ 3,091	$ 7,211	$ 17,401	$ 9,629,068	$ 528

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 December 31, 2021, and December 31, 2020. Nonaccrual loans without

specific reserves are included in collectively evaluated pools for which an ACL has been recorded. It also shows interest income recognized on nonaccrual loans (in thousands):

December 31, 2021	Nonaccrual Financial Assets		Financial Assets 90 Days or More Past Due, Not on Nonaccrual Status	Nonaccrual Financial Assets With No Specific Reserve as of 12/31/2021	Interest Income Recognized
	As of 12/31/2020	As of 12/31/2021			
Commercial Real Estate					
Construction and development	$ —	$ —	$ —	$ —	$ 7
Owner occupied	387	$ 607	—	607	177
Non-owner occupied	1,163	$ —	—	—	17
Multi-family	—	$ —	—	—	91
Residential 1-4 family	3,432	$ 1,839	41	1,498	316
HELOC	1,072	$ 481	—	481	138
Commercial and industrial	4,414	$ 2,433	263	2,433	243
Government	—	$ —	—	—	—
Indirect	717	$ 613	68	613	128
Consumer and other	3	$ —	—	—	33
Total	$ 11,188	$ 5,973	$ 372	$ 5,632	$ 1,150

December 31, 2020	Nonaccrual Financial Assets		Financial Assets 90 Days or More Past Due, Not on Nonaccrual Status	Nonaccrual Financial Assets With No Specific Reserve as of 12/31/2020	Interest Income Recognized
	As of 01/01/2020	As of 12/31/2020			
Commercial Real Estate					
Construction and development	$ 43	$ —	$ —	$ —	$ 8
Owner occupied	7,346	387	—	387	47
Non-owner occupied	221	1,163	—	694	98
Multi-family	—	—	—	—	—
Residential 1-4 family	5,525	3,432	484	3,042	371
HELOC	1,214	1,072	—	1,071	114
Commercial and industrial	3,284	4,414	—	4,414	404
Government	—	—	—	—	—
Indirect	976	717	45	890	135
Consumer and other	4	3	—	3	32
Total	$ 18,613	$ 11,188	$ 529	$ 10,501	$ 1,209

Off-Balance-Sheet Credit Exposure

The Company maintains a separate allowance for credit losses from off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the Consolidated Balance Sheets. The estimate includes consideration of the likelihood that funding will occur and an estimate of ECLs on commitments expected to be funded over their estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as our loan portfolio segments. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of

the arrangement. At December 31, 2021, and December 31, 2020, the allowance for credit losses from off-balance-sheet credit exposures included in other liabilities was $6.88 million and $9.24 million, respectively.

NOTE 6. OTHER REAL ESTATE OWNED

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

	Year Ended December 31,	
	2021	2020
Beginning balance	$ 5,026	$ 15,360
Additions and capital improvements	3,111	5,237
Sales	(3,818)	(14,512)
Net change in valuation allowance	—	(471)
Gain on sale and write-downs, net	265	(588)
Ending balance	$ 4,584	$ 5,026

As of December 31, 2021, the Company's recorded investment in OREO collateralized by residential real estate was $0.04 million. As of December 31, 2021, the Company's recorded investment in mortgage loans collateralized by residential real estate that are in the process of foreclosure was $0.22 million.

NOTE 7. PREMISES AND EQUIPMENT

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

	Useful Life	December 31,	
		2021	2020
Land and improvements	—	$ 50,000	$ 46,928
Buildings and improvements	10 to 45 years	200,750	195,624
Autos	3 to 5 years	7,755	7,728
Computer equipment	2 to 5 years	17,620	17,125
Equipment	5 to 10 years	36,544	33,211
Furniture and fixtures	5 to 20 years	68,168	63,293
Leasehold improvements	Lesser of lease term or 10 years	38,960	37,952
Construction in progress	—	5,100	—
		424,897	401,861
Less accumulated depreciation		(154,125)	(141,619)
Net premises and equipment		$ 270,772	$ 260,242

Depreciation and leasehold amortization expense for the years ended December 31, 2021, 2020, and 2019, was $16.98 million, $16.81 million, and $16.07 million, respectively.

NOTE 8. LEASES

We lease certain office space, land, and equipment. These leases were all classified as operating leases. Leases with an initial term of 12 months or less are not recorded on our Consolidated Balance Sheets; we recognize lease expenses for these leases over the lease term. As most of our lease agreements do not provide for an implicit interest rate, we use the incremental collateralized interest rate the Company would have to pay to borrow over a similar term to estimate our lease liability. Certain leases include one or more options to renew, with renewal terms that can extend the lease term up to 15 years. The exercise of lease renewal options is at our sole discretion.

When it is reasonably certain that we will exercise our option to renew or extend the lease term, that option is included in estimating the value of the right-of-use asset and lease liability.

At December 31, 2021, 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. For our operating leases we have elected the practical expedient of not separating lease components from non-lease components, and instead account for each separate lease component and the non-lease components associated with that lease as a single lease component. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Most of our lease agreements include periodic rate adjustments for inflation. The depreciable life of assets and leasehold improvements are limited to the expected lease term.

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

Leases

(In thousands)	December 31, 2021	December 31, 2020
Assets		
Operating lease assets included in other assets	$ 52,750	$ 60,340
Liabilities		
Accrued liability operating leases included in other liabilities	$ 56,554	$ 64,161

The following table presents a summary of activity related to leases for the years ended December 31, 2021 and 2020:

Lease Cost

	Year Ended December 31,	
(In thousands)	2021	2020
Operating lease cost (1) included in occupancy expense	$ 14,347	$ 14,064
Variable lease cost included in occupancy expense	827	655
Sublease income included in occupancy expense	(278)	(82)
Net lease cost	$ 14,896	$ 14,637

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

The following table presents lease liability maturities, by year, as of December 31, 2021:

Maturity of Lease Liabilities

(In thousands)	Operating Leases (1)
2022	$ 11,188
2023	8,816
2024	6,907
2025	5,994
2026	5,171
Thereafter	43,208
Total lease payments	$ 81,284
Less: interest	24,730
Present value of lease liabilities	$ 56,554

(1) Operating lease payments include $29.86 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.

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

Lease Term and Discount Rate

	Year Ended December 31,	
	2021	**2020**
Weighted - average remaining lease term - operating leases (in years)	13.30	13.05
Weighted - average discount rate - operating leases	4.88%	4.82%

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

Other Information

(In thousands)	Year Ended December 31,	
	2021	**2020**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$ 13,018	$ 11,659
Related Party Transactions (1)		
Rent expense included in occupancy expense	$ 2,733	$ 2,646

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

Rental income for the year ended December 31, 2021, was $3.89 million, compared to $2.76 million for 2020, and $1.36 million for 2019. Future minimum rental income by year and in the aggregate, under noncancellable operating leases, was as follows at December 31, 2021 (in thousands):

2022	$ 1,253
2023	970
2024	512
2025	415
2026	303
Thereafter	607
	$ 4,060

NOTE 9. GOODWILL AND INTANGIBLE ASSETS

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

	December 31,			
	2021		2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization				
Core deposit intangible	$ 30,921	$ 22,419	$ 31,339	$ 19,288
Non-compete agreements	2,185	1,754	2,185	1,535
Customer lists	78,832	45,497	66,359	38,138
Total intangible assets subject to amortization	111,938	69,670	99,883	58,961
Intangible assets not subject to amortization				
Trade names	4,880	—	1,380	—
Contractual agreements	3,231	—	3,231	—
Total intangible assets not subject to amortization	8,111	—	4,611	—
Total intangible assets	$ 120,049	$ 69,670	$ 104,494	$ 58,961

The aggregate amortization expense for intangible assets with finite lives for the year ended December 31, 2021, was $11.13 million, compared to $11.50 million for 2020, and $12.37 million for 2019. The estimated aggregate annual amortization expense for each of the five years subsequent to December 31, 2021, is as follows: 2022, $10.47 million; 2023, $8.81 million; 2024, $6.82 million; 2025, $6.80 million, and 2026, $4.09 million.

During 2021, the Company recorded an increase of $4.86 million to goodwill and an increase of $15.56 million in intangible assets. This represents the purchase of Venture Resorts and insurance acquisitions. During 2020, the Company recorded $5.51 million in net increases to goodwill and $2.63 million in intangible assets. This represents the acquisition of G.C. Johnson. The intangible assets acquired are finite-lived, consisting primarily of customer list purchases.

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

	Bank	Realty	Insurance	Consolidated Totals
Balance at December 31, 2019	$ 344,713	$ 27,667	$ 74,436	$ 446,816
Additions to goodwill	—	—	5,603	5,603
Other adjustments	—	—	(91)	(91)
Balance at December 31, 2020	$ 344,713	$ 27,667	$ 79,948	$ 452,328
Additions to goodwill	—	4,859	—	4,859
Other adjustments	—	—	—	—
Balance at December 31, 2021	$ 344,713	$ 32,526	$ 79,948	$ 457,187

NOTE 10. BANK-OWNED LIFE INSURANCE POLICIES

The total carrying amount of bank-owned life insurance as of December 31, 2021 and 2020 was $251.81 million and $246.11 million, respectively. The Company recognized BOLI income, included in other noninterest income, of $7.27 million, $8.29 million, and $9.22 million for the years ended December 31, 2021, 2020, and 2019, respectively. The Company has a related retirement plan, which provides retirement benefits to the executives covered under the plan. Although the retirement plan is technically unfunded, the life insurance policies are available to finance future benefits. Refer to Note 14 for additional discussions regarding retirement plans.

