FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-Q

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

For the quarterly period ended March 31, 2025

FDIC Insurance Cert. Number: 35095

TOWNEBANK

(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 No.)
5716 High Street, Portsmouth, Virginia	**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

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

The number of shares of the Company's common stock outstanding as of May 1, 2025, was 75,397,082 shares.

TOWNEBANK

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

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

ACL	Allowance for Credit Loss
AFS	Available-for-Sale
ALCO	Asset/Liability Management Committee
AOCI	Accumulated Other Comprehensive Income (Loss)
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
Basel III	Basel Committee on Banking Supervision's Capital Guidelines for U.S. Banks
BOLI	Bank-Owned Life Insurance
bp	Basis Points
C&I	Commercial and Industrial Business
CDA	Collateral-Dependent Asset
CRE	Commercial Real Estate
CRE - NOO	Commercial Real Estate - Non-owner Occupied
CRE - OO	Commercial Real Estate - Owner Occupied
ECL	Expected Credit Loss
Farmers	Farmers Bankshares, Inc.
Farmers Bank	Farmers Bank, Windsor, Virginia
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FOMC	Federal Reserve Open Market Committee
FHLB	Federal Home Loan Bank of Atlanta
FRB	Federal Reserve Bank
GAAP	Accounting Principles Generally Accepted in the United States of America
GNMA	Government National Mortgage Association
GSE	Government Sponsored Enterprise
HELOC	Residential Home Equity Lines of Credit
HTM	Held-to-Maturity
LIHTC	Low Income Housing Tax Credits
MBS	Mortgage-backed Security
N/M	Not Meaningful
NENC	Northeast North Carolina
Old Point	Old Point Financial Corporation
OPNB	The Old Point National Bank of Phoebus
PCD	Purchased Credit Deteriorated
REPO	Retail Repurchase Agreement
SCC	Virginia State Corporation Commission
SERP	Supplemental Executive Retirement Plan
SOFR	Secured Overnight Financing Rate

TBA	To Be Announced
TE	Taxable Equivalent
U.S.	United States
Village	Village Bank and Trust Financial Corp.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	March 31, 2025	December 31, 2024
ASSETS	(unaudited)	(audited)
Cash and due from banks	$ 126,526	$ 108,750
Interest-bearing deposits at FRB	1,090,555	1,127,878
Interest-bearing deposits in financial institutions	100,249	102,847
Total Cash and Cash Equivalents	1,317,330	1,339,475
Securities available for sale, at fair value (amortized cost of $2,590,680 and $2,509,970, and allowance for credit losses of $1,262 and $1,326 at March 31, 2025 and December 31, 2024, respectively)	2,470,171	2,353,365
Securities held to maturity, at amortized cost (fair value $195,631 and $203,883 at March 31, 2025 and December 31, 2024, respectively)	202,018	212,352
Less: allowance for credit losses	(68)	(77)
Securities held to maturity, net of allowance for credit losses	201,950	212,275
Other equity securities	12,223	12,100
FHLB stock	12,425	12,136
Total Securities	2,696,769	2,589,876
Mortgage loans held for sale	168,510	200,460
Loans, net of unearned income and deferred costs	11,652,746	11,459,055
Less: allowance for credit losses on loans	(126,131)	(123,923)
Net Loans	11,526,615	11,335,132
Premises and equipment, net	373,111	368,876
Goodwill	457,619	457,619
Other intangible assets, net	57,145	60,171
BOLI	280,344	279,802
Other assets	634,437	615,479
TOTAL ASSETS	$ 17,511,880	$ 17,246,890
LIABILITIES AND EQUITY		
Deposits:		
Noninterest-bearing demand	$ 4,313,553	$ 4,253,053
Interest-bearing:		
Demand and money market accounts	7,463,355	7,329,669
Savings	312,151	311,841
Certificates of deposit	2,519,489	2,542,735
Total Deposits	14,608,548	14,437,298
Advances from the FHLB	3,029	3,218
Subordinated debt, net	260,198	260,001
Repurchase agreements and other borrowings	20,875	33,683
Total Borrowings	284,102	296,902
Other liabilities	402,252	357,063
TOTAL LIABILITIES	15,294,902	15,091,263
Commitments and contingencies (Note 9)		
Preferred stock:		
Authorized and unissued shares - 2,000,000	—	—
Common stock, $1.667 par value: 150,000,000 shares authorized; 75,392,225 and 75,255,205 shares issued at March 31, 2025 and December 31, 2024, respectively	125,679	125,455
Capital surplus	1,123,330	1,122,147
Retained earnings	1,039,518	1,007,775
Common stock issued to deferred compensation trust, at cost: 1,049,002 and 1,046,121 shares at March 31, 2025 and December 31, 2024, respectively	(21,969)	(21,868)
Deferred compensation trust	21,969	21,868
Accumulated other comprehensive income (loss)	(87,869)	(116,045)
TOTAL SHAREHOLDERS' EQUITY	2,200,658	2,139,332
Noncontrolling interest	16,320	16,295
TOTAL EQUITY	2,216,978	2,155,627
TOTAL LIABILITIES AND EQUITY	$ 17,511,880	$ 17,246,890

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

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	**2025**	**2024**
INTEREST INCOME:		
Loans, including fees	$ 152,322	$ 150,974
Investment securities	22,839	19,996
Interest-bearing deposits in financial institutions and federal funds sold	11,801	14,234
Mortgage loans held for sale	2,653	1,716
Total interest income	189,615	186,920
INTEREST EXPENSE:		
Deposits	67,133	78,388
Advances from the FHLB	25	2,438
Subordinated debt, net	2,304	2,236
Repurchase agreements and other borrowings	(325)	640
Total interest expense	69,137	83,702
Net interest income	120,478	103,218
PROVISION FOR CREDIT LOSSES	2,420	(877)
Net interest income after provision for credit losses	118,058	104,095
NONINTEREST INCOME:		
Residential mortgage banking income, net	10,361	10,477
Insurance commissions and related income, net	26,424	25,539
Property management income, net	19,500	16,773
Service charges on deposit accounts	3,327	3,079
Credit card merchant fees, net	1,697	1,551
Investment commissions, net	3,075	2,343
BOLI	1,872	1,842
Gain on sale of equity investments	2,000	—
Other noninterest income	3,310	2,206
Net gain (loss) on investment securities	—	74
Total noninterest income	71,566	63,884
NONINTEREST EXPENSE:		
Salaries and employee benefits	75,078	71,377
Occupancy	9,333	9,422
Furniture and equipment	4,621	4,478
Amortization - intangibles	3,026	3,246
Software	6,293	6,100
Data processing	3,835	3,916
Professional fees	2,653	3,180
Advertising and marketing	4,472	4,582
FDIC and other insurance	2,860	4,358
Acquisition-related expenses	420	595
Other noninterest expenses	17,945	14,337
Total noninterest expense	130,536	125,591
Income before income tax expense and noncontrolling interest	59,088	42,388
Provision for income tax expense	8,201	7,261
Net income	$ 50,887	$ 35,127
Net income attributable to noncontrolling interest	(295)	(440)
Net income attributable to TowneBank	$ 50,592	$ 34,687
Per common share information		
Basic earnings	$ 0.67	$ 0.46
Diluted earnings	$ 0.67	$ 0.46

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	Three Months Ended March 31,	
(Dollars in thousands)	**2025**	**2024**
Net income	$ 50,887	$ 35,127
Other comprehensive income (loss)		
Unrealized gains (losses) on securities		
Unrealized holding gains (losses) arising during the period	36,034	(8,643)
Tax effect	(7,845)	1,882
Realized (gains) losses reclassified into earnings	—	(74)
Tax effect	—	16
Net unrealized gains (losses)	28,189	(6,819)
Pension and postretirement benefit plans		
Prior service costs	(7)	—
Tax effect	1	—
Actuarial gain (loss)	256	(907)
Tax effect	(56)	198
Amortization of prior service costs	135	165
Tax effect	(29)	(36)
Amortization of net actuarial (gain) loss	(400)	(543)
Tax effect	87	118
Change in retirement plans, net of tax	(13)	(1,005)
Other comprehensive income (loss), net of tax	28,176	(7,824)
Comprehensive income	$ 79,063	$ 27,303
Comprehensive income attributable to noncontrolling interest	(295)	(440)
Comprehensive income attributable to TowneBank	$ 78,768	$ 26,863

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

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Dollars in thousands)	Three Months Ended March 31, 2025	2024
OPERATING ACTIVITIES:		
Net income	$ 50,887	$ 35,127
Adjustments to reconcile net income to net cash used for operating activities:		
Net amortization of securities	174	2,375
Investment securities gains	—	(74)
Depreciation, amortization, and other intangible amortization	8,626	8,717
Amortization of debt issuance costs	168	155
Provision for credit losses	2,420	(877)
BOLI	(1,872)	(1,842)
Deferred income tax (benefit) expense	(1,882)	313
Share-based compensation expense	2,345	1,853
Originations of mortgage loans held for sale	(445,336)	(427,193)
Proceeds from sales of mortgage loans held for sale	490,848	439,942
Gain on sales of mortgage loans held for sale	(13,562)	(13,489)
Gain on sale of equity investments	(2,000)	—
Loss (gain) on disposal of fixed assets	219	(192)
Changes in:		
Interest receivable	(337)	(853)
Other assets	(13,091)	(3,072)
Interest payable	(2,586)	1,485
Other liabilities	46,862	(4,000)
Net cash provided by operating activities	121,883	38,375
INVESTING ACTIVITIES:		
Purchase of available-for-sale securities	(122,420)	(187,430)
Purchase of other securities	(123)	—
Sale of available-for-sale securities	—	48,688
Net change in FHLB stock	(289)	9,233
Proceeds from maturities, calls, and prepayments of available-for-sale securities	41,563	53,108
Proceeds from maturities, calls, and prepayments of held-to-maturity securities	10,309	165,056
Proceeds from maturities, calls, and prepayments of other securities	—	132
Net increase in loans	(195,697)	(125,260)
Net change in investment in LIHTC	(11,552)	(23,071)
Purchase of premises and equipment	(11,243)	(10,212)
Proceeds from sales of premises and equipment	1,204	370
Proceeds from sales of foreclosed assets	1,037	1,546
Proceeds from sale of equity investment	2,000	—
Proceeds from BOLI	2,011	—
Acquisition of business, net of cash acquired	—	(10,075)
Net cash used for investing activities	(283,200)	(77,915)
FINANCING ACTIVITIES:		
Net change in deposit accounts	171,250	232,868
Net change in short-term borrowings	(12,808)	(201,628)
Repayment of long-term borrowings	(189)	(183)
Distribution of noncontrolling interest	(270)	—
Cash dividends paid	(18,811)	(18,764)
Net cash provided by financing activities	139,172	12,293
Change in cash and cash equivalents	(22,145)	(27,247)
Cash and cash equivalents at beginning of year	1,339,475	1,128,357
Cash and cash equivalents at end of period	$ 1,317,330	$ 1,101,110
Supplemental cash flow information:		
Cash paid for interest	$ 71,723	$ 82,217
Cash (refunded) paid for federal income taxes	$ (990)	$ (724)
Cash (refunded) paid for state income taxes	$ (43)	$ 143
Noncash financing and investing activities:		
Transfer from loans to foreclosed property	$ 1,380	$ 1,418
Net unrealized gains (losses) on available-for-sale securities, net of tax	$ 28,189	$ (6,819)