NOTE 11. DEPOSITS

A summary of time deposits by maturity at December 31, 2021, is shown in the following chart (dollars in thousands):

Maturity	Total
2022	$ 1,229,439
2023	234,371
2024	31,817
2025	15,819
2026 and thereafter	4,445
	$ 1,515,891

At year-end 2021, TowneBank had a total of $305.70 million in no-penalty time deposits as compared to $322.11 million at December 31, 2020. The aggregate amount of time deposits of $250,000 or more was $620.86 million and $723.24 million at December 31, 2021 and 2020, respectively.

Some of the Company's officers and directors, and the respective companies in which the officers and directors have a financial interest, have deposit relationships with the Company. Related party deposits amounted to approximately $112.52 million and $97.43 million at December 31, 2021 and 2020, respectively.

NOTE 12. BORROWINGS

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

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

	2021	2020
Balance outstanding at end of year	$ 155,367	$ 456,038
Average balance outstanding	$ 232,838	$ 753,739
Maximum outstanding at any month-end	$ 356,038	$ 1,006,527
Average interest rate during the year	0.52 %	1.11 %
Average interest rate at end of year	0.52 %	0.99 %

The scheduled maturity dates, call dates, and related fixed interest rates on advances from the FHLB at December 31, 2021, are summarized as follows (dollars in thousands):

Maturity Date	Interest Rate	Call/Reset Date	Outstanding Amount
11/15/2028	3.43%	—	$ 3,140
12/01/2028	2.83%	—	2,227
09/20/2022	0.33%	—	25,000
03/20/2023	0.37%	—	25,000
09/20/2023	0.40%	—	25,000
03/20/2024	0.43%	—	25,000
09/20/2024	0.46%	—	25,000
03/20/2025	0.54%	—	25,000
			$ 155,367

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

	2021	2020
Balance outstanding at end of year	$ 77,432	$ 68,981
Average balance outstanding	$ 82,584	$ 60,952
Maximum outstanding at any month-end	$ 91,850	$ 68,981
Average interest rate during the year	0.05 %	0.27 %
Average interest rate at end of year	0.04 %	0.08 %

REPOs totaled $77.43 million at December 31, 2021. All REPOs are overnight short-term investments and are not insured by the FDIC. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. Due to the overnight short-term nature of REPOs, potential risk due to a decline in the value of the pledged collateral is low. Collateral pledging requirements with REPOs are monitored daily. In addition, federal funds lines with other financial institutions of $135.00 million were available at December 31, 2021, for short-term funding needs. Federal funds purchased are overnight, unsecured borrowings.

At December 31, 2021 and 2020, the Company had an unused line of credit with the FHLB totaling $4.58 billion and $3.76 billion, respectively. The FHLB advances are secured by a blanket floating lien on certain 1-4 family residential, multi-family, HELOCs, second mortgages, and commercial mortgages with carrying values of $2.04 billion at December 31, 2021.

Further, the Company had loan participation lines and reverse repurchase agreements with various financial institutions available at December 31, 2021 and 2020, which provide potential additional funding, but had zero outstanding in both periods.

On July 17, 2017, the Company issued $250.0 million of fixed-to-floating-rate subordinated notes due July 30, 2027, in a public offering. The Company received $247.07 million in net proceeds after deducting discounts and issuance costs. The subordinated notes accrue interest at a fixed rate of 4.50% for the first five years until July 30, 2022. 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 LIBOR plus 2.550%. The Company may redeem the subordinated notes, in whole or in part, on or after July 30, 2022. At December 31, 2021, the carrying value of the notes totaled $249.65 million, compared to $249.06 million at December 31, 2020.

The CARES Act temporarily added a new product, titled the PPP, to the SBA's 7(a) Loan Program. The CARES Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed. TowneBank pledged PPP loans, on a non-recourse basis, and had $0 and $182.85 million in funding outstanding under the Federal Reserve's PPP Lending Facility at December 31, 2021, and December 31, 2020, respectively.

NOTE 13. COMMITMENTS

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

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Unless noted otherwise, collateral or other security is required to support financial instruments with credit risk. At December 31, 2021 and 2020, our allowance for credit losses from off-balance-sheet credit exposures, included in other liabilities was $6.88 million and $9.24 million, respectively.

Our contractual amounts are as follows (in thousands):

December 31,	2021	2020
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 4,352,886	$ 3,693,351
Standby letters of credit	156,971	134,000
	$ 4,509,857	$ 3,827,351

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

Standby letters of credit are conditional commitments issued to guarantee performance of a customer to a third party. The letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is similar to the risk involved in extending loan facilities to customers. Collateral supporting those commitments is generally held, if deemed necessary. The Company provides an allowance for estimated losses from such provisions that management considered adequate at December 31, 2021. Management does not anticipate any material losses will arise from additional disbursements of the aforementioned lines or standby letters of credit.

Additionally, the Company had $2.19 billion in mortgage loans sold to investors with estimated recourse and warranty provisions totaling $76.05 million as of December 31, 2021.

NOTE 14. RETIREMENT PLANS

Defined Contribution Plans

The Company has a defined contribution 401(k) plan. All employees who are at least 18 years of age and have completed one month of service are eligible to participate. Under the plan, employees may contribute a percentage of their annual salary, subject to statutory limitations, and the Company will make a discretionary match of the employees' contributions up to 6% of their salary. The Company matched employee contributions up to 3% in 2021, 2020, and 2019. The Company may also make an additional discretionary contribution; there were no discretionary contributions for the years ended December 31, 2021, 2020, or 2019. The Company made matching contributions of $5.76 million, $5.06 million, and $4.77 million for the years ended December 31, 2021, 2020, and 2019, respectively.

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

The funds for the non-qualified deferred compensation plan are held in a rabbi trust and invested in certificates of deposit, which are included in interest-bearing deposits on the balance sheet. Changes in the obligation are recorded in compensation expense, which resulted in an increase in expenses of $0.52 million, $0.38 million, and $0.46 million for the years ended December 31, 2021, 2020, and 2019, respectively. The Company did not make matching contributions to the plan for the years ended December 31, 2021, 2020, or 2019.

Retirement Plans

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

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

	SERP		Other Postretirement Benefits	
December 31,	**2021**	**2020**	**2021**	**2020**
Change in benefit obligation				
Benefit obligation, beginning of year	$ 50,606	$ 45,704	$ 1,496	$ 1,464
Service cost	3,931	4,117	—	—
Interest cost	1,364	1,281	37	40
Net amortization	850	1,098	34	39
Benefits paid	(1,509)	(1,785)	(19)	(18)
Prior service cost	—	558	—	—
Net actuarial (gain) loss	(1,419)	(367)	(183)	(29)
Benefit obligation, end of year	$ 53,823	$ 50,606	$ 1,365	$ 1,496
Change in plan assets				
Fair value of plan assets, beginning of year	—	—	—	—
Employer contributions	1,509	1,785	19	18
Benefits paid	(1,509)	(1,785)	(19)	(18)
Fair value of plan assets, end of year	$ —	$ —	$ —	$ —
Funded status, end of year	$ (53,823)	$ (50,606)	$ (1,365)	$ (1,496)
Accumulated benefit obligation, end of year	$ 48,770	$ 45,846	$ 1,365	$ 1,496
Amounts recognized in other comprehensive income, pre-tax				
Prior service cost	$ —	$ 558	$ —	$ —
Net actuarial (gain) loss	$ (1,419)	$ (367)	$ (183)	$ (29)

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

	SERP			Other Postretirement Benefits		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Service cost	$ 3,931	$ 4,117	$ 4,484	$ —	$ —	$ —
Interest cost	1,364	1,281	1,268	37	40	45
Prior service cost	684	675	613	—	—	—
Net amortization	166	423	(670)	34	39	31
Net periodic benefit cost	$ 6,145	$ 6,496	$ 5,695	$ 71	$ 79	$ 76

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

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

	SERP		Other Postretirement Benefits	
December 31,	**2021**	**2020**	**2021**	**2020**
Prior service cost	$ 3,320	$ 4,004	$ —	$ —
Net actuarial (gain) loss	616	1,352	(56)	126
Deferred tax benefit (expense)	(873)	(1,187)	12	(28)
Amounts included in accumulated other comprehensive income, net of tax	$ 3,063	$ 4,169	$ (44)	$ 98

Pre-tax amounts recorded in accumulated other comprehensive income as of December 31, 2021, that are expected to be recognized as a component of our net periodic benefit cost in 2022 consist of the following (in thousands):

	SERP	Other Postretirement Benefits
Net actuarial (gain) loss	$ 86	$ (5)
Prior service cost	$ 684	$ —

The Company used certain weighted average assumptions to determine benefit obligations and net benefit costs, including discount rate and rate of increase in future compensation levels. The discount rate used to determine net periodic benefit cost and benefit obligation of the SERP was 2.77% in 2021, 2.78% in 2020, and 3.14% in 2019. The rate of increase in future compensation levels used was 4.0% in 2021, 2020, and 2019. The discount rate used to determine net periodic benefit cost and benefit obligation of other postretirement benefits was 2.77% in 2021, 2.78% in 2020, and 3.14% in 2019. When estimating the discount rate, we review yields available on high-quality, fixed-income debt instruments and use a yield curve model from which the discount rate is derived by applying the projected benefit payments under the plan to points on a published yield curve.

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

Year	SERP	Other Postretirement Benefits
2022	$ 2,882	$ 56
2023	3,233	59
2024	3,158	62
2025	3,473	65
2026	3,531	68
2027-2031	23,198	408

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

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

December 31,	2021	2020
Benefit obligation, beginning of year	$ 4,623	$ 3,989
Service cost	457	647
Interest cost	122	109
Benefits paid	(826)	(122)
Benefit obligation, end of year	$ 4,376	$ 4,623

The discount rate used to determine net periodic benefit costs was 2.77% in 2021, 2.78% in 2020, and 3.14% in 2019.

NOTE 15. SHARE-BASED COMPENSATION

The Company maintains a share-based compensation plan ("Plan"), that provides for the granting of incentive and non-statutory stock options and restricted common stock. The Plan is stockholder approved with an established termination date. In May 2017, shareholders approved the TowneBank 2017 Stock Incentive Plan ("2017 Plan"), which became effective May 24, 2017. This plan replaced the TowneBank 2008 Stock Incentive Plan ("2008 Plan") and no additional awards were made under the 2008 Plan after the effective date of the 2017 Plan. Except as specifically disclosed, the terms and limitations of the 2017 Plan and 2008 Plan are the same and shall be referred to collectively as the Plan.

The Plan is administered by the Compensation Committee of the Board of Directors (the "Compensation Committee"). The maximum aggregate number of shares that may be issued under the Plan may not exceed 2.50 million. The Company has a policy of using authorized and unissued common shares to satisfy share option exercises and vesting of restricted stock awards. At December 31, 2021, approximately 1.68 million common shares were available for issuance under the Plan.

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

The following tables summarize our stock option activity and related information:

For the Year Ended December 31,	2021		2020		2019	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Options outstanding, beginning balance	1,287	$ 14.12	11,197	$ 14.59	24,737	$ 14.14
Granted	—	—	—	—	—	—
Exercised	(1,287)	14.12	(9,910)	14.65	(13,540)	13.78
Expired	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Options outstanding, ending balance	—	$ 14.12	1,287	$ 14.12	11,197	$ 14.59
Options exercisable at December 31,	—	$ 14.12	1,287	$ 14.12	6,047	$ 14.23

For the years ended December 31, 2021, 2020, and 2019, there were no stock options granted and no unvested stock options. The total intrinsic value of options exercised was $0.01 million, $0.08 million, $0.18 million for the year ended 2021, 2020, and 2019, respectively.

The grant-date fair value of each option grant is estimated using the Black-Scholes option pricing model. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical volatility of the Company's stock over the most recent period of time equal to the expected term of the option. The average expected life was based on the contractual term of the option and expected employee exercise and post-vesting employment termination behavior based on historical patterns. The risk-free interest rate is based on the U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. Forfeitures are estimated based on historical voluntary termination behavior.

For the years ended December 31, 2021, 2020, and 2019, the tax benefit on cash paid for stock options exercised and compensation expense related to stock options was immaterial. As of December 31, 2021, there was no unrecognized compensation cost related to unvested stock option awards.

Restricted stock awards ("RSAs") and restricted stock units ("RSUs"): Under the Plan, recipients of RSAs have full voting rights and are generally entitled to dividends on the common stock. RSAs issued under the 2008 Plan are also entitled to dividends as they are paid. Under the 2017 Plan, dividends on RSAs are accumulated and retained for the grantee by the Company until the stock vests. The accumulated cash and stock dividends on restricted stock awards are distributed with the award at vesting. Recipients of RSUs are entitled to receive shares of common stock after the applicable restrictions lapse. Recipients of RSUs are not entitled to receive cash dividends related to the underlying common stock during the period the RSUs are outstanding, and are not entitled to voting rights. RSAs granted under the Plan are generally subject to vesting requirements ranging from two to 10 years. The shares are subject to forfeiture if vesting and other contractual provision requirements are not met. Generally, the value of RSAs and RSUs will equal the fair value of our common stock on the date of grant, and the expense is recognized over the vesting period.

The following chart shows a summary of activity for RSAs and RSUs, assuming the weighted-average price being the weighted-average fair value at the date of grant for the year ended December 31, 2021:

	Restricted Stock Awards		Restricted Stock Units	
	Number of Shares	Weighted-Average Price	Number of Shares	Weighted-Average Price
Unvested, beginning balance	290,999	$ 27.42	179,969	$ 21.63
Granted	21,326	27.79	160,278	28.47
Vested	(155,898)	27.69	(52,648)	22.75
Forfeited	(13,072)	28.34	(3,806)	24.78
Unvested, ending balance	143,355	$ 27.09	283,793	$ 25.24

Compensation expense related to awards for the years ended December 31, 2021, 2020, and 2019, was $5.63 million, $4.83 million, and $5.77 million, respectively. The total fair value of RSAs vested during 2021, 2020, and 2019 was $4.32 million, $5.60 million, and $4.10 million, respectively. The total fair value of RSUs vested during 2021, 2020, and 2019 was $1.20 million, $0.66 million and zero, respectively. No RSUs were issued prior to 2018. As of December 31, 2021, there was $1.44 million of total unrecognized compensation cost related to unvested RSAs; that cost is expected to be recognized over a period of 1.69 years. As of December 31, 2021, there was $5.69 million of total unrecognized compensation cost related to unvested RSUs; that cost is expected to be recognized over a period of 2.84 years.

The Company has a directors' deferred compensation plan whereby the directors may elect to defer up to 100% of their directors' fees. All deferred compensation is invested in the Company's common stock and is held in a rabbi trust. The stock is held in the nominee name of the trustee, and the principal and earnings of the trust are held separate and apart from other funds of the Company, and are used exclusively for the uses and purposes of the deferred compensation agreement. The accounts of the trust have been consolidated in the financial statements of the Company, with common stock reported separately in a manner similar to treasury stock (that is, changes in fair value are not recognized) and a corresponding deferred compensation obligation reflected in additional paid-in capital of $18.26 million and $16.97 million at December 31, 2021 and 2020, respectively.

NOTE 16. STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN, AND DIVIDEND RESTRICTIONS

The Company has a Member Stock Purchase and Dividend Reinvestment Plan to raise additional capital by providing a convenient and cost-effective way for shareholders, customers, and employees to purchase shares of TowneBank common stock. In connection with the member stock purchase component of the plan for the year ended December 31, 2021, the Company entered the open market and acquired 69,555 shares at an average price of $29.91 per share. In connection with the dividend reinvestment component of the plan for the year ended December 31, 2021, the Company entered the open market and acquired 176,744 shares at an average price of $29.55 per share.

In connection with the member stock purchase component of the plan for the year ended December 31, 2020, the Company entered the open market and acquired 123,467 shares at an average price of $20.03 per share. In connection with the dividend reinvestment component of the plan for the year ended December 31, 2020, the Company entered the open market and acquired 247,591 shares at an average price of $20.26 per share.

TowneBank, as a Virginia banking corporation, may pay cash dividends only out of retained earnings. In February 2021, the Company declared a quarterly cash dividend of $0.18 per common share. In June, August, and November 2021, the Company declared quarterly cash dividends of $0.20 per common share. In February, May, August, and November 2020, the Company declared quarterly cash dividends of $0.18 per common share. In February 2019, the Company declared a quarterly cash dividend of $0.16 per common share. In May, August, and November 2019, the Company declared quarterly cash dividends of $0.18 per common share. The quarterly dividends were paid on January 11, 2019; April 10, 2019; July 10, 2019; October 10, 2019; January 10, 2020; April 10, 2020; July 10, 2020; October 9, 2020; January 11, 2021; April 9, 2021; July 9, 2021 October 12, 2021; and January 12, 2022.

Declaration of future cash dividends will depend on our earnings, our capital position, and other factors. All dividends paid are limited by the requirement to meet capital guidelines issued by regulatory authorities, and future declarations are subject to financial performance and regulatory requirements.

NOTE 17. REVENUE

ASC 606 - *Revenue from Contracts with Customers* requires the disaggregation of revenue from contracts with customers into categories that show how economic factors affect the nature, timing, and uncertainty of revenue and cash flows. Suggested categories of disaggregation included but were not limited to: (1) type of good or service, (2) geographical region, (3) market or type of customer, (4) type of contract, (5) contract duration, (6) timing of the transfer of goods or services, and (7) sales channels. The Company disaggregates revenue from contracts by major product line or a type of good or service.

The following table presents certain selected financial information for the periods indicated (dollars in thousands):

For the year ended December 31,	2021	2020	2018
Revenue from Contracts with Customers:			
(1) Investment management income			
Investment commissions, net	$ 10,160	$ 7,833	$ 6,807
Total	$ 10,160	$ 7,833	$ 6,807
(2) Insurance income			
Property and casualty insurance income, net	$ 53,738	$ 48,206	$ 46,938
Benefit insurance income, net	11,061	11,517	11,095
Travel insurance commissions, net	—	3,526	4,085
Total	$ 64,799	$ 63,249	$ 62,118
(3) Real estate and property management income			
Real estate sales commissions, net	$ 13,290	$ 11,776	$ 9,865
Real estate property management income, net	42,175	26,473	24,427
Total	$ 55,465	$ 38,249	$ 34,292

(1) Investment management services are provided by TIG and TWM, which are included in the line item other income in the Banking segment of TowneBank. TIG and TWM market services to our customers on behalf of RJFS, a broker-dealer and investment advisory firm registered with the SEC and a member of the Financial Industry Regulatory Authority. RJFS provides our customers brokerage and investment advisory services for the purchase and sale of nondeposit investment and/or insurance products.

TIG and TWM earn revenue in the form of commissions and fees. TIG and TWM's performance obligation is related to the referral of business to a third-party asset manager. Performance obligations are satisfied when a new customer enters into a contract with the third-party asset manager and when the manager collects a fee from the customer. Commissions are typically collected shortly after fees are collected by the third-party asset manager, which completes the revenue recognition process. In carrying out this performance obligation, TowneBank acts in the capacity of an agent.