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

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED STATEMENT OF EQUITY

(Dollars in thousands, except per share data)	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Deferred Compensation Trust	Common Stock Issued to Deferred Compensation Trust	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total
Balance, January 1, 2025	**75,255,205**	**$ 125,455**	**$ 1,122,147**	**$ 1,007,775**	**$ 21,868**	**$ (21,868)**	**$ (116,045)**	**$ 16,295**	**$ 2,155,627**
Net income	—	—	—	50,592	—	—	—	295	50,887
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	28,176	—	28,176
Cash dividends declared on common stock ($0.25 per share)	—	—	—	(18,849)	—	—	—	—	(18,849)
Directors' deferred compensation	—	—	—	—	101	(101)	—	—	—
Distribution of interests in joint ventures	—	—	—	—	—	—	—	(270)	(270)
Issuance of common stock - stock compensation plans	137,020	224	1,183	—	—	—	—	—	1,407
Balance, March 31, 2025	**75,392,225**	**$ 125,679**	**$ 1,123,330**	**$ 1,039,518**	**$ 21,969**	**$ (21,969)**	**$ (87,869)**	**$ 16,320**	**$ 2,216,978**

(Dollars in thousands, except per share data)	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, January 1, 2024	**74,893,462**	**$ 124,847**	**$ 1,112,761**	**$ 921,126**	**$ 20,813**	**$ (20,813)**	**$ (118,762)**	**$ 15,906**	**$ 2,055,878**
Net income	—	—	—	34,687	—	—	—	440	35,127
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	(7,824)	—	(7,824)
Cash dividends declared on common stock ($0.25 per share)	—	—	—	(18,748)	—	—	—	—	(18,748)
Directors' deferred compensation	—	—	—	—	102	(102)	—	—	—
Issuance of common stock - stock compensation plans	96,975	162	1,277	—	—	—	—	—	1,439
Balance, March 31, 2024	**74,990,437**	**$ 125,009**	**$ 1,114,038**	**$ 937,065**	**$ 20,915**	**$ (20,915)**	**$ (126,586)**	**$ 16,346**	**$ 2,065,872**

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of TowneBank have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all of the disclosures and notes necessary for a complete presentation of financial position, results of operations, and cash flow activity required in accordance with GAAP. In the opinion of management, the financial statements reflect all adjustments of a normal, recurring nature that are necessary for a fair presentation for the periods presented as required by Regulation S-X, Rule 10-01, of the SEC. These statements should be read in conjunction with the Company's 2024 audited Consolidated Financial Statements and the 2024 Annual Report on Form 10-K. Results of operations for the three-month period ended March 31, 2025, are not necessarily indicative of the results of operations for the full year or any other interim periods.

Recent accounting pronouncements:

Accounting standards adopted in current year		
Standard	**Summary of guidance**	**Effects on financial statements**
Topic 740 - Income Taxes - Improvements to Income Tax Disclosures **ASU 2023-09** **Issued December 2023**	Requires public business entities to increase both qualitative and quantitative disclosures as they relate to state and federal income tax. Requirements include a tabular reconciliation, using both percentages and reporting currency amounts, according to eight specifically named categories. Additionally, separate disclosure is required for specifically named reconciling items, greater than 5% of the amount computed by multiplying the income from continuing operations before income tax by the statutory income tax rate.	The Company adopted this standard effective January 1, 2025. This standard is to be applied on a prospective basis; retrospective application is permitted. Early adoption is permitted for annual financial statements that have not yet been issued. The adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting standards not yet adopted		
Standard	**Summary of guidance**	**Effects on financial statements**
Topic 220 - Income Statement - Reporting Comprehensive Income - Subtopic 220-40 Expense Disaggregation Disclosures **ASU 2024-03** **Issued November 2024**	Requires disclosure in the notes to the financial statements of specified information about certain costs and expenses.	Effective for annual reporting periods beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. This standard is to be applied either prospectively or retrospective. The Company will comply with the new disclosure requirements and does not expect this pronouncement to have a material impact on its Consolidated Financial Statements.

Note 2. Earnings per Share and Shareholders' Equity

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

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

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	**2025**	**2024**
Basic		
Net income available to common shareholders	$ 50,592	$ 34,687
Weighted-average common shares outstanding	75,149,668	74,816,420
Basic earnings per common share	$ 0.67	$ 0.46
Diluted		
Net income available to common shareholders	$ 50,592	$ 34,687
Annualized interest impact of Series IV Notes, net of tax	42	—
Net income for diluted earnings per share	$ 50,634	$ 34,687
Weighted-average common shares outstanding	75,149,668	74,816,420
Effect of dilutive securities:		
Impact of Series IV Notes	98,244	—
Stock compensation plans (1)	279,801	163,081
Weighted-average diluted shares outstanding	75,527,713	74,979,501
Diluted earnings per common share	$ 0.67	$ 0.46

(1) There were no anti-dilutive stock options or restricted stock shares to be excluded from the computation of diluted earnings per share for the three months ended March 31, 2025 or 2024.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Mergers and Acquisitions

Old Point Financial Corporation: On April 2, 2025, the Company signed a definitive agreement and plan of merger (the "Old Point merger agreement"), pursuant to which the Company will acquire Old Point and its wholly owned bank subsidiary, OPBN. The proposed acquisition of Old Point and OPBN, which has been approved by the Boards of Directors of TowneBank, Old Point, and OPBN, is expected to close in the second half of 2025, subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of Old Point's shareholders. At December 31, 2024, Old Point had total assets of $1.45 billion, gross loans of $1.01 billion, and total deposits of $1.25 billion.

Under the terms of the Old Point merger agreement, the shareholders of Old Point will elect to receive either $41.00 per share in cash or 1.140 shares of TowneBank common stock for each outstanding share of Old Point outstanding common stock. This corresponds to an aggregate transaction value of approximately $203 million, based on Old Point common stock outstanding on the date of the announcement. Old Point shareholders will have the right to elect cash or stock consideration so long as the total stock consideration issued represents between 50% and 60% of the total consideration paid.

Village Bank and Trust Financial Corp.: On April 1, 2025, TowneBank completed its acquisition of Village and its wholly owned bank subsidiary, Village Bank, in an all-cash transaction. As part of the merger, Village and Village Bank merged with and into TowneBank.

In the merger with Village, Village shareholders received $80.25 per share in cash for each outstanding share of Village common stock held immediately prior to the effective date of the merger, and each share of Village common stock was canceled and retired. Based on the number of Village common stock shares outstanding immediately prior to April 1, 2025, the aggregated consideration paid to former Village common shareholders and former holders of equity awards to acquire Village common stock was approximately $120 million.

The merger has been accounted for under the acquisition method of accounting. Under this guidance, an entity is required to recognize the assets acquired, liabilities assumed, and consideration given at their fair value on the acquisition date. Due to the recent timing and nature of the transaction, the Company is still in the process of evaluating the fair value adjustments necessary to adjust the acquired assets and assumed liabilities to estimated fair value, as well as the related intangible assets associated with the transaction. Therefore, it is impractical to estimate and disclose provisional allocation amounts and pro forma impact of the acquisition at this time.

Note 4. Investment Securities

Available-for-sale debt securities

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

March 31, 2025	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. agency securities	$ 346,362	$ 388	$ (26,560)	$ —	$ 320,190
U.S. Treasury notes	77,127	1,583	(526)	—	78,184
Municipal securities	469,530	72	(30,223)	(338)	439,041
Trust preferred and other corporate securities	102,021	1,505	(5,063)	(924)	97,539
MBSs issued by GSEs and GNMA	1,595,640	2,361	(62,784)	—	1,535,217
Total available-for-sale securities	$ 2,590,680	$ 5,909	$ (125,156)	$ (1,262)	$ 2,470,171

December 31, 2024	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. agency securities	$ 325,566	$ 149	$ (31,798)	$ —	$ 293,917
U.S. Treasury notes	29,247	—	(818)	—	28,429
Municipal securities	472,018	75	(32,978)	(373)	438,742
Trust preferred and other corporate securities	101,950	1,093	(7,764)	(953)	94,326
MBSs issued by GSEs and GNMA	1,581,189	1,255	(84,493)	—	1,497,951
Total available-for-sale securities	$ 2,509,970	$ 2,572	$ (157,851)	$ (1,326)	$ 2,353,365

(1) Amortized cost amounts exclude accrued interest receivable, which was $11.39 million as of March 31, 2025, and $11.02 million as of December 31, 2024, and is recorded in other assets on the Consolidated Balance Sheets.

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

	Three Months Ended March 31,	
	2025	2024
Gross gains	$ —	$ 421
Gross (losses)	—	(347)
Net gains (losses)	$ —	$ 74
Sales proceeds*	$ —	$ 48,577

*Proceeds include interest on investment securities sold of zero and $480 thousand in the first quarter of 2025 and 2024, respectively.

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):

March 31, 2025	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
U.S. agency securities	$ 92,805	$ —	$ (2,343)	$ 90,462	$ —
U.S. Treasury notes	96,481	—	(4,056)	92,425	—
Municipal securities	5,390	86	—	5,476	(4)
Trust preferred and other corporate securities	2,107	90	—	2,197	(64)
MBSs issued by GSEs	5,235	—	(164)	5,071	—
Total held-to-maturity securities	$ 202,018	$ 176	$ (6,563)	$ 195,631	$ (68)

December 31, 2024	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
U.S. agency securities	$ 102,622	$ —	$ (3,240)	$ 99,382	$ —
U.S. Treasury notes	96,710	—	(5,192)	91,518	—
Municipal securities	5,366	91	—	5,457	(6)
Trust preferred and other corporate securities	2,121	86	—	2,207	(71)
MBSs issued by GSEs	5,533	1	(215)	5,319	—
Total held-to-maturity securities	$ 212,352	$ 178	$ (8,647)	$ 203,883	$ (77)

(1) Amortized cost amounts exclude accrued interest receivable, which was $0.82 million as of March 31, 2025, and $0.90 million as of December 31, 2024, and is recorded in other assets on the Consolidated Balance Sheets.