(2) Insurance revenue is included in the Insurance segment. This segment earns revenue in the form of commissions by binding insured parties' insurance policies with external insurance companies. Insurance revenue is earned in the form of commissions received for selling insurance policies as an independent agent of external insurance companies who underwrite the insurance policies. The external insurance companies retain the risks associated with the insurance policies. The Insurance segment's performance obligation is related to the referral of business to third-party insurance companies. Performance obligations are satisfied when a new customer enters into a contract with the third-party insurance company. Commissions are typically collected shortly thereafter and there is no material over time recognition of revenue. Contingent income is estimated and recorded at the time of the sale of the insurance policy to the extent that it is probable that there will not be a material amount of the income reversed. In carrying out this performance obligation, TowneBank acts in the capacity of an agent.

(3) Real estate and property management revenue is mainly in the form of commission, fee, and title income. The revenue is earned on both residential and commercial properties. Real estate and property management revenues fall within the Realty segment. Towne Realty, LLC, provides real estate services and residential and title insurance. Revenue is recognized as commissions and fee income are received. Performance obligations are satisfied with the receipt of commissions and fee income which completes the revenue recognition process.

TowneBank's performance obligation related to the property management business is to market the property, take reservations (including collection of rent), and provide facility management services. The performance obligation to take reservations is satisfied when a customer makes a booking. Facility management services obligations are ongoing until a customer vacates a property. Fees are typically collected half upon booking and half upon a customer vacating a property. Materially all of the value of the performance obligation is related to the booking of the reservation; therefore, the Company recognizes the commission at the time the reservation is confirmed via the receipt of deposit. In carrying out these performance obligations, TowneBank acts in the capacity of an agent.

Remaining performance obligations related to ASC 606 application to the above revenue streams represent performance obligations with an original contract term greater than one year, which are fully or partially unsatisfied at the end of the period. The Company applies the practical expedient in ASC paragraph 606-10-50-14(a) and does not disclose information about remaining performance obligations that are part of a contract with an original expected duration of one year or less. The timing of revenue billings and cash collections may result in contract assets (the Company performing on its obligations prior to receiving payment unrelated to the passage of time) and contract liabilities (the Company receiving payment from a customer prior to performing on its obligation to that customer) on the Consolidated Balance Sheets.

The Company's provision for credit losses related to future reservations of resort properties recorded in real estate property management income was $0.24 million and $0.22 million for the years ended December 31, 2021 and 2020, respectively. A provision for credit losses related to property and casualty insurance receivables of $0.29 million and $0.42 million for the years ended December 31, 2021 and 2020, respectively, was recorded in property and casualty insurance, net. The Company sold Red Sky, a travel insurance joint venture, in third quarter 2020, at a pre-tax gain of $6.52 million, after distributions to noncontrolling interests. Red Sky was our only source of travel insurance commission, and we do not anticipate a future income stream from this line of insurance.

The Company had no material contract assets or contract liabilities recorded on the Consolidated Balance Sheets as of December 31, 2021.

This disclosure includes only revenue from contracts with third-party customers. See Note 28 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 18. OTHER EXPENSES

The following chart shows a summary of other expenses (in thousands):

Year Ended December 31,	2021	2020	2019
Acquisition-related expenses	$ 1,022	$ (68)	$ 657
Bank franchise tax/SCC fees	8,841	8,688	7,251
Charitable contributions	13,611	9,492	9,339
Directors' expense	2,145	1,864	2,136
FDIC and other insurance	5,449	6,202	3,119
Foreclosed property expenses	357	1,763	985
Other	17,759	17,709	15,807
Stationery and office supplies	2,701	2,571	2,962
Telephone and postage	6,975	6,811	6,426
Travel/Meals/Entertainment	1,867	1,870	3,834
	$ 60,727	$ 56,902	$ 52,516

NOTE 19. REGULATORY CAPITAL REQUIREMENTS

The Company is subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In July 2013, the FDIC and other federal bank regulatory agencies approved final rules known as the "Basel III Capital Rules," which substantially revised the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions, including the Company. The Basel III Capital Rules, which became fully phased in on January 1, 2019, require banking organizations to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%); (iii) a minimum ratio of total capital (that is, Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5%); and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to adjusted average quarterly assets.

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

In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization is required to have at least an 8% total risk-based capital ratio, a 6% Tier 1 risk-based capital ratio, a 4.5% CET1 risk-based capital ratio, and a 4% Tier 1 leverage ratio. To be well-capitalized, a banking organization is required

to have at least a 10% total risk-based capital ratio, an 8% Tier 1 risk-based capital ratio, a 6.5% CET1 risk-based capital ratio, and a 5% Tier 1 leverage ratio. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

A summary of our required and actual capital components follow (dollars in thousands):

	Actual		Minimum Capital Requirements Including Conservation Buffer (1)		To Be Well Capitalized Under Prompt Action Provisions	
As of December 31, 2021	**Amount**	**Ratio %**	**Amount**	**Ratio %**	**Amount**	**Ratio %**
Common equity Tier 1						
(to risk-weighted assets)	$ 1,401,293	12.36 %	$ 793,613	7.00 %	$ 736,926	6.50 %
Tier 1 capital						
(to risk-weighted assets)	$ 1,418,153	12.51 %	$ 963,573	8.50 %	$ 906,892	8.00 %
Total risk-based capital						
(to risk-weighted assets)	$ 1,764,803	15.56 %	$ 1,190,902	10.50 %	$ 1,134,192	10.00 %
Tier 1 leverage ratio						
(to average assets)	$ 1,418,153	9.11 %	$ 622,680	4.00 %	$ 778,350	5.00 %
As of December 31, 2020						
Common equity Tier 1						
(to risk-weighted assets)	$ 1,254,310	11.87 %	$ 739,398	7.00 %	$ 686,585	6.50 %
Tier 1 capital						
(to risk-weighted assets)	$ 1,271,291	12.04 %	$ 897,841	8.50 %	$ 845,028	8.00 %
Total risk-based capital						
(to risk-weighted assets)	$ 1,629,227	15.42 %	$ 1,109,097	10.50 %	$ 1,056,285	10.00 %
Tier 1 leverage ratio						
(to average assets)	$ 1,271,291	8.99 %	$ 565,838	4.00 %	$ 707,298	5.00 %

(1) Basel III Capital Rules require banking organizations to maintain a minimum CET1 ratio of 4.5%, plus a 2.5% capital conservation buffer; a minimum Tier 1 capital ratio of 6.0%, plus a 2.5% capital conservation buffer; a minimum, total risk-based capital ratio of 8%, plus a 2.5% conservation buffer; and a minimum Tier 1 leverage ratio of 4.0%.

NOTE 20. FAIR VALUE DISCLOSURES

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level valuation hierarchy was established for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Valuation is based on observable inputs, other than Level 1 prices, that 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 the valuation methodologies used for instruments measured at fair value on a recurring basis.

Securities available for sale: Fair values are based on published market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans held for sale - mandatory delivery: Fair values of loans held for sale are based on commitments on hand from investors or, if commitments have not yet been obtained, prevailing market rates. TowneBank elects to carry mortgages it intends to sell in the mandatory delivery program at fair value. Intent is established for these residential real estate mortgage loans when TowneBank enters into a loan commitment or interest rate lock with the customer. For additional information about loans held for sale, refer to Note 21.

Derivative financial instruments: Interest rate lock commitments, related to the origination of mortgage loans held for sale, are recorded at estimated fair value based on the value of the underlying loan, which in turn is based on quoted prices for similar loans in the secondary market. However, this value is adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close. This factor, the fall-out rate, is derived from the Company's internal data and is adjusted using significant management judgment. The fall-out rate is largely dependent on the processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. As such, interest rate lock commitments are classified as recurring Level 3. For the years ended December 31, 2021 and 2020, the Company used weighted average fall-out rates of 11.97% and 12.77%, respectively.

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 are entered into on a loan-by-loan basis and lock in a price for the sale of a specific rate lock commitment. 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.

The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis (in thousands):

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ —	$ 310,587	$ —	$ 310,587
U.S. Treasury notes	$ 1,000	$ —	$ —	$ 1,000
Municipal securities	$ —	$ 385,569	$ —	$ 385,569
Mortgage-backed securities issued by GSEs	$ —	$ 1,055,183	$ —	$ 1,055,183
Trust preferred and other corporate securities	$ —	$ 45,844	$ 8,000	$ 53,844
Loans held for sale - mandatory delivery	$ —	$ 109,823	$ —	$ 109,823
Derivative assets	$ —	$ 319	$ 3,455	$ 3,774
Derivative liabilities	$ —	$ 121	$ —	$ 121

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ —	$ 184,657	$ —	$ 184,657
U.S. Treasury notes	$ 1,000	$ —	$ —	$ 1,000
Municipal securities	$ —	$ 353,641	$ —	$ 353,641
Mortgage-backed securities issued by GSEs	$ —	$ 797,765	$ —	$ 797,765
Trust preferred and other corporate securities	$ —	$ 31,161	$ —	$ 31,161
Loans held for sale - mandatory delivery	$ —	$ —	$ —	$ —
Derivative assets	$ —	$ —	$ 11,781	$ 11,781
Derivative liabilities	$ —	$ —	$ —	$ —

TowneBank elects the fair value option for loans held for sale within the mandatory delivery program. This election allows for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting. TowneBank has not elected the fair value option for other loans held for sale primarily because they are not actively hedged. Fair values of loans held for sale are recorded in mortgage loans held for sale in the Consolidated Balance Sheets.