Maturities of debt securities

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

	Available for Sale		Held to Maturity	
March 31, 2025	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 16,137	$ 15,818	$ 74,718	$ 73,234
Due after one year through five years	850,996	809,232	122,257	117,222
Due after five years through ten years	518,756	496,123	3,436	3,568
Due after ten years	1,204,791	1,148,998	1,607	1,607
	$ 2,590,680	$ 2,470,171	$ 202,018	$ 195,631

December 31, 2024	Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
Due in one year or less	$ 7,610	$ 7,541	$ 54,790	$ 53,710
Due after one year through five years	803,383	751,841	152,019	144,493
Due after five years through ten years	498,298	465,020	3,660	3,796
Due after ten years	1,200,679	1,128,963	1,883	1,884
	$ 2,509,970	$ 2,353,365	$ 212,352	$ 203,883

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):

March 31, 2025		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	56	$ 51,615	$ (996)	$ 206,291	$ (25,563)	$ 257,906	$ (26,559)
U.S. Treasury notes	1	—	—	27,895	(525)	27,895	(525)
Municipal securities	63	11,665	(145)	123,016	(11,860)	134,681	(12,005)
MBSs issued by GSEs and GNMA	262	325,125	(4,441)	941,651	(58,344)	1,266,776	(62,785)
Total AFS securities	382	$ 388,405	$ (5,582)	$ 1,298,853	$ (96,292)	$ 1,687,258	$ (101,874)

December 31, 2024		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	64	$ 66,465	$ (1,653)	$ 203,864	$ (30,145)	$ 270,329	$ (31,798)
U.S. Treasury notes	2	—	—	28,429	(818)	28,429	(818)
Municipal securities	55	15,165	(125)	89,750	(8,957)	104,915	(9,082)
MBSs issued by GSEs and GNMA	273	452,521	(10,901)	883,687	(73,592)	1,336,208	(84,493)
Total AFS securities	394	$ 534,151	$ (12,679)	$ 1,205,730	$ (113,512)	$ 1,739,881	$ (126,191)

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

Three Months Ended March 31, 2025	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Balance, beginning of period	$ 373	$ 953	$ 1,326
Provision for credit losses	(35)	(29)	(64)
Balance, end of period	$ 338	$ 924	$ 1,262

Three Months Ended March 31, 2024	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Balance, beginning of period	$ 280	$ 1,218	$ 1,498
Provision for credit losses	57	(173)	(116)
Balance, end of period	$ 337	$ 1,045	$ 1,382

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 March 31, 2025. The following table reflects the credit ratings aggregated by investment category for HTM debt securities as of the dates indicated (dollars in thousands):

March 31, 2025	Credit Ratings					
Description of Securities	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Total
U.S. agency securities	$ 92,805	$ —	$ —	$ —	$ —	$ 92,805
U.S. Treasury notes	96,481	—	—	—	—	96,481
Municipal securities	1,918	3,472	—	—	—	5,390
Trust preferred and other corporate securities	—	—	—	2,107	—	2,107
MBSs issued by GSEs	5,235	—	—	—	—	5,235
Total	$ 196,439	$ 3,472	$ —	$ 2,107	$ —	$ 202,018

December 31, 2024	Credit Ratings					
Description of Securities	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Total
U.S. agency securities	$ 102,622	$ —	$ —	$ —	$ —	$ 102,622
U.S. Treasury notes	96,710	—	—	—	—	96,710
Municipal securities	1,899	3,467	—	—	—	5,366
Trust preferred and other corporate securities	—	—	—	2,121	—	2,121
MBSs issued by GSEs	5,533	—	—	—	—	5,533
Total	$ 206,764	$ 3,467	$ —	$ 2,121	$ —	$ 212,352

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):

March 31, 2025 Description of Securities	2025	2024	2023	2022	2021	Prior	Total
U.S. agency securities	$ —	$ —	$ —	$ 43,015	$ 49,790	$ —	$ 92,805
U.S. Treasury notes	—	—		74,801	21,680	—	96,481
Municipal securities	—	—	—	—	—	5,390	5,390
Trust preferred and other corporate securities	—	—	—	—	—	2,107	2,107
MBSs issued by GSEs	—	—	—	—	—	5,235	5,235
Total	$ —	$ —	$ —	$ 117,816	$ 71,470	$ 12,732	$ 202,018

December 31, 2024

Description of Securities	2024	2023	2022	2021	2020	Prior	Total
U.S. agency securities	$ —	$ —	$ 28,011	$ 74,611	$ —	$ —	$ 102,622
U.S. Treasury notes	—	—	74,776	21,934	—	—	96,710
Municipal securities	—	—	—	—	—	5,366	5,366
Trust preferred and other corporate securities	—	—	—	—	—	2,121	2,121
MBSs issued by GSEs	—	—	—	—	—	5,533	5,533
Total	$ —	$ —	$ 102,787	$ 96,545	$ —	$ 13,020	$ 212,352

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

Three Months Ended March 31, 2025	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Balance, beginning of period	$ 6	$ 71	$ 77
Provision for credit losses	(2)	(7)	(9)
Balance, end of period	$ 4	$ 64	$ 68

Three Months Ended March 31, 2024	Municipal Securities	Trust Preferred and Other Corporate Securities	Total
Balance, beginning of period	$ 6	$ 78	$ 84
Provision for credit losses	(1)	(1)	(2)
Balance, end of period	$ 5	$ 77	$ 82

Equity securities

We hold certain securities that do not have a readily determinable fair value and are recognized using cost or other measurement principles. These equity securities include FHLB stock, private equity, and tax credit investments. No impairments or adjustments have been recorded on these investments.

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

	March 31, 2025	December 31, 2024
FHLB stock	$ 12,425	$ 12,136
Other equity securities	$ 12,223	$ 12,100

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

Pledged securities

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

	March 31, 2025	December 31, 2024
To secure federal, state, and municipal deposits	$ 559,026	$ 555,231
To secure borrowings from the FHLB	$ 4,212	$ 4,236
To secure repurchase agreements with commercial customers	$ 59,128	$ 59,002

Note 5. Loans Held for Investment

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

Total loans increased $193.69 million, compared to December 31, 2024. The following table presents loan balances by major classification as of the dates indicated (in thousands):

	March 31, 2025	December 31, 2024
Commercial Real Estate		
Construction and land development	$ 1,006,086	$ 1,082,161
Owner occupied	1,654,401	1,628,731
Non-owner occupied	3,329,728	3,196,665
Multi-family	841,330	801,079
Total Commercial Real Estate	6,831,545	6,708,636
Residential 1-4 family	1,886,107	1,891,470
HELOC	429,152	410,594
C&I	1,337,254	1,280,394
Government	511,676	513,039
Indirect	570,795	567,245
Consumer loans and other	86,217	87,677
Loans, net of unearned income and deferred costs	$ 11,652,746	$ 11,459,055

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

	March 31, 2025	December 31, 2024
Deferred loan costs in excess of unearned income	$ 3,240	$ 3,061
Unaccreted discount on PCD loans	(2,753)	(2,869)
Unaccreted discount on non-PCD loans	(3,666)	(3,908)
Nonaccrual loans (1)	6,586	7,424
Loans pledged as collateral to secure overnight borrowings with the FHLB	2,963,018	3,037,444

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

	March 31, 2025	March 31, 2024
Three months ended	$ 134	$ 114

Modifications to Debtors Experiencing Financial Difficulty

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

The following tables show the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financial receivable and type of concession granted (dollars in thousands):

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

	For Quarter Ended March 31, 2025	
	Term Extension	
Loan Classification	Amortized Cost Basis at March 31, 2025	% of Total Class of Financing Receivable
Commercial Real Estate		
Owner occupied	$ 12,009	0.73 %
Non-owner occupied	5,865	0.18 %
Total Commercial Real Estate	17,874	0.26 %
Residential 1-4 family	212	0.01 %
HELOC	500	0.12 %
C&I	5,666	0.42 %
Total (1)	$ 24,252	0.21 %

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

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

	For Quarter Ended March 31, 2024	
	Term Extension	
Loan Classification	Amortized Cost Basis at March 31, 2024	% of Total Class of Financing Receivable
Commercial Real Estate		
Construction and land development	$ 771	0.06 %
Owner occupied	5,849	0.34 %
Total Commercial Real Estate	6,620	0.10 %
Residential 1-4 family	140	0.01 %
HELOC	98	0.03 %
C&I	6,295	0.49 %
Total (1)	$ 13,153	0.11 %

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

The following table describes the financial effect of modifications made to borrowers experiencing financial difficulty for the periods ended March 31, 2025 and 2024:

Term Extension

Loan Classification	Financial Effect
Commercial Real Estate	
Owner occupied	Extended maturities to allow time for resolution and/or alternate financing. These modifications did not impact the weighted-average life of CRE-OO loans.
Non-owner occupied	Extended maturities to allow time for alternate financing and/or for sale of collateral. These modifications did not impact the weighted-average life of CRE-NOO loans.
Residential 1-4 family	Extended maturities to allow time for resolution and/or alternate financing. These modifications did not impact the weighted-average life of Residential 1-4 family loans.
HELOC	Extended line maturities to allow borrowers time to obtain financing and/or for sale of collateral. These modifications did not impact the weighted-average life of HELOC loans.
C&I	Extended maturities to allow time for resolution, sale of collateral, or alternate financing. These modifications did not impact the weighted-average life of C&I loans.

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

	Amortized Cost Basis of Modified Financing Receivables That Subsequently Defaulted				
Loan Classification	**Interest Rate Reduction**	**Term Extension**	**Principal Forgiveness**	**Combined Term Extension and Principal Forgiveness**	**Combined Term Extension and Interest Rate Reduction**
Defaults during the quarter ended March 31, 2025					
CRE- Owner occupied	$ —	$ 7,462	$ —	$ —	$ —
	$ —	$ 7,462	$ —	$ —	$ —

	Amortized Cost Basis of Modified Financing Receivables That Subsequently Defaulted				
Loan Classification	**Interest Rate Reduction**	**Term Extension**	**Principal Forgiveness**	**Combination-Term Extension and Principal Forgiveness**	**Combination-Term Extension and Interest Rate Reduction**
Defaults during the quarter ended March 31, 2024					
C&I (1)	$ —	$ 594	$ —	$ —	$ —
	$ —	$ 594	$ —	$ —	$ —

(1) Brought current in Q3 2024

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

March 31, 2025	Payment Status (Amortized Cost Basis)		
Loan Classification	**Current**	**30 - 89 Days Past Due**	**90+ Days Past Due**
Commercial Real Estate			
Construction and land development	$ 771	$ —	$ —
Owner occupied	9,646	7,462	—
Non-owner occupied	20,663	—	1,408
Total Commercial Real Estate	31,080	7,462	1,408
Residential 1-4 family	1,260	—	—
HELOC	598	—	—
C&I	8,871	117	636
Consumer loans and other	1,462	—	—
	$ 43,271	$ 7,579	$ 2,044

March 31, 2024	Payment Status (Amortized Cost Basis)		
Loan Classification	Current	30 - 89 Days Past Due	90+ Days Past Due
Commercial Real Estate			
Construction and land development	$ 771	$ —	$ —
Owner occupied	7,800	—	—
Non-owner occupied	3,982	—	—
Total Commercial Real Estate	12,553	—	—
Residential 1-4 family	781	—	—
HELOC	98	—	—
C&I	7,047	594	—
	$ 20,479	$ 594	$ —

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

The following table lists modified loans with unused commitments as of the date indicated (dollars in thousands):

	March 31, 2025		March 31, 2024	
Loan Classification	Number	Available Commitment	Number	Available Commitment
Commercial Real Estate				
Owner occupied	5	$ 852	—	$ —
Non-owner occupied	2	3,183	—	—
Total Commercial Real Estate	7	4,035	—	—
Residential 1-4 family	1	$ 13	2	$ —
C&I	5	519	2	1,822
	13	$ 4,567	2	$ 1,822

Note 6. Allowance for Credit Losses

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

	March 31, 2025	December 31, 2024
Accrued interest receivable on loans excluded from the estimate of ECL	$ 35,738	$ 36,297
Individually assessed loans	37,002	33,681
Specific reserves on individually assessed loans	900	574

	Three Months Ended March 31,	
Provision for Credit Losses	2025	2024
Loans and unfunded loan commitments	$ 2,493	$ (759)

The following table presents a roll forward of the allowance for our on-balance-sheet credit losses on our loans held for investment, at amortized cost, for the three-month periods ended March 31, 2025 and 2024 (in thousands):

Three Months Ended March 31, 2025

	Balance, Beginning of Period	Provision (Benefit)	Write-offs	Recoveries	Balance, End of Period
Commercial Real Estate					
Construction and land development	$ 18,158	$ (1,027)	$ (53)	$ 119	$ 17,197
Owner occupied	14,550	(247)	—	—	14,303
Non-owner occupied	21,175	262	—	8	21,445
Multi-family	3,819	35	—	—	3,854
Residential 1-4 family	30,908	(485)	—	13	30,436
HELOC	17,371	779	—	32	18,182
C&I	9,594	1,744	(123)	5	11,220
Government	2,603	(145)	—	—	2,458
Indirect	3,781	1,889	(589)	105	5,186
Consumer loans and other	1,964	29	(443)	300	1,850
Total	$ 123,923	$ 2,834	$ (1,208)	$ 582	$ 126,131

Three Months Ended March 31, 2024

	Balance, Beginning of Period	Provision (Benefit)	Write-offs	Recoveries	Balance, End of Period
Commercial Real Estate					
Construction and land development	$ 18,736	$ 1,494	$ (264)	$ 3	$ 19,969
Owner occupied	14,078	251	—	1	14,330
Non-owner occupied	22,098	(222)	—	124	22,000
Multi-family	3,133	139	—	—	3,272
Residential 1-4 family	32,363	(2,173)	—	13	30,203
HELOC	17,324	(1,115)	—	17	16,226
C&I	8,069	1,491	—	125	9,685
Government	3,092	(234)	—	—	2,858
Indirect	4,794	428	(512)	72	4,782
Consumer loans and other	2,774	(165)	(141)	42	2,510
Total	$ 126,461	$ (106)	$ (917)	$ 397	$ 125,835

The following table presents a roll forward of the allowance for off-balance-sheet exposure for the three months ended March 31, 2025 and 2024, related to loans held for investment, which is carried in other liabilities on our Consolidated Balance Sheets (in thousands):

	Three Months Ended March 31, 2025			Three Months Ended March 31, 2024		
	Balance, Beginning of Period	Provision (Benefit)	Balance, End of Period	Balance, Beginning of Period	Provision (Benefit)	Balance, End of Period
Commercial Real Estate						
Construction and land development	$ 1,496	$ (518)	$ 978	$ 1,298	$ (366)	$ 932
Owner occupied	239	125	364	352	(180)	172
Non-owner occupied	215	89	304	379	(66)	313
Multi-family	36	(6)	30	111	4	115
Residential 1-4 family	—	—	—	—	—	—
HELOC	3,053	141	3,194	3,047	(195)	2,852
C&I	2,335	(211)	2,124	1,484	51	1,535
Government	—	—	—	—	—	—
Indirect	—	—	—	—	—	—
Consumer loans and other	1,463	39	1,502	1,557	99	1,656
Total	$ 8,837	$ (341)	$ 8,496	$ 8,228	$ (653)	$ 7,575

Economic forecasting includes the use of models to consider various scenarios in evaluating economic risks. The primary factors considered were:

- changes in fiscal policy under the current administration, including increasing tariffs and potential recession;
- economic outlook both nationally and for the metropolitan areas within our footprint;
- uncertainty related to the movement of the Fed funds rate and its long-term impact on targeted inflation;
- potential impact of current geopolitical situations and retaliation to administrative actions globally;
- changes in unemployment; and
- changes in Gross Domestic Product.

In general, the macroeconomic forecast scenarios utilized in the current quarter models showed increased uncertainty and moderate deterioration from the previous quarter. Additional factors considered were changes in loan portfolio composition, interest rates, loan risk ratings, charge-off experience, and inherent risks within specific loan groups.

Credit quality indicators

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

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

For consumer-related credits, the Company utilizes credit scores calculated and maintained by one of three credit bureaus. Credit scores range between 300 and 850, with a lower score indicating a potentially higher risk. Credit scores are updated semi-annually, with the most recent update in March 2025.

The following table provides a breakdown of the Company's loans held for investment by credit score or risk grade and year of origination at March 31, 2025 and December 31, 2024 (in thousands):

March 31, 2025

	Term Loans By Origination								
	2025	2024	2023	2022	2021	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
CRE - Construction and Land Development									
Pass	$ 187,648	$ 473,127	$ 182,704	$ 65,964	$ 29,849	$ 21,768	$ 43,155	$ —	$ 1,004,215
Special Mention	—	—	324	—	—	—	428	—	752
Substandard	769	350	—	—	—	—	—	—	1,119
	$ 188,417	$ 473,477	$ 183,028	$ 65,964	$ 29,849	$ 21,768	$ 43,583	$ —	$ 1,006,086
Gross Write-Offs	$ —	$ —	$ —	$ 53	$ —	$ —	$ —	$ —	$ 53
CRE - Owner Occupied									
Pass	$ 89,185	$ 154,251	$ 247,848	$ 289,085	$ 339,389	$ 456,316	$ 22,792	$ 70	$ 1,598,936
Special Mention	1,525	5,487	2,054	10,431	1,486	8,503	1,964	—	31,450
Substandard	7,462	4,040	3,408	1,068	3,966	4,071	—	—	24,015
	$ 98,172	$ 163,778	$ 253,310	$ 300,584	$ 344,841	$ 468,890	$ 24,756	$ 70	$ 1,654,401
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE - Non-Owner Occupied									
Pass	$ 298,430	$ 515,072	$ 474,897	$ 715,892	$ 605,478	$ 645,152	$ 16,810	$ 663	$ 3,272,394
Special Mention	—	9,458	3,666	15,494	15,795	3,494	—	—	47,907
Substandard	2,510	1,408	—	575	1,582	3,352	—	—	9,427
	$ 300,940	$ 525,938	$ 478,563	$ 731,961	$ 622,855	$ 651,998	$ 16,810	$ 663	$ 3,329,728
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

	Term Loans By Origination								
	2025	2024	2023	2022	2021	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
CRE - Multi-Family									
Pass	$ 21,869	$ 143,808	$ 135,748	$ 230,864	$ 166,966	$ 135,307	$ 4,636	$ —	$ 839,198
Special Mention	—	—	—	2,127	—	—	—	—	2,127
Substandard	—	—	—	—	—	5	—	—	5
	$ 21,869	$ 143,808	$ 135,748	$ 232,991	$ 166,966	$ 135,312	$ 4,636	$ —	$ 841,330
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
C&I									
Pass	$ 32,487	$ 187,017	$ 121,885	$ 142,398	$ 101,062	$ 80,790	$ 646,745	$ 2,186	$ 1,314,570
Special Mention	805	1,729	769	1,074	571	1,909	4,574	—	11,431
Substandard	198	527	824	1,690	48	833	7,133	—	11,253
	$ 33,490	$ 189,273	$ 123,478	$ 145,162	$ 101,681	$ 83,532	$ 658,452	$ 2,186	$ 1,337,254
Gross Write-Offs	$ —	$ 45	$ —	$ —	$ 61	$ 10	$ —	$ 7	$ 123
Government									
Pass	$ 2,998	$ 11,935	$ 39,815	$ 110,505	$ 19,017	$ 315,000	$ 12,397	$ 9	$ 511,676
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
	$ 2,998	$ 11,935	$ 39,815	$ 110,505	$ 19,017	$ 315,000	$ 12,397	$ 9	$ 511,676
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential 1 - 4 Family									
Credit Score:									
> = 750	$ 47,512	$ 169,221	$ 206,263	$ 470,445	$ 324,804	$ 344,137	$ 645	$ 35	$ 1,563,062
650-749	4,908	26,365	37,127	98,454	67,008	75,288	—	—	309,150
450-649	1,256	2,106	694	4,973	553	4,313	—	—	13,895
300-449	—	—	—	—	—	—	—	—	—
	$ 53,676	$ 197,692	$ 244,084	$ 573,872	$ 392,365	$ 423,738	$ 645	$ 35	$ 1,886,107
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
HELOC									
Credit Score:									
> = 750	$ 901	$ 589	$ 976	$ 1,178	$ 287	$ 647	$ 325,219	$ 644	$ 330,441
650-749	245	153	582	595	242	1,128	90,086	97	93,128
450-649	14	—	128	130	251	776	4,148	—	5,447
300-449	—	—	—	—	—	—	136	—	136
	$ 1,160	$ 742	$ 1,686	$ 1,903	$ 780	$ 2,551	$ 419,589	$ 741	$ 429,152
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