The following table summarizes the difference between the aggregate fair value and the aggregate unpaid principal balance for mortgage loans held for sale measured at fair value at December 31, 2021 and 2020 (in thousands):

	December 31, 2021	December 31, 2020
Aggregate fair value	$ 109,823	$ —
Aggregate unpaid principal	109,740	—
Aggregate fair value less aggregate unpaid principal	$ 83	$ —

Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest income on mortgage loans held for sale in the Consolidated Statements of Income. The following table details net gains and losses resulting from changes in fair value of these loans, which were recorded in residential mortgage banking income, net in the Consolidated Statements of Income for the periods presented.

Net Gains (Losses) Resulting from Changes in Fair Value		
	Twelve Months Ended	
(in thousands)	December 31, 2021	December 31, 2020
Mortgage loans held for sale, at fair value	$ 83	$ —

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at year-end, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets (in thousands):

December 31, 2021	Level 1	Level 2	Level 3	Total
Collateral-dependent assets with specific reserves	$ —	$ —	$ 341	$ 341
Other real estate owned and other nonperforming assets	$ —	$ —	$ 4,584	$ 4,584
HTM trust preferred and other corporate securities	$ —	$ —	$ 1,654	$ 1,654

December 31, 2020	Level 1	Level 2	Level 3	Total
Collateral-dependent assets with specific reserves	$ —	$ —	$ 8,131	$ 8,131
Other real estate owned and other nonperforming assets	$ —	$ —	$ 5,026	$ 5,026

The following is a description of valuation methodologies used for assets measured on a nonrecurring basis.

Collateral-dependent assets with specific reserves: 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, where available, 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 collateral-dependent assets with specific reserves loan balance are reflected within Level 3 of the hierarchy. There were two loans with zero collateral value because they are discounted at 100%.

Loans held for sale - best efforts: Loans closed and held for sale within the mandatory program are carried at fair value. Loans held for sale within the best efforts program are carried at the lower of cost or fair value. Fair values of loans held for sale are based on commitments on hand from investors or, if commitments have not yet been obtained, prevailing market rates. For additional information about loans held for sale, refer to Note 21.

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 is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is generally determined using an external appraisal process and is discounted based on internal criteria when deemed necessary.

HTM trust preferred and other corporate securities: The fair value of certain corporate securities is based on a discounted cash flow model that utilizes Level 3, or unobservable inputs, the most significant of which were a discount rate and weighted-average life. At December 31, 2021, the discount rate utilized was 2.57% and the weighted-average life was 27.35 years.

The following methods and assumptions were used in estimating fair value for the remaining classes of our financial instruments.

Cash and due from banks, interest-bearing deposits in financial institutions, and federal funds sold: The carrying amount approximates fair value.

Securities held to maturity: Fair values are based on published market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans: For loan receivables with short-term and/or variable characteristics, the total receivable outstanding approximates fair value. The fair value of other loans is estimated by discounting the future cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Interest receivable and interest payable: The carrying amount approximates fair value.

Deposits: The carrying amount of noninterest-bearing deposits and deposits with no defined maturity is estimated by discounting the future cash flows using the alternative borrowing curve, estimated maturities and servicing cost.

The fair value of certificates of deposit is estimated by discounting the future cash flows using the alternative borrowing curve.

Advances from the FHLB: The fair value of advances from the FHLB is determined using the discounted cash flow method with the discount rate being equal to the rate currently offered on similar products.

Repurchase agreements and other borrowings: The carrying amount approximates fair value due to the short term nature of these instruments.

Commitments to extend and standby letters of credit: These financial instruments are generally not sold or traded. The estimated fair values of off-balance-sheet credit commitments, including standby letters of credit and guarantees written, are immaterial and are not included in the following table.

The estimated fair values of our financial instruments required to be disclosed under ASC 825, *Financial Instruments*, and the level within the fair value hierarchy at which such assets and liabilities are measured, are as follows (in thousands):

December 31, 2021	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Cash and due from banks	$ 17,373	$ 17,373	$ 17,373	$ —	$ —
Interest-bearing deposits at FRB-Richmond	$ 3,244,484	$ 3,244,484	$ 3,244,484	$ —	$ —
Interest-bearing deposits in financial institutions	$ 34,779	$ 34,779	$ 34,779	$ —	$ —
Securities available for sale	$ 1,806,183	$ 1,806,183	$ —	$ 1,798,183	$ 8,000
Securities held to maturity	$ 154,221	$ 155,676	$ —	$ 154,022	$ 1,654
Other equity securities	$ 6,759	$ 6,759	$ —	$ 6,759	$ —
Mortgage loans held for sale	$ 358,303	$ 358,303	$ —	$ 358,303	$ —
Loans, net	$ 9,506,252	$ 9,448,448	$ —	$ —	$ 9,448,448
Interest receivable	$ 28,803	$ 28,803	$ —	$ 28,803	$ —
Non-maturity deposits	$ 12,057,735	$ 11,198,182	$ —	$ 11,198,182	$ —
Time deposits	$ 1,515,891	$ 1,516,298	$ —	$ 1,516,298	$ —
Advances from the FHLB	$ 155,367	$ 153,522	$ —	$ 153,522	$ —
Subordinated debentures	$ 249,652	$ 252,935	$ —	$ 252,935	$ —
Repurchase agreements and other borrowings	$ 76,797	$ 76,797	$ —	$ 76,797	$ —
Interest payable	$ 6,412	$ 6,412	$ —	$ 6,412	$ —

December 31, 2020	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Cash and due from banks	$ 41,514	$ 41,514	$ 41,514	$ —	$ —
Interest-bearing deposits at FRB-Richmond	$ 1,795,241	$ 1,795,241	$ 1,795,241	$ —	$ —
Interest-bearing deposits in financial institutions	$ 27,532	$ 27,532	$ 27,532	$ —	$ —
Securities available for sale	$ 1,368,224	$ 1,368,224	$ —	$ 1,368,224	$ —
Securities held to maturity	$ 16,512	$ 18,469	$ —	$ 16,648	$ 1,821
Other equity securities	$ 6,492	$ 6,492	$ —	$ 6,492	$ —
Mortgage loans held for sale	$ 540,798	$ 541,027	$ —	$ 541,027	$ —
Loans, net	$ 9,629,068	$ 9,542,454	$ —	$ —	$ 9,542,454
Interest receivable	$ 31,821	$ 31,821	$ —	$ 31,821	$ —
Non-maturity deposits	$ 9,524,261	$ 9,838,420	$ —	$ 9,838,420	$ —
Time deposits	$ 2,048,905	$ 2,062,962	$ —	$ 2,062,962	$ —
Advances from the FHLB	$ 456,038	$ 457,117	$ —	$ 457,117	$ —
Subordinated debentures	$ 249,055	$ 255,398	$ —	$ 255,398	$ —
Repurchase agreements, FRB PPP lending facility and other borrowings	$ 250,638	$ 250,203	$ —	$ 250,203	$ —
Interest payable	$ 9,723	$ 9,723	$ —	$ 9,723	$ —

NOTE 21. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into interest rate lock commitments with its mortgage customers. The Company is also a party to forward mortgage sales contracts to sell loans servicing-released and sales of TBA MBSs. When the interest rate is locked with the borrower, the rate lock commitment, forward sales contract, and mortgage-backed security position are undesignated derivatives and marked to fair value through earnings. The fair value of the rate lock derivative is based on quoted prices for similar loans in the secondary market adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close. Both the rate lock commitment and the corresponding forward sales contracts are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives during the commitment period are recorded in current earnings and included in net residential mortgage banking income in the Consolidated Statements of Income.

When the market is favorable, we sell mortgage loans under both "mandatory" and "best efforts" delivery programs. Under the mandatory delivery system, loans with interest rate locks with respective borrowers are paired with the sales of TBA MBSs bearing similar attributes. We commit to deliver loans to an investor at an agreed-upon price upon the closing of such loans. This differs from "best efforts" delivery transactions, which set the sale price with the investor on a loan-by-loan basis at the time each loan is locked with the respective borrower.

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

	December 31, 2021		December 31, 2020	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate contracts included in other assets	$ 404,393	$ 3,774	$ 698,126	$ 11,781
Interest rate contracts included in other liabilities	$ 62,864	$ 121	$ —	$ —

Gains and losses from mortgage banking derivatives are included in residential mortgage banking income, net on the Consolidated Statements of Income. For the years ended December 31, 2021, and December 31, 2020, the Company recognized losses of $8.69 million and gains of $0.18 million, respectively.

NOTE 22. VARIABLE INTEREST ENTITIES

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

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 receives tax credits for its partnership investments. The Company has determined that these partnerships are VIEs when it does not own 100% of the entity, because the holders of the equity investment at risk do not have the power through voting rights or similar rights to direct the activities of the entity that most significantly impact the entity's economic performance. Accordingly, the Company's limited partner interests are variable interests that the Company evaluates for purposes of determining whether the Company is the primary beneficiary.

For each of the partnerships, the Company acts strictly in a limited partnership capacity. The Company has determined that it is not the primary beneficiary of these partnerships because the general partner of each limited partnership has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. The Company accounts for its limited partner interests in accordance with the accounting guidance for investments in affordable housing projects. Partnership assets of $319.79 million and $281.28 million were not included in the Consolidated Balance Sheets at December 31, 2021 and 2020, respectively. These limited partner interests had carrying values of $102.42 million and $92.38 million at December 31, 2021 and 2020, respectively, and are recorded in other assets on the Company's Consolidated Balance Sheets. The Company's maximum exposure to loss for these limited partner investments totaled $102.42 million and $92.38 million at December 31, 2021 and 2020, respectively. As of December 31, 2021, the Company has $77.26 million in funding commitments that are dependent on certain contractual milestones and $12.0 million in unfunded short-term construction loan commitments. For the year ended December 31, 2021, a tax benefit totaling $2.55 million, net of amortization of $12.04 million, was recognized as a component of income tax expense. For the year ended December 31, 2020, a tax benefit totaling $2.07 million, net of amortization of $9.99 million, was recognized as a component of income tax expense.