	Term Loans By Origination								
	2025	2024	2023	2022	2021	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
Indirect									
Credit Score:									
> = 750	$ 47,746	$ 145,612	$ 68,928	$ 68,156	$ 28,440	$ 3,935	$ —	$ —	$ 362,817
650-749	12,619	51,776	43,377	60,235	28,031	7,173	—	—	203,211
450-649	2	85	289	1,437	1,074	1,870	—	—	4,757
300-449	—	—	—	—	—	10	—	—	10
	$ 60,367	$ 197,473	$ 112,594	$ 129,828	$ 57,545	$ 12,988	$ —	$ —	$ 570,795
Gross Write-Offs	$ —	$ 45	$ 236	$ 180	$ 114	$ 14	$ —	$ —	$ 589
Consumer Loans and Other									
Credit Score:									
> = 750	$ 6,663	$ 13,840	$ 4,321	$ 4,527	$ 4,148	$ 5,150	$ 35,140	$ 44	$ 73,833
650-749	367	1,997	1,425	1,443	1,008	504	4,817	—	11,561
450-649	115	251	72	45	7	63	270	—	823
300-649	—	—	—	—	—	—	—	—	—
	$ 7,145	$ 16,088	$ 5,818	$ 6,015	$ 5,163	$ 5,717	$ 40,227	$ 44	$ 86,217
Gross Write-Offs	$ —	$ 393	$ —	$ 41	$ —	$ 1	$ —	$ 8	$ 443
Grand Total	$ 768,234	$ 1,920,204	$ 1,578,124	$ 2,298,785	$ 1,741,062	$ 2,121,494	$ 1,221,095	$ 3,748	$ 11,652,746
Total Gross Write-Offs	$ —	$ 483	$ 236	$ 274	$ 175	$ 25	$ —	$ 15	$ 1,208

December 31, 2024

	Term Loans By Origination								
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
CRE - Construction and Land Development									
Pass	$ 517,340	$ 340,092	$ 131,231	$ 31,436	$ 13,664	$ 10,361	$ 34,346	$ —	$ 1,078,470
Special Mention	1,882	335	—	—	—	—	432	—	2,649
Substandard	771	—	271	—	—	—	—	—	1,042
	$ 519,993	$ 340,427	$ 131,502	$ 31,436	$ 13,664	$ 10,361	$ 34,778	$ —	$ 1,082,161
Gross Write-Offs	$ 387	$ —	$ 183	$ 77	$ —	$ —	$ —	$ —	$ 647

	Term Loans By Origination								
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
CRE - Owner Occupied									
Pass	$ 180,337	$ 219,117	$ 305,499	$ 349,664	$ 203,117	$ 286,376	$ 25,437	$ 95	$ 1,569,642
Special Mention	5,728	2,080	10,563	1,508	9,732	3,067	2,002	—	34,680
Substandard	11,573	1,989	1,669	4,008	774	2,968	—	1,428	24,409
	$ 197,638	$ 223,186	$ 317,731	$ 355,180	$ 213,623	$ 292,411	$ 27,439	$ 1,523	$ 1,628,731
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ 6	$ —	$ —	$ 6
CRE - Non-Owner Occupied									
Pass	$ 577,376	$ 515,328	$ 692,885	$ 619,483	$ 358,900	$ 367,331	$ 18,415	$ —	$ 3,149,718
Special Mention	47	—	16,019	22,212	2,373	2,172	—	—	42,823
Substandard	3,977	—	—	—	—	147	—	—	4,124
	$ 581,400	$ 515,328	$ 708,904	$ 641,695	$ 361,273	$ 369,650	$ 18,415	$ —	$ 3,196,665
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CRE - Multi-Family									
Pass	$ 159,030	$ 84,815	$ 232,412	$ 168,848	$ 93,952	$ 52,248	$ 4,620	$ —	$ 795,925
Special Mention	—	—	2,127	—	—	—	—	—	2,127
Substandard	3,000	—	—	—	—	27	—	—	3,027
	$ 162,030	$ 84,815	$ 234,539	$ 168,848	$ 93,952	$ 52,275	$ 4,620	$ —	$ 801,079
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
C&I									
Pass	$ 183,780	$ 129,746	$ 156,206	$ 111,057	$ 43,726	$ 42,533	$ 585,395	$ 2,739	$ 1,255,182
Special Mention	2,078	789	1,345	1,618	1,392	699	8,083	423	16,427
Substandard	852	840	285	50	839	108	4,900	911	8,785
	$ 186,710	$ 131,375	$ 157,836	$ 112,725	$ 45,957	$ 43,340	$ 598,378	$ 4,073	$ 1,280,394
Gross Write-Offs	$ —	$ 291	$ —	$ 13	$ —	$ 32	$ —	$ 30	$ 366
Government									
Pass	$ 12,078	$ 40,247	$ 112,737	$ 19,242	$ 176,775	$ 142,238	$ 9,722	$ —	$ 513,039
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
	$ 12,078	$ 40,247	$ 112,737	$ 19,242	$ 176,775	$ 142,238	$ 9,722	$ —	$ 513,039
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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	Term Loans By Origination								
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
Residential 1 - 4 Family									
Credit Score:									
> = 750	$ 187,962	$ 210,559	$ 471,660	$ 332,579	$ 143,637	$ 217,611	$ 645	$ 553	$ 1,565,206
650-749	28,143	38,346	100,229	67,502	33,082	46,184	—	—	313,486
450-649	2,112	698	5,006	562	323	4,077	—	—	12,778
300-449	—	—	—	—	—	—	—	—	—
	$ 218,217	$ 249,603	$ 576,895	$ 400,643	$ 177,042	$ 267,872	$ 645	$ 553	$ 1,891,470
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
HELOC									
Credit Score:									
> = 750	$ 753	$ 1,025	$ 1,339	$ 288	$ 176	$ 506	$ 306,210	$ 313	$ 310,610
650-749	145	520	604	246	—	1,724	90,814	181	94,234
450-649	29	130	—	261	49	722	4,271	159	5,621
300-449	—	—	—	—	—	—	129	—	129
	$ 927	$ 1,675	$ 1,943	$ 795	$ 225	$ 2,952	$ 401,424	$ 653	$ 410,594
Gross Write-Offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Indirect									
Credit Score:									
> = 750	$ 156,340	$ 77,004	$ 77,438	$ 33,337	$ 4,133	$ 1,258	$ —	$ —	$ 349,510
650-749	54,401	48,044	67,769	32,600	7,306	1,890	—	—	212,010
450-649	88	306	1,596	1,231	1,587	905	—	—	5,713
300-449	—	—	—	—	—	12	—	—	12
	$ 210,829	$ 125,354	$ 146,803	$ 67,168	$ 13,026	$ 4,065	$ —	$ —	$ 567,245
Gross Write-Offs	$ 6	$ 418	$ 1,060	$ 427	$ 98	$ 59	$ —	$ —	$ 2,068
Consumer Loans and Other									
Credit Score:									
> = 750	$ 20,818	$ 5,167	$ 4,875	$ 4,381	$ 2,853	$ 2,631	$ 33,229	$ 4	$ 73,958
650-749	2,309	2,135	1,756	1,104	382	231	5,004	2	12,923
450-649	282	77	53	8	41	57	275	3	796
300-449	—	—	—	—	—	—	—	—	—
	$ 23,409	$ 7,379	$ 6,684	$ 5,493	$ 3,276	$ 2,919	$ 38,508	$ 9	$ 87,677
Gross Write-Offs	$ 14	$ 1	$ 322	$ 83	$ 14	$ 1	$ 1	$ 42	$ 478
Grand Total	$ 2,113,231	$ 1,719,389	$ 2,395,574	$ 1,803,225	$ 1,098,813	$ 1,188,083	$ 1,133,929	$ 6,811	$ 11,459,055
Total Gross Write-Offs	$ 407	$ 710	$ 1,565	$ 600	$ 112	$ 98	$ 1	$ 72	$ 3,565

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

In estimating ECL, ASC 326 prescribes that if foreclosure is probable, a CDA is required to be measured at the fair value of collateral. If foreclosure is not probable, the borrower is experiencing difficulty and repayment is expected to be repaid by operation of collateral, the Company uses the fair value of collateral excluding selling costs to determine ACL. At March 31, 2025, CDA loans measured at the fair value of collateral totaled $36.44 million, with specific reserves of $340 thousand. At December 31, 2024, CDA loans measured at the fair value of collateral totaled $23.42 million, with specific reserves of zero.

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 March 31, 2025 and December 31, 2024 (in thousands):

	Type of Collateral and Extent to Which Collateral Secures Loans					
March 31, 2025	**Residential Property**	**Investment Property**	**Commercial Property**	**Business Assets**	**Financial Assets Not Considered Collateral Dependent**	**Total**
Commercial Real Estate						
Construction and land development	$ —	$ 1,199	$ —	$ —	$ 1,004,887	$ 1,006,086
Owner occupied	—	—	24,433	—	1,629,968	1,654,401
Non-owner occupied	—	51,779	—	—	3,277,949	3,329,728
Multi-family	—	6	—	—	841,324	841,330
Residential 1-4 family	8,854	—	—	—	1,877,253	1,886,107
HELOC	353	—	—	—	428,799	429,152
C&I	—	197	—	—	1,337,057	1,337,254
Government	—	—	—	—	511,676	511,676
Indirect	—	—	—	—	570,795	570,795
Consumer loans and other	—	—	—	—	86,217	86,217
Total, amortized cost	$ 9,207	$ 53,181	$ 24,433	$ —	$ 11,565,925	$ 11,652,746
Collateral value	$ 22,109	$ 97,401	$ 46,563	$ —		

	Type of Collateral and Extent to Which Collateral Secures Loans					
December 31, 2024	**Residential Property**	**Investment Property**	**Commercial Property**	**Business Assets**	**Financial Assets Not Considered Collateral Dependent**	**Total**
Commercial Real Estate						
Construction and land development	$ 273	$ 3,337	$ —	$ —	$ 1,078,551	$ 1,082,161
Owner occupied	—	—	18,148	218	1,610,365	1,628,731
Non-owner occupied	—	41,946	—	—	3,154,719	3,196,665
Multi-family	—	3,028	—	—	798,051	801,079
Residential 1-4 family	4,111	—	—	—	1,887,359	1,891,470
HELOC	362	—	—	—	410,232	410,594
C&I	—	198	—	4,900	1,275,296	1,280,394
Government	—	—	—	—	513,039	513,039
Indirect	—	—	—	—	567,245	567,245
Consumer loans and other	—	—	—	—	87,677	87,677
Total, amortized cost	$ 4,746	$ 48,509	$ 18,148	$ 5,118	$ 11,382,534	$ 11,459,055
Collateral value	$ 11,058	$ 88,116	$ 44,286	$ 6,229		

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 March 31, 2025 and December 31, 2024 (in thousands):

March 31, 2025		Days Past Due					
	Current	30-59	60-89	Over 90	Total Past Due	Total Loans	Accruing Loans Over 90 Days Past Due
Commercial Real Estate							
Construction and land development	$ 1,004,869	$ 1,217	$ —	$ —	$ 1,217	$ 1,006,086	$ —
Owner occupied	1,646,617	7,462	—	322	7,784	1,654,401	—
Non-owner occupied	3,328,321	—	—	1,407	1,407	3,329,728	—
Multi-family	841,330	—	—	—	—	841,330	—
Residential 1-4 family	1,879,418	5,046	111	1,532	6,689	1,886,107	—
HELOC	428,622	362	—	168	530	429,152	—
C&I	1,336,154	161	254	685	1,100	1,337,254	—
Government	511,676	—	—	—	—	511,676	—
Indirect	566,363	3,139	446	847	4,432	570,795	—
Consumer loans and other	86,126	65	11	15	91	86,217	15
Total	$ 11,629,496	$ 17,452	$ 822	$ 4,976	$ 23,250	$ 11,652,746	$ 15

December 31, 2024		Days Past Due					
	Current	30-59	60-89	Over 90	Total Past Due	Total Loans	Accruing Loans Over 90 Days Past Due
Commercial Real Estate							
Construction and land development	$ 1,081,888	$ —	$ —	$ 273	$ 273	$ 1,082,161	$ —
Owner occupied	1,628,407	—	—	324	324	1,628,731	—
Non-owner occupied	3,194,369	846	—	1,450	2,296	3,196,665	—
Multi-family	801,079	—	—	—	—	801,079	—
Residential 1-4 family	1,887,019	1,686	535	2,230	4,451	1,891,470	177
HELOC	409,259	216	244	875	1,335	410,594	531
C&I	1,279,698	184	109	403	696	1,280,394	—
Government	513,039	—	—	—	—	513,039	—
Indirect	559,898	4,381	1,587	1,379	7,347	567,245	129
Consumer loans and other	87,154	75	16	432	523	87,677	427
Total	$ 11,441,810	$ 7,388	$ 2,491	$ 7,366	$ 17,245	$ 11,459,055	$ 1,264

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 March 31, 2025 and December 31, 2024. Nonaccrual loans, less than $1 million, and not in the process of foreclosure, are not subject to individual assessment and are included in collectively evaluated pools for which an ACL has been recorded. It also shows interest income recognized on nonaccrual loans (in thousands):

March 31, 2025	Nonaccrual Loans As of 12/31/24	Nonaccrual Loans As of 03/31/25	Loans 90 Days or More Past Due, Not on Nonaccrual Status as of 03/31/25	Nonaccrual Loans With No Specific Reserve as of 03/31/25	Interest Income Recognized as of 03/31/25
Commercial Real Estate					
Construction and land development	$ 273	$ —	$ —	$ —	$ —
Owner occupied	415	407	—	407	—
Non-owner occupied	1,452	1,409	—	1,409	—
Multi-family	—	—	—	—	—
Residential 1-4 family	2,421	2,052	—	2,052	67
HELOC	485	301	—	301	53
C&I	1,030	1,293	—	393	—
Government	—	—	—		—
Indirect	1,346	1,122	—	1,122	15
Consumer loans and other	2	2	15	2	—
Total	$ 7,424	$ 6,586	$ 15	$ 5,686	$ 135

December 31, 2024	Nonaccrual Loans As of 12/31/2023	Nonaccrual Loans As of 12/31/2024	Loans 90 Days or More Past Due, Not on Nonaccrual Status as of 12/31/2024	Nonaccrual Loans With No Specific Reserve as of 12/31/2024	Interest Income Recognized as of 12/31/2024
Commercial Real Estate					
Construction and land development	$ 185	$ 273	$ —	$ 273	$ 12
Owner occupied	521	415	—	415	43
Non-owner occupied	—	1,452	—	1,452	—
Multi-family	216	—	—	—	13
Residential 1-4 family	2,778	2,421	177	2,421	31
HELOC	698	485	531	485	74
C&I	1,217	1,030	—	459	260
Government	—	—	—	—	—
Indirect	1,228	1,346	129	1,346	45
Consumer loans and other	—	2	427	2	—
Total	$ 6,843	$ 7,424	$ 1,264	$ 6,853	$ 478

Note 7. Leases

At March 31, 2025, we did not have any significant leases that had not yet commenced for which we had created a right-of-use asset and a lease liability. Lease assets are included in other assets, and lease liabilities are included in other liabilities on our Consolidated Balance Sheets.

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

Leases

	March 31, 2025	December 31, 2024
Assets		
Operating lease assets	48,011	48,311
Total lease assets	$ 48,011	$ 48,311
Liabilities		
Operating lease liabilities	52,263	52,554
Total lease liabilities	$ 52,263	$ 52,554

We did not have financing leases at March 31, 2025 or December 31, 2024. At March 31, 2024, we had one financing lease with a purchase option that occurred on July 1, 2024, when the related financing liability was $30.80 million.

The following table presents a summary of activity related to leases for the three-month periods ended March 31, 2025 and 2024 (in thousands):

Lease Cost

	Three Months Ended March 31,	
	2025	2024
Finance lease cost:		
Amortization of right-of-use assets	$ —	$ 150
Interest on lease liabilities	—	693
Operating lease cost (1) included in occupancy expense	2,907	3,050
Variable lease cost included in occupancy expense	195	228
Sublease income included in occupancy expense	(70)	(42)
Net lease cost	$ 3,032	$ 4,079

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

The following table presents lease liability maturities, by year, as of March 31, 2025 (in thousands):

Maturity of Lease Liabilities

	Operating Leases (1)	
April 1 - December 31, 2025	$	7,501
2026		9,295
2027		8,685
2028		8,098
2029		5,982
Thereafter		36,131
Total lease payments	$	75,692
Less: interest		23,429
Present value of lease liabilities	$	52,263

(1) Operating lease payments include $28.44 million related to options to extend lease terms that are reasonably certain of being exercised.
Note: Minimum lease payments exclude payments to landlords for real estate taxes and common area maintenance.

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

Lease Term and Discount Rate

	March 31, 2025	March 31, 2024
Weighted - average remaining lease term - finance leases (in years)	—	0.25
Weighted - average remaining lease term - operating leases (in years)	12.78	13.47
Weighted - average discount rate - finance leases	—%	9.38%
Weighted - average discount rate - operating leases	6.03%	5.33%

The following table presents other information with regard to leases for the three-month periods ended March 31, 2025 and 2024 (in thousands):

Other Information

	Three Months Ended March 31, 2025	Three Months Ended March 31, 2024
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 2,545	$ 2,719
Related Party Transactions (1)		
Rent expense included in occupancy expense	$ 555	$ 523

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

Note 8. Segment Reporting

Beginning with quarter-end March 31, 2025, the Company will report results under four reportable segments: Banking, Mortgage, Resort Vacation Management, and Insurance. This separation of Mortgage and Resort Vacation Management into two segments better aligns operating categories and reflects how

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Towne's leadership manages the business. Prior to quarter-end March 31, 2025, the Company reported financial results under three reportable segments (Banking, Realty, and Insurance) with the Realty segment consisting of mortgage banking, a realty company, and property management companies (resort and long-term). In 2023, TowneBank sold the majority of its ownership interest in the realty company which, through the nature of its activities, had been a bridge between mortgage banking and property management. Townebank continued to report the results of the Realty segment for comparability purposes through the year ended December 31, 2024.

The Banking segment provides loan and deposit services to retail and commercial customers, as well as a variety of investment and asset management services. The Mortgage segment provides originations of a variety of mortgage loans which are originated and sold principally in the secondary market through purchase commitments from investors. The Resort Vacation Management segment provides residential property management services in multiple resort locations. The Insurance segment provides full-service commercial insurance, retail insurance, and employee benefit services.

All segments are service-based, however, a major distinction is the source of income. The Mortgage, Resort Vacation Management, and Insurance segments are commission and fee-based, while the Banking segment is driven principally by net interest income. Due largely to overlapping geographic markets, the Banking segment offers a distribution and referral network for the Mortgage and Insurance segments, and the Mortgage and Insurance segments offer a similar network for the Banking segment.

The Company has identified the Corporate Management Team as the chief operating decision maker ("CODM"). The CODM evaluates the profit and loss of each segment based on its 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 a reconciliation of such information to the Consolidated Balance Sheets as of the dates indicated is provided below (dollars in thousands):

March 31, 2025	**Banking**	**Mortgage**	**Resort Vacation Management**	**Insurance**	**Consolidated Totals**
Total assets	$ 16,278,901	$ 316,454	$ 158,762	$ 757,763	$ 17,511,880
Total investment in equity method investees	21,197	322	—	—	21,519
December 31, 2024					
Total assets	$ 16,045,510	$ 342,100	$ 132,595	$ 726,685	$ 17,246,890
Total investment in equity method investees	21,218	349	—	—	21,567
Dollar change in total assets between periods	$ 233,391	$ (25,646)	$ 26,167	$ 31,078	$ 264,990
Percentage change in total assets between periods	1.45 %	(7.50)%	19.73 %	4.28 %	1.54 %

Three months ended March 31, 2025	**Banking**	**Mortgage**	**Resort Vacation Management**	**Insurance**	**Consolidated Totals**
Total expenditures for long-lived assets - fixed assets	10,132	350	587	174	11,243
Three months ended March 31, 2024					
Total expenditures for long-lived assets - fixed assets	7,469	—	2,815	(72)	10,212

The following table provides the change in net income, comparing the three months ended March 31, 2025 and 2024 (dollars in thousands):

	Banking	Mortgage	Resort Vacation Management	Insurance	Consolidated
Net income attributable to TowneBank ($)	$ 14,677	$ (97)	$ 1,066	$ 259	$ 15,905

Income sources and expense line items considered impactful to the segments have been reported separately.

Certain expense line items are impactful to the majority of TowneBank's segments due to the nature of the business activities and requirements of technology. These include salaries and employee benefits, occupancy, furniture and equipment, software, data processing, professional fees, and advertising and marketing expenses.