NOTE 23. INCOME TAXES

Current income tax expense represents the amounts expected to be reported on the Company's income tax returns, and deferred tax expense or benefit represents the change in net deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Valuation allowances are recorded as appropriate to reduce deferred tax assets to the amount considered likely to be realized.

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

The provision for income taxes charged to operations is listed in the following chart (in thousands):

For the Year Ended December 31,	2021	2020	2019
Current income tax expense			
Federal	$ (49,397)	$ (45,306)	$ (34,927)
State	(5,258)	(3,463)	(2,452)
Total current tax expense	(54,655)	(48,769)	(37,379)
Deferred income tax (expense) benefit			
Federal	455	15,142	4,707
State	(598)	1,727	76
Total deferred income tax (expense) benefit	(143)	16,869	4,783
Income tax expense	$ (54,798)	$ (31,900)	$ (32,596)

Differences between income tax expense calculated at the statutory rate and shown on the Consolidated Statements of Income are summarized as follows (dollars in thousands):

	2021		2020		2019	
For the Year Ended December 31,	**$**	**Rate**	**$**	**Rate**	**$**	**Rate**
Federal income tax expense at statutory rate	$ (56,738)	(21.00)%	$ (37,261)	(21.00)%	$ (35,990)	(21.00)%
State income tax expense, net of federal benefit	(4,108)	(1.52)%	(2,358)	(1.33)%	(1,800)	(1.05)%
Tax advantaged income	4,037	1.49 %	3,858	2.17 %	4,209	2.46 %
Low income housing tax credit, net of amortization	2,547	0.94 %	2,074	1.17 %	1,819	1.06 %
Prior year adjustments	611	0.23 %	2,539	1.43 %	—	— %
Other	(1,147)	(0.42)%	(752)	(0.42)%	(834)	(0.49)%
Income tax expense	$ (54,798)	(20.28)%	$ (31,900)	(17.98)%	$ (32,596)	(19.02)%

Significant components of deferred tax assets and deferred tax liabilities follow (in thousands):

Year Ended December 31,	2021	2020
Deferred tax assets:		
Allowance for credit losses	$ 25,123	$ 28,993
Stock-based compensation	1,102	1,004
Accrued expenses	3,995	4,721
Retirement plan	13,931	13,385
Deferred compensation	12,897	8,868
Operating lease liabilities	12,403	14,162
Assets acquired in acquisitions	2,134	3,256
Other	2,838	2,687
Total deferred tax assets	74,423	77,076
Deferred tax liabilities:		
Depreciation	16,545	15,679
Noncompete and intangibles	5,074	5,373
Basis differences due to tax credits and partnerships	(978)	(664)
Unrealized gain on securities available for sale	3,923	12,873
Operating lease right-of-use assets	11,563	13,312
Other	707	1,366
Total deferred tax liabilities	36,834	47,939
Net deferred tax assets	$ 37,589	$ 29,137

As of December 31, 2021, and December 31, 2020, the Company did not have any unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months. The Company recognizes interest and penalties related to unrecognized tax benefits as "Interest Expense" and "Other Expense," respectively, and not as part of the tax provision. The Company is no longer subject to examination for federal and state purposes for tax years prior to 2018.

NOTE 24. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the components of accumulated other comprehensive income (loss) at December 31, 2021, 2020, and 2019, and changes during the years then ended. The amounts reclassified from accumulated other comprehensive income for the securities available for sale are included in gain on investment securities, net on the Consolidated Statements of Income, while the amounts reclassified from accumulated other

comprehensive income for the defined benefit retirement plan are a component of salaries and employee benefits expense on the Consolidated Statements of Income.

(in thousands)	Unrealized Gains (Losses) on Securities (a)	Pension and Postretirement Plans (b)	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance, December 31, 2018	$ (9,317)	$ 127	$ (9,190)
Other comprehensive income (loss) before reclassifications, net of tax	24,090	(4,245)	19,845
Amounts reclassified from AOCI, net of tax	668	(21)	647
Net change	24,758	(4,266)	20,492
Balance, December 31, 2019	15,441	(4,139)	11,302
Other comprehensive income (loss) before reclassifications, net of tax	37,622	(1,015)	36,607
Amounts reclassified from AOCI, net of tax	(7,611)	886	(6,725)
Net change	30,011	(129)	29,882
Balance, December 31, 2020	45,452	(4,268)	41,184
Other comprehensive income (loss) before reclassifications, net of tax	(30,845)	559	(30,286)
Amounts reclassified from AOCI, net of tax	(989)	688	(301)
Net change	(31,834)	1,247	(30,587)
Balance, December 31, 2021	$ 13,618	$ (3,021)	$ 10,597

(a) For additional information about investment securities, refer to Note 3.
(b) For additional information about retirement plans, refer to Note 14.

NOTE 25. LEGAL CONTINGENCIES

Various legal actions arise from time to time in the normal course of our business. There were no significant asserted claims or assessments at December 31, 2021. Management was not aware of any unasserted claims or assessments that may be probable of assertion at December 31, 2021.

NOTE 26. OTHER RELATED PARTY TRANSACTIONS

Loans are made to the Company's executive officers and directors and their associates during the ordinary course of business. The aggregate amount of loans to such related parties totaled $454.01 million, $461.73 million, and $324.60 million as of December 31, 2021, 2020, and 2019, respectively. During 2021, new advances on all commitments to such parties totaled $528.38 million, and repayments amounted to $578.47 million. Included in the loans to related parties, at December 31, 2021, we had $198.95 million in unfunded commitments to extend credit to such related parties.

The Company rents space for various financial centers from companies associated with its directors. Rent expense related to these leases was $2.73 million, $2.65 million, and $2.81 million for the years ended December 31, 2021, 2020, and 2019, respectively.

In the ordinary course of business, the Company acquired certain goods and services from companies associated with its directors and employees, including purchases of automobiles, construction of Company-owned facilities, and maintenance and furnishing of Company facilities. Amounts paid to these companies during the years ended December 31, 2021, 2020, and 2019, approximated $6.50 million, $1.64 million, and $5.12 million, respectively.

NOTE 27. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized unaudited quarterly financial data for the years ended December 31, 2021 and 2020, is as follows (in thousands, except per share data):

2021	Fourth	Third	Second	First
Interest income	$ 109,503	$ 109,845	$ 111,815	$ 112,290
Interest expense	8,711	9,402	10,671	12,300
Provision for credit losses	(1,110)	(1,582)	(10,055)	(4,027)
Noninterest income	59,632	69,633	65,925	81,519
Net gain on investment securities	—	—	252	1,000
Noninterest expense	110,467	104,086	105,394	97,326
Income before income tax expense and noncontrolling interest	51,067	67,572	71,982	89,210
Income tax expense	9,410	14,829	13,980	16,579
Net income	41,657	52,743	58,002	72,631
Noncontrolling interest	(1,474)	(2,343)	(2,199)	(3,636)
Net income attributable to TowneBank	$ 40,183	$ 50,400	$ 55,803	$ 68,995
Net income per common share				
Basic	$ 0.55	$ 0.70	$ 0.77	$ 0.95
Diluted	$ 0.55	$ 0.69	$ 0.77	$ 0.95
Dividends	$ 0.20	$ 0.20	$ 0.20	$ 0.18

2020	Fourth	Third	Second	First
Interest income	$ 115,983	$ 115,528	$ 114,546	$ 114,101
Interest expense	15,369	18,769	21,272	24,605
Provision for loan losses	1,617	31,598	26,945	7,016
Noninterest income	71,234	93,675	66,452	43,198
Net gain on investment securities	—	1,701	2,930	5,002
Noninterest expense	105,932	101,981	91,025	96,888
Income before income tax expense and noncontrolling interest	64,299	58,556	44,686	33,792
Income tax expense	10,408	7,841	7,464	6,187
Net income	53,891	50,715	37,222	27,605
Noncontrolling interest	(3,809)	(16,251)	(2,617)	(1,221)
Net income attributable to TowneBank	$ 50,082	$ 34,464	$ 34,605	$ 26,384
Net income per common share				
Basic	$ 0.69	$ 0.48	$ 0.48	$ 0.37
Diluted	$ 0.69	$ 0.48	$ 0.48	$ 0.36
Dividends	$ 0.18	$ 0.18	$ 0.18	$ 0.18

NOTE 28. 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 real estate services, resort property management, originations of a variety of mortgage loans, 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. Until its sale in the third quarter of 2020, the Company also provided travel insurance services through Red Sky.

All the segments are service-based. The Banking segment offers a distribution and referral network for the realty and insurance services, and the Realty and Insurance divisions offer a similar network for the Banking segment due largely to overlapping geographic markets. A major distinction is the source of income. The Realty and Insurance businesses are fee-based, while the Banking segment is driven principally by net interest income.

Segment profit and loss is measured by net income after income tax. Inter-segment transactions are recorded at cost and eliminated as part of the consolidation process. Because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities.