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

Three Months Ended March 31, 2025	Banking	Mortgage	Resort Vacation Management	Insurance	Consolidated Totals
Interest income	$ 185,597	$ 4,018	$ —	$ —	$ 189,615
Interest expense	66,013	3,135	(11)	—	69,137
Net interest income	119,584	883	11	—	120,478
Provision for credit losses	2,367	53	—	—	2,420
Net interest income after provision for credit losses	117,217	830	11	—	118,058
Noninterest income:					
Residential mortgage banking income, net	(219)	10,580	—	—	10,361
Insurance commissions and related income, net	(193)	—	—	26,617	26,424
Property management income, net	—	—	19,500	—	19,500
Service charges on deposit accounts	3,327	—	—	—	3,327
Credit card merchant fees, net	1,697	—	—	—	1,697
Investment commissions, net	3,075	—	—	—	3,075
BOLI	1,821	51	—	—	1,872
Income from unconsolidated subsidiaries	11	42	—	—	53
Gain on sale of equity investments	2,000	—	—	—	2,000
Other noninterest income	3,075	176	2	4	3,257
Total noninterest income	14,594	10,849	19,502	26,621	71,566
Noninterest expense:					
Salaries and employee benefits	49,684	7,031	5,448	12,915	75,078
Occupancy	6,979	939	614	801	9,333
Furniture and equipment	3,808	195	405	213	4,621
Amortization - intangibles	981	—	637	1,408	3,026
Software	4,022	727	859	685	6,293
Data processing	2,609	163	944	119	3,835
Professional fees	2,010	226	126	291	2,653
Advertising and marketing	2,897	389	892	294	4,472
FDIC and other insurance	2,590	96	67	107	2,860
Acquisition related expenses	420	—	—	—	420

Three Months Ended March 31, 2025	Banking	Mortgage	Resort Vacation Management	Insurance	Consolidated Totals
Other expenses	11,971	2,461	2,613	900	17,945
Total noninterest expense	87,971	12,227	12,605	17,733	130,536
Income (loss) before income tax, corporate allocation, and noncontrolling interest	43,840	(548)	6,908	8,888	59,088
Corporate allocation	1,396	(350)	(320)	(726)	—
Income (loss) before income tax provision and noncontrolling interest	45,236	(898)	6,588	8,162	59,088
Provision for income tax expense	4,681	(240)	1,629	2,131	8,201
Net income (loss)	40,555	(658)	4,959	6,031	50,887
Net income attributable to noncontrolling interest	42	(117)	(220)	—	(295)
Net income (loss) attributable to TowneBank	$ 40,597	$ (775)	$ 4,739	$ 6,031	$ 50,592
Net income (loss) as percentage of consolidated income	80.24 %	(1.53)%	9.37 %	11.92 %	100.00 %
Depreciation included in occupancy, furniture and equipment, and software	$ 5,153	$ 134	$ 193	$ 119	$ 5,599

Three Months Ended March 31, 2024	Banking	Mortgage	Resort Vacation Management	Insurance	Consolidated Totals
Interest income	$ 183,895	$ 3,025	$ —	$ —	$ 186,920
Interest expense	81,213	2,492	(3)	—	83,702
Net interest income	102,682	533	3	—	103,218
Provision for credit losses	(976)	99	—	—	(877)
Net interest income after provision for credit losses	103,658	434	3	—	104,095
Noninterest income:					
Residential mortgage banking income, net	(321)	10,798	—	—	10,477
Insurance commissions and related income, net	—	—	—	25,539	25,539
Property management income, net	—	—	16,773	—	16,773
Service charges on deposit accounts	3,079	—	—	—	3,079
Credit card merchant fees, net	1,551	—	—	—	1,551
Investment commissions, net	2,343	—	—	—	2,343
BOLI	1,792	50	—	—	1,842
Income from unconsolidated subsidiaries	(340)	30	—	—	(310)
Gain on sale of equity investments	—	—	—	—	—
Net gain on investment securities	74	—	—	—	74
Other noninterest income	2,298	185	13	20	2,516
Total noninterest income	10,476	11,063	16,786	25,559	63,884
Noninterest expense:					
Salaries and employee benefits	46,474	6,656	5,532	12,715	71,377
Occupancy	7,061	1,061	508	792	9,422
Furniture and equipment	3,648	178	416	236	4,478
Amortization - intangibles	1,162	144	533	1,407	3,246
Software	4,054	787	608	651	6,100
Data processing	2,548	148	1,102	118	3,916
Professional fees	2,659	234	152	135	3,180
Advertising and marketing	3,008	382	1,038	154	4,582

Three Months Ended March 31, 2024	Banking	Mortgage	Resort Vacation Management	Insurance	Consolidated Totals
FDIC and other insurance	4,122	102	35	99	4,358
Acquisition related expenses	147	—	447	1	595
Other expenses	10,415	2,222	942	758	14,337
Total noninterest expense	85,298	11,914	11,313	17,066	125,591
Income (loss) before income tax, corporate allocation, and noncontrolling interest	28,836	(417)	5,476	8,493	42,388
Corporate allocation	1,069	(348)	—	(721)	—
Income (loss) before income tax provision and noncontrolling interest	29,905	(765)	5,476	7,772	42,388
Provision for income tax expense	4,105	(202)	1,358	2,000	7,261
Net income (loss)	25,800	(563)	4,118	5,772	35,127
Net income attributable to noncontrolling interest	120	(115)	(445)	—	(440)
Net income (loss) attributable to TowneBank	$ 25,920	$ (678)	$ 3,673	$ 5,772	$ 34,687
Net income (loss) as percentage of consolidated income	74.73 %	(1.95)%	10.58 %	16.64 %	100.00 %
Depreciation included in occupancy, furniture and equipment, and software	$ 4,833	$ 146	$ 196	$ 147	$ 5,322

Note 9. Commitments and Contingencies

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

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

	March 31, 2025	December 31, 2024
Off-balance-sheet commitments to extend credit	$ 4,392,887	$ 4,098,088
Standby letters of credit and financial guarantees	179,111	185,538
Allowance for credit losses from off-balance-sheet credit exposures	8,496	8,837
Mortgage loans sold to investors with estimated recourse	1,277,293	1,331,206
Mortgage warranty provision on mortgage loans sold	29,246	31,954

Note 10. Goodwill and Other Intangibles

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

	March 31, 2025		December 31, 2024	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Core deposit intangible	$ 36,620	$ 25,683	$ 36,620	$ 24,767
Non-compete agreements	205	150	205	142
Customer lists	72,937	38,744	78,235	41,940
Total intangible assets subject to amortization	109,762	64,577	115,060	66,849
Trade name	8,729	—	8,729	—
Contractual agreements	3,231	—	3,231	—
Total intangible assets not subject to amortization	11,960	—	11,960	—
Total other intangible assets	$ 121,722	$ 64,577	$ 127,020	$ 66,849

Amortization expense for intangible assets was $3.03 million and $3.25 million for the three-month periods ended March 31, 2025 and 2024, respectively.

Changes in the net carrying amount of goodwill related to each of the Company's segments since December 31, 2024, are as follows (in thousands):

	Banking	Mortgage	Resort Vacation Management	Insurance	Consolidated Totals
Balance, December 31, 2024	$ 347,822	$ 8,162	$ 17,964	$ 83,671	$ 457,619
Acquisitions	—	—	—	—	—
Balance, March 31, 2025	$ 347,822	$ 8,162	$ 17,964	$ 83,671	$ 457,619

The were no changes in goodwill from December 31, 2024 to March 31, 2025.

Note 11. Postretirement Benefits

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

	SERP		Other Postretirement Benefits	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2025	2024	2025	2024
Service cost	$ 988	$ 1,073	$ —	$ —
Interest cost	752	712	7	7
Amortization of prior service costs	144	179	(9)	(14)
Amortization of actuarial (gain) loss	(373)	(509)	(27)	(34)
Net periodic postretirement benefit cost	$ 1,511	$ 1,455	$ (29)	$ (41)

Postretirement benefit costs are included in our Consolidated Statements of Income for the three-month periods ended March 31, 2025 and March 31, 2024. The service cost component of postretirement benefits is included in salaries and employee benefits. All other components of postretirement benefit costs are included in other expenses.

Note 12. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the components of accumulated other comprehensive income (loss) at March 31, 2025 and 2024 (in thousands), and changes in the three months then ended. The amounts reclassified from AOCI for the securities available for sale are included in gain (loss) on investment securities, net in the Consolidated Statements of Income, while the amounts reclassified from AOCI for the defined benefit plan are a component of salaries and employee benefits expense and other expenses in the Consolidated Statements of Income.

	Unrealized Gains (Losses) on Securities (a)	Pension and Postretirement Plans (b)	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance, December 31, 2024	$ (121,474)	$ 5,429	$ (116,045)
Other comprehensive income (loss) before reclassifications, net of tax	28,189	194	28,383
Amounts reclassified from AOCI, net of tax	—	(207)	(207)
Net change	28,189	(13)	28,176
Balance, March 31, 2025	$ (93,285)	$ 5,416	$ (87,869)

	Unrealized Gains (Losses) on Securities (a)	Pension and Postretirement Plans (b)	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance, December 31, 2023	$ (126,827)	$ 8,065	$ (118,762)
Other comprehensive income (loss) before reclassifications, net of tax	(6,761)	(709)	(7,470)
Amounts reclassified from AOCI, net of tax	(58)	(296)	(354)
Net change	(6,819)	(1,005)	(7,824)
Balance, March 31, 2024	$ (133,646)	$ 7,060	$ (126,586)

(a) For additional information about securities, refer to Note 4.
(b) For additional information about postretirement plans, refer to Note 11.

Note 13. Variable Interest Entities

Low Income Housing Tax Credit Partnerships

As part of its community reinvestment initiatives, the Company invests within its footprint in multi-family affordable housing developments as a limited partner. The Company has determined that it is not the primary beneficiary of these partnerships because the general partner of each limited partnership has both the power to direct the activities that most significantly affect the performance of each partnership and the obligation to absorb losses or the right to receive benefits that could be significant to the entities.

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

(dollars in thousands)	March 31, 2025	December 31, 2024
Partnership assets not included on the Consolidated Balance Sheets	$ 993,093	$ 949,748
Carrying value of limited partner interests (1)	332,205	320,653
Maximum exposure to loss from limited partner investments	332,205	322,753
Funding commitments dependent on contractual milestones	82,725	101,865
Unfunded short-term construction loan commitments	5,000	2,900

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

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

	Three Months Ended March 31,	
(dollars in thousands)	2025	2024
Tax benefit, net	$ 1,968	$ 1,212
Amortization expenses	9,575	5,505

Note 14. Fair Value Disclosures

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

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

Level 2 Valuation is based on observable inputs, other than Level 1 prices, which are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuation is based on unobservable inputs that are supported by little or no market activity and which are significant to the fair value of the assets or liabilities.