Information about reportable segments and reconciliation of such information to the Consolidated Financial Statements follows (dollars in thousands):

For the Year Ended December 31, 2021	**Bank**	**Realty**	**Insurance**	**Consolidated Totals**
Net interest income	$ 391,751	$ 10,618	$ —	$ 402,369
Provision for credit losses	(15,859)	(915)	—	(16,774)
Net interest income after provision for credit losses	407,610	11,533	—	419,143
Residential mortgage banking income, net	(3,851)	113,155	—	109,304
Insurance commissions and other title fees and income, net	215	2,527	64,799	67,541
Property management income, net	—	42,175	—	42,175
Real estate commission income, net	—	13,290	—	13,290
Other noninterest income	42,098	2,691	862	45,651
Noninterest expense	244,013	121,664	51,595	417,272
Income before income tax, corporate allocation, and noncontrolling interest	202,059	63,707	14,066	279,832
Corporate allocation	5,041	(4,000)	(1,041)	—
Income before income tax provision and noncontrolling interest	207,100	59,707	13,025	279,832
Income tax provision	37,584	13,911	3,303	54,798
Net income	169,516	45,796	9,722	225,034
Noncontrolling interest	(4)	(9,647)	—	(9,651)
Net income attributable to TowneBank	$ 169,512	$ 36,149	$ 9,722	$ 215,383
Net income as percentage of total	78.70 %	16.78 %	4.52 %	100.00 %
Assets	$ 15,227,519	$ 692,308	$ 441,560	$ 16,361,387

For the Year Ended December 31, 2020	Bank	Realty	Insurance	Consolidated Totals
Net interest income	$ 367,353	$ 12,791	$ —	$ 380,144
Provision for credit losses	65,799	1,378	—	67,177
Net interest income after provision for credit losses	301,554	11,413	—	312,967
Residential mortgage banking income, net	(2,423)	114,589	—	112,166
Insurance commissions and other title fees and income, net	194	2,397	63,249	65,840
Property management income, net	—	26,473	—	26,473
Real estate commission income, net	—	11,776	—	11,776
Other noninterest income	46,862	2,434	18,640	67,936
Noninterest expense	243,451	104,123	48,251	395,825
Income before income tax, corporate allocation, and noncontrolling interest	102,736	64,959	33,638	201,333
Corporate allocation	2,534	(1,522)	(1,012)	—
Income before income tax provision and noncontrolling interest	105,270	63,437	32,626	201,333
Income tax provision	14,467	12,035	5,398	31,900
Net income	90,803	51,402	27,228	169,433
Noncontrolling interest	6	(11,809)	(12,095)	(23,898)
Net income attributable to TowneBank	$ 90,809	$ 39,593	$ 15,133	$ 145,535
Net income as percentage of total	62.40 %	27.20 %	10.40 %	100.00 %
Assets	$ 13,430,909	$ 814,060	$ 381,475	$ 14,626,444

For the Year Ended December 31, 2019	Bank	Realty	Insurance	Consolidated Totals
Net interest income	$ 351,969	$ 6,386	$ —	$ 358,355
Provision for credit losses	9,371	—	—	9,371
Net interest income after provision for credit losses	342,598	6,386	—	348,984
Residential mortgage banking income, net	(1,631)	68,443	—	66,812
Insurance commissions and other title fees and income, net	248	2,111	62,119	64,478
Property management income, net	—	24,427	—	24,427
Real estate commission income, net	—	9,865	—	9,865
Other noninterest income	35,448	1,854	2,704	40,006
Noninterest expense	233,263	94,726	50,313	378,302
Income before income tax, corporate allocation, and noncontrolling interest	143,400	18,360	14,510	176,270
Corporate allocation	2,011	(1,163)	(848)	—
Income before income tax provision and noncontrolling interest	145,411	17,197	13,662	176,270
Income tax provision	25,706	3,707	3,183	32,596
Net income	119,705	13,490	10,479	143,674
Noncontrolling interest	2	(3,711)	(1,182)	(4,891)
Net income attributable to TowneBank	$ 119,707	$ 9,779	$ 9,297	$ 138,783
Net income as percentage of total	86.25 %	7.05 %	6.70 %	100.00 %
Assets	$ 10,953,815	$ 673,996	$ 319,852	$ 11,947,663

The following table provides the change in net income and total assets for each segment, comparing the years ended December 31, 2021 and 2020 (dollars in thousands):

	Banking	Realty	Insurance	Consolidated
Net income attributable to TowneBank ($)	$ 78,703	$ (3,444)	$ (5,411)	$ 69,848
Net income attributable to TowneBank (%)	86.67 %	(8.70)%	(35.76)%	47.99 %
Total assets ($)	$ 1,796,610	$ (121,752)	$ 60,085	$ 1,734,943
Total assets (%)	13.38 %	(14.96)%	15.75 %	11.86 %

NOTE 29. EARNINGS PER SHARE

The following chart summarizes information related to the computation of basic and diluted earnings per share (dollars in thousands, except per share data):

Year Ended December 31,	2021	2020	2019
Basic			
Net income available to common shareholders	$ 215,383	$ 145,535	$ 138,783
Weighted average common shares outstanding	72,479,236	72,293,686	72,063,150
Basic earnings per common share	$ 2.97	$ 2.01	$ 1.93
Diluted			
Net income available to common shareholders, for diluted EPS	$ 215,383	$ 145,535	$ 138,783
Weighted average common shares outstanding	72,479,236	72,293,686	72,063,150
Effect of dilutive securities:			
Stock compensation plans (1)	83,841	54,649	125,880
Weighted average diluted shares outstanding	72,563,077	72,348,335	72,189,030
Diluted earnings per common share	$ 2.97	$ 2.01	$ 1.92

(1) Stock options and restricted stock shares totaling 0; 54,649; and 7,684 were excluded from the computation of diluted earnings per share during 2021, 2020, and 2019, respectively, because their inclusion would be antidilutive.

NOTE 30. SUBSEQUENT EVENT

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 approximately $247.00 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 term SOFR plus 1.68%. The Company may redeem the subordinated notes, in whole or in part, on or after February 15, 2027. The Company expects to use the net proceeds from the offering for general corporate purposes, which may include, among other things, redeeming the Company's subordinated notes issued July 17, 2017 after they become callable on July 30, 2022.

TOWNEBANK
SHAREHOLDER INFORMATION

ANNUAL MEETING

TowneBank intends to hold its 2022 Annual Meeting of Shareholders at 11:30 a.m. on Wednesday, May 25, 2022 at the Virginia Beach Convention Center, 1000 19th Street in Virginia Beach, Virginia.

COMMON STOCK

The Company's Common Stock is listed on the Nasdaq Global Select Market under the symbol TOWN.

INVESTOR RELATIONS

Our Annual Report, Form 10-K, and other corporate publications are available to shareholders on request, without charge, by writing:

TowneBank
6001 Harbour View Boulevard
Suffolk, Virginia 23435
email: investor.relations@townebank.net

These reports are also available on our website at http://www.townebank.com/investor_relations.

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Troutman Pepper Hamilton Sanders L.L.P.
222 Central Park Avenue, Suite 2000
Virginia Beach, Virginia 23462

Exhibit (4.4)

DESCRIPTION OF TOWNEBANK'S SECURITIES

As of December 31, 2021, TowneBank's common stock was the only class of its securities registered under Section 12 of the Securities Exchange Act of 1934. The common stock is registered with the Federal Deposit Insurance Corporation. The following summary description of the material features of TowneBank's common stock is qualified in its entirety by reference to TowneBank's articles of incorporation and bylaws, each as amended. For more information, refer to TowneBank's articles of incorporation and bylaws and any applicable provisions of relevant law, including the Virginia Stock Corporation Act (the "Virginia SCA") and federal laws governing banks.

General

TowneBank is authorized to issue 150,000,000 shares of common stock, par value $1.667 per share. Each share of TowneBank's common stock has the same relative rights as, and is identical in all respects to, each other share of its common stock. TowneBank's common stock is traded on the Nasdaq Global Select Market under the symbol "TOWN." The transfer agent for TowneBank's common stock is Computershare, Inc., 250 Royall Street, Canton, Massachusetts 02021. TowneBank's common stock is not a deposit or a savings account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Dividends

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

Liquidation Rights

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

Voting Rights

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

Classes of Directors

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

No Preemptive Rights; Redemption and Assessment

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

Preferred Stock

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

Anti-takeover Provisions

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

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

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

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

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

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

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

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

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

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

Exhibit (14)

TOWNEBANK
EXECUTIVE CHAIRMAN, CHIEF EXECUTIVE OFFICER, EXECUTIVE OFFICERS and SENIOR FINANCIAL OFFICERS CODE OF ETHICAL CONDUCT

Preface

The honesty, integrity, and sound judgment of the Executive Chairman, Chief Executive Officer ("CEO"), executive officers and senior financial officers are fundamental to the reputation and success of TowneBank. While all employees, officers, and directors are required to adhere to the TowneBank Standards of Conduct, the professional and ethical conduct of the Executive Chairman, CEO, executive officers and senior financial officers is essential to the proper function and success of TowneBank as a leading financial services provider.

The Executive Chairman, CEO, executive officers and senior financial officers hold an important and elevated role in corporate governance. These individuals are key members of the management team, who are uniquely capable and empowered to ensure that the interests of stakeholders (including shareholders, clients, employees, suppliers, and citizens of the communities in which TowneBank operates) are appropriately balanced, protected, and preserved. The Executive Chairman, CEO, executive officers and senior financial officers fulfill this responsibility by prescribing and enforcing the policies and procedures employed in TowneBank's financial operations.

Code of Ethical Conduct

General standards of ethical behavior

The CEO, executive officers and senior financial officers of TowneBank performing accounting, audit, financial management, or similar functions must:

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships.
- Provide colleagues with information that is accurate, complete, objective, relevant, timely, and understandable.
- Comply with applicable laws, rules, and regulations of federal, state, and local governments (both United States and foreign) and other appropriate private and public regulatory agencies.
- Act in good faith, with due care, competence, and diligence, without misrepresenting material facts or allowing independent judgment to be subordinated.
- Respect the confidentiality of information acquired in the course of employment.
- Share knowledge and maintain skills necessary and relevant to TowneBank's needs.

- Proactively promote ethical and honest behavior within the workplace.

- Assure responsible use of and control of all assets, resources, and information in possession of TowneBank.

- Keep management informed of financial information of importance, including departures from sound policy, practice and accounting norms.

Standards regarding financial records and reporting

The Executive Chairman, CEO, executive officers and senior financial officers of TowneBank performing accounting, audit, financial management, or similar functions must:

- Establish systems and procedures to ensure business transaction are recorded in accordance with Generally Accepted Accounting Principles, company policy and appropriate regulatory pronouncements and guidelines.

- Protect and maintain accounting records and information as required by applicable law, regulation, or regulatory guidelines.

- Inform the Board of Directors and the Audit Committee of any material information that affects the disclosures made by the Bank in its public filings.

- Report to the Board of Directors and the Audit Committee concerning (a) significant deficiencies in the design and operation of internal controls or (b) any fraud involving management or other employees with a significant role in the Bank's financial reporting, disclosures or internal controls.

- In addition, the Executive Chairman, CEO, CFO, Executive officers and other Senior Financial officers are expected to provide the Board of Directors and Audit Committee, on a timely basis, with such information relating to the financial status of the Company, relevant business environment and other pertinent matters which are considered essential for the Board of Directors to fulfill its obligations.

The Executive Chairman, CEO, executive and senior financial officers are expected to adhere to both the TowneBank ***Standards of Conduct*** and the ***TowneBank Chief Executive Officer and Senior Financial Officers Code of Ethical Conduct*** at all times. The board of directors shall have the sole and absolute discretionary authority to approve any deviation or waiver from the ***Code of Ethical Conduct***. Any waiver and the grounds for such waiver for the Executive Chairman, CEO, executive or senior financial officer shall be promptly disclosed through a filing with the Federal Deposit Insurance Corporation on Form 8-K. Additionally, any change of this ***Code of Ethical Conduct*** shall be promptly disclosed to shareholders.

The policy is applicable to executive officers for purposes of Regulation O, any person Executive Vice President and above in Corporate Accounting and the Chief Audit Executive.

TOWNEBANK
CHIEF EXECUTIVE OFFICER, EXECUTIVE OFFICERS and SENIOR FINANCIAL OFFICERS
CODE OF ETHICAL CONDUCT

Please indicate that you have received, read and will abide by the ***TowneBank Chief Executive Officer, Executive Officers and Senior Financial Officers Code of Ethical Conduct*** by signing your name and dating the attached acknowledgment and returning it promptly to the Chairman and CEO of TowneBank.

ACKNOWLEDGMENT

I certify that I have received and read and that I will abide by the ***TowneBank Chief Executive Officer, Executive Officers and Senior Financial Officers Code of Ethical Conduct*** distributed to me on this _____ day of _____, 20___.

_____
OFFICER

_____
DATE

Exhibit (21)

Subsidiaries of TowneBank

Subsidiary	State of Incorporation or Organization
TowneBank Investment Corporation	Virginia
Towne Investments, LLC	Virginia
TowneBank Woodview Investment Co., LLC	Virginia
TowneBank Woodview Investment Co. II, LLC	Virginia
TowneBank Heritage Forest, LLC	Virginia
TowneBank Cromwell House Affordable Housing, LLC	Virginia
TowneBank Pavilion Place Affordable Housing, LLC	Virginia
TowneBank Westbury Cottages Affordable Housing, LLC	Virginia
TowneBank Catalina Crossing Affordable Housing, LLC	Virginia
Hamilton Place Towne I, LLC	Virginia
Hamilton Place Towne II, LLC	Virginia
TowneBank VCDC Fund 18, LLC	Virginia
TowneBank VCDC Fund 19, LLC	Virginia
TB Affordable Housing Equity Fund XX, LLC	Virginia
TB Affordable Housing Equity Fund XXI, LLC	Virginia
TB Affordable Housing Equity Fund XXII, LLC	Virginia
Affordable Housing Equity Fund XXIII, LLC	Virginia
TB Forrest Landing II Affordable Housing, LLC	Virginia
TB Foundry Affordable Housing, LLC	Virginia
TB HFHWC, LLC	Virginia
TB Lake View Affordable Housing, LLC	Virginia
TB Lake View II Affordable Housing, LLC	Virginia
TB NC Affordable Housing Equity Fund XXIII, LLC	Virginia
NC Affordable Equity Fund XXIV, LLC	Virginia
NC Affordable Housing Equity Fund XXVI, LLC	Virginia
TB 288 Lofts Affordable Housing, LLC	Virginia
TB 288 Lofts Phase II Affordable Housing, LLC	Virginia
TB 925 Apts. I Affordable Housing, LLC	Virginia
TB 925 Apts. II. Affordable Housing, LLC	Virginia
TB Arbors at Hull Street Affordable Housing, LLC	Virginia
TB Blaine Landing Affordable Housing, LLC	Virginia
TB Blaine Landing Phase II Affordable Housing, LLC	Virginia
TB Block 19 Affordable Housing, LLC	Virginia
TB Block 20 Affordable Housing, LLC	Virginia
TB Curlew Apartments I LLC	Virginia
TB Curlew Apartments II LLC	Virginia
TB Dale II Affordable Housing, LLC	Virginia

Subsidiaries of TowneBank (continued)

Subsidiary	State of Incorporation or Organization
TB Dillehay Courts Affordable Housing, LLC	Virginia
TB Dillehay Courts Affordable Housing Managing Member, LLC	Virginia
TB NMF Affordable Housing, LLC	Virginia
TB Renaissance I Affordable Housing, LLC	Virginia
TB Renaissance II Affordable Housing, LLC	Virginia
TB Sunset Hampton Affordable Housing, LLC	Virginia
TB York Senior Affordable Housing, LLC	Virginia
TB Suffolk Senior Affordable Housing, LLC	Virginia
TB Market Heights Affordable Housing, LLC	Virginia
TB Market Heights Affordable Housing -4%, LLC	Virginia
TB PABP Affordable Housing, LLC	Virginia
TB PABP II Affordable Housing, LLC	Virginia
Affordable Housing Equity Fund XXIV, LLC	Virginia
Towne Financial Services Group, LLC	Virginia
Oak Island Sales, LLC	Virginia
GSH Residential Real Estate Corporation	Virginia
Towne Oak Island RE, LLC	Virginia
Towne Vacations Oak Island, LLC, t/a Oak Island Accommodations	Virginia
Towne Vacations, LLC, t/a Beach Properties of Hilton Head	Virginia
Towne Vacations Venture Resorts, LLC	Virginia
Towne Vacations Venture Resorts RE, LLC	Virginia
VR Services, LLC	Virginia
Towne Vacations Deep Creek, LLC t/a Railey Mountain Lake Vacations	Virginia
Towne Deep Creek RE, LLC	Virginia
Towne Realty LLC, t/a Berkshire Hathaway HomeServices Towne Realty	Virginia
PTR Referral, LLC	Virginia
Virginia Home Title and Settlements, LLC	Virginia
NewTowne Mortgage, LLC	Virginia
Towne Insurance Agency, LLC	Virginia
The Frieden Agency LLC, t/a Towne Benefits	Virginia
Benefit Design Group, LLC	Virginia
Beneflex Management, LLC	Virginia
Towne Insurance Agency of North Carolina, LLC	North Carolina
TowneBank Commercial Mortgage, LLC	Virginia
Towne Hall, LLC	Virginia
Towne 1031 Exchange, LLC	Virginia
Towne Security, LLC	Virginia
Towne Mortgage, LLC	Virginia
Coastal Towne Mortgage, LLC	Virginia

Subsidiaries of TowneBank (continued)

Subsidiary	State of Incorporation or Organization
Advance Financial Group, LLC	Virginia
Towne First Mortgage, LLC	Virginia
Franklin Service Corporation	Virginia
Homesale Mortgage, LLC	Virginia
PCB Trustee, INC.	North Carolina
Reality Holdings, LLC	Virginia
Reality I, LLC	Virginia
Reality X, LLC	Virginia
Southeastern Virginia Investment Properties, LLC	Virginia
Southeastern Virginia Coastal Properties I, LLC	Virginia
Southeastern Virginia Properties, LLC	Virginia
Southeastern Virginia Properties at Uncles Neck, LLC	Virginia
Towne Mortgage of the Carolinas, LLC	North Carolina
Northeastern North Carolina Properties, LLC	North Carolina
Towne Asset Management Corp.	Virginia
Virginia Hotel Properties, LLC	Virginia
Virginia Properties Apartment and Land, LLC	Virginia
CPF Partners, LLC	Virginia
TBNCT, LLC	North Carolina
TBVAT, LLC	Virginia
West Suffolk Properties, LLC	Virginia
TB Travel Services, LLC	Virginia
Monarch Investment, LLC	Virginia
Real Estate Security Agency, LLC	Virginia

Exhibit (31.1)

TOWNEBANK

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, J. Morgan Davis, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of TowneBank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2022	/s/ J. Morgan Davis
Date	J. Morgan Davis Chief Executive Officer

Exhibit (31.2)

TOWNEBANK

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William B. Littreal, Senior Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of TowneBank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2022	/s/ William B. Littreal
Date	William B. Littreal Senior Executive Vice President/CFO

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, each of the undersigned officers of TowneBank (the "Bank"), do hereby certify, to such officer's knowledge, that:

1. Our Annual Report on Form 10-K for the year ended December 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report presents fairly, in all material respects, our financial condition and results of operations as of and for the period covered by the Report.

February 25, 2022	/s/ J. Morgan Davis
Date	J. Morgan Davis Chief Executive Officer
February 25, 2022	/s/ William B. Littreal
Date	William B. Littreal Senior Executive Vice President/CFO

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