The following is a description of valuation methodologies used for instruments measured at fair value on a recurring basis.

Securities available for sale: Fair values are based on published market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The fair value of certain corporate securities is based on a discounted cash flow model which utilized Level 3, or unobservable inputs, the most significant of which were a discount rate and weighted-average life.

Mortgage loans held for sale: TowneBank elects to carry mortgage loans held for sale at fair value. Fair values of mortgage loans held for sale are based on commitments on hand from investors or, if commitments have not yet been obtained, prevailing market rates. Best efforts delivery transactions set the sale price with the investor on a loan-by-loan basis at the time each loan is locked with the respective borrower. Intent to sell on the mandatory market is established for mortgage loans held for sale when TowneBank enters into a loan commitment or interest rate lock with the customer. For additional information about mortgage loans held for sale, refer to Note 15.

Derivative financial instruments: Interest rate lock commitments, related to the origination of mortgage loans held for sale, are recorded at estimated fair value based on the value of the underlying loan, which in turn is based on quoted prices for similar loans in the secondary market. However, this value is adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close. This factor, the fall-out rate, is derived from the Company's internal data and is adjusted using management judgment. The fall-out rate is largely dependent on the processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. As such, interest rate lock commitments are classified as recurring Level 3. For the three-month period ended March 31, 2025, and the year ended December 31, 2024, the Company used a weighted-average fall-out rate of 9.78%.

TowneBank enters into interest rate swap agreements with customers desiring protection from possible future market fluctuations. TowneBank enters into offsetting interest rate swap agreements to manage the market risk associated with these derivative agreements. The contracts in this portfolio for which the Company has elected not to apply hedge accounting are marked-to-market through other noninterest income and included in other assets and other liabilities. Interest rate swaps fall into a Level 2 category.

Forward loan sale commitments: To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into either a forward sales contract to sell loans to investors when using best efforts or a TBA mortgage-backed security under mandatory delivery. Loan sales agreements are evaluated to determine whether they meet the definition of a derivative because facts and circumstances may differ significantly. The Company has made the determination that the best efforts contracts do not meet the definition of derivative instruments, and the Company has elected the fair value option for the forward loan sale commitments. Forward loan sale commitments that economically hedge the closed loan inventory are recognized at fair value on the Consolidated Balance Sheets in other assets or other liabilities, with changes in their fair values recorded as a component of mortgage banking activities in the Consolidated Statements of Income. The Company estimates the fair value of its forward loan sale commitments using a methodology similar to that used for derivative loan commitments.

The mandatory forward sales contracts and TBA mortgage-backed securities are considered derivatives. 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 table presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of March 31, 2025 and December 31, 2024 (in thousands):

	March 31, 2025			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ —	$ 320,190	$ —	$ 320,190
U.S. Treasury notes	78,184	—	—	78,184
Municipal securities	—	439,041	—	439,041
Mortgage-backed securities issued by GSEs	—	1,535,217	—	1,535,217
Trust preferred and other corporate securities	—	68,885	28,654	97,539
Mortgage loans held for sale	—	168,510	—	168,510
Forward loan commitment asset	—	63	—	63
Forward loan commitment liability	—	133	—	133
Derivative assets	—	4,168	1,880	6,048
Derivative liabilities	—	5,469	—	5,469

	December 31, 2024			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ —	$ 293,917	$ —	$ 293,917
U.S. Treasury notes	28,429	—	—	28,429
Municipal securities	—	438,742	—	438,742
Mortgage-backed securities issued by GSEs	—	1,497,951	—	1,497,951
Trust preferred and other corporate securities	—	63,999	30,327	94,326
Mortgage loans held for sale	—	200,460	—	200,460
Forward loan commitment asset	—	226	—	226
Forward loan commitment liability	—	18	—	18
Derivative assets	—	4,692	1,150	5,842
Derivative liabilities	—	4,281	—	4,281

The following table presents qualitative information about significant unobservable inputs utilized to measure the fair value of Level 3 securities measured on a recurring and nonrecurring basis. A range is presented where multiple securities are valued. There were no transfers out of Level 3 during the first quarter of 2025.

			As of March 31, 2025	As of December 31, 2024
Financial Instrument	Valuation Technique	Unobservable Input	(Weighted Average)	(Weighted Average)
Securities AFS	Discounted cash flow	Discount rate	9.94% - 10.00%	8.50% - 10.50%
		Weighted average life	4.71 - 6.98 years	4.96 - 7.23 years
HTM security	Discounted cash flow	Discount rate	6.71%	5.34%
		Weighted average life	24.10 years	24.35 years

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

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

(dollars in thousands)	March 31, 2025	December 31, 2024
Aggregate fair value	$ 168,510	$ 200,460
Unpaid principal balance	164,343	197,929

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

	Three Months Ended March 31,	
(in thousands)	2025	2024
Mortgage loans held for sale, at fair value	$ 1,477	$ (1,189)

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis that were still held on the balance sheet at quarter-end, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at March 31, 2025 and December 31, 2024 (in thousands):

March 31, 2025	Level 1	Level 2	Level 3	Fair Value
Other real estate owned and other nonperforming assets	$ —	$ —	$ 235	$ 235

December 31, 2024	Level 1	Level 2	Level 3	Fair Value
Other real estate owned and other nonperforming assets	$ —	$ —	$ —	$ —

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

Collateral-dependent loans: Loans for which repayment of the loan is expected to be provided solely by the value of the underlying collateral are considered collateral-dependent and are valued based on the fair value of such collateral. Collateral values are estimated using inputs based on observable market data or inputs based on customized discounting criteria. In cases where such inputs were unobservable, specifically, discounts applied to appraisal values to adjust such values to current market conditions or to reflect net realizable value, the loan balance is reflected within Level 3 of the hierarchy.

Other real estate owned and other nonperforming assets: The fair value of foreclosed property is measured at fair value on a nonrecurring basis (upon initial recognition or subsequent impairment) and is classified within Level 3 of the valuation hierarchy. When transferred from the loan portfolio, other real estate owned is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is generally determined using an external appraisal process and is discounted based on internal criteria when deemed necessary.

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

The levels within the fair value hierarchy and the estimated fair values of our financial instruments required to be disclosed under ASC 825, *Financial Instruments*, as of March 31, 2025 and December 31, 2024, are as follows (in thousands):

March 31, 2025	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Cash and due from banks	$ 126,526	$ 126,526	$ 126,526	$ —	$ —
Interest-bearing deposits at FRB	1,090,555	1,090,555	1,090,555	—	—
Interest-bearing deposits in financial institutions	100,249	100,249	100,249	—	—
Securities available for sale, net	2,470,171	2,470,171	78,184	2,363,333	28,654
Securities held to maturity, net	202,018	195,631	92,425	102,202	1,004
Other equity securities	12,223	12,223	—	12,223	—
Net loans	11,652,746	11,096,212	—	—	11,096,212
Interest receivable	49,863	49,863	—	49,863	—
Certificates of deposit	2,519,489	2,514,039	—	2,514,039	—
Advances from the FHLB	3,029	2,879	—	2,879	—
Subordinated debt, net	260,198	238,261	—	221,648	16,613

December 31, 2024	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Cash and due from banks	$ 108,750	$ 108,750	$ 108,750	$ —	$ —
Interest-bearing deposits at FRB	1,127,878	1,127,878	1,127,878	—	—
Interest-bearing deposits in financial institutions	102,847	102,847	102,847	—	—
Securities available for sale, net	2,353,365	2,353,365	28,429	2,294,609	30,327
Securities held to maturity, net	212,352	203,883	91,518	111,220	1,145
Other equity securities	12,100	12,100	—	12,100	—
Net loans	11,459,055	10,868,627	—	—	10,868,627
Interest receivable	49,526	49,526	—	49,526	—
Certificates of deposit	2,542,735	2,539,767	—	2,539,767	—
Advances from the FHLB	3,218	3,005	—	3,005	—
Subordinated debt, net	260,001	231,055	—	214,975	16,080

In accordance with disclosure guidance related to fair values of financial instruments, the Company did not include assets and liabilities that are not financial instruments, such as goodwill, other purchased intangibles, premises and equipment, deferred taxes, and other assets and liabilities. Additionally, receivables and payables due in one year or less and deposits with no defined or contractual maturities are excluded.

Note 15. Derivative Instruments and Hedging Activities

Mortgage interest rate contracts include rate lock commitments and corresponding forward sales contracts which 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.

To allow customers to effectively manage their exposure to variable rate loans, the Company also enters into interest rate swaps with customers, while at the same time entering into offsetting interest rate swaps with another financial institution. Changes in the fair value of the underlying derivative instruments substantially offset each other and do not have a material impact on the Company's results of operations.

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

	March 31, 2025		December 31, 2024	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate contracts included in other assets	$ 272,533	$ 2,213	$ 347,778	$ 2,346
Interest rate contracts included in other liabilities	$ 322,390	$ 1,634	$ 175,059	$ 785
Interest rate swaps included in other assets	$ 408,697	$ 3,835	$ 354,544	$ 3,496
Interest rate swaps included in other liabilities	$ 408,697	$ 3,835	$ 354,544	$ 3,496

Gains and losses from mortgage banking derivatives are included in residential mortgage banking income, net in the Consolidated Statements of Income. For the three months ended March 31, 2025 and 2024, the Company recognized losses of $0.32 million and $2.25 million in gains, respectively, from mortgage banking derivatives. For the three months ended March 31, 2025 and 2024, there were no gains or losses recognized on interest rate swaps.

Note 16. Revenue from Contracts with Customers

The Company disaggregates revenue from contracts by major product line, or a type of good or service. The following table presents certain selected financial information for the periods indicated (in thousands):

	Three Months Ended March 31,	
Revenue from Contracts with Customers:	**2025**	**2024**
Investment management income		
Investment commissions, net	$ 3,075	$ 2,343
Total	$ 3,075	$ 2,343
Insurance income		
Property and casualty insurance income, net	$ 22,661	$ 21,471
Benefit insurance income, net	3,763	4,068
Total	$ 26,424	$ 25,539
Resort vacation management income		
Property management income, net	19,500	16,773
Total	$ 19,500	$ 16,773
Provision (benefit) expense for credit losses on future reservation receivables	$ 347	$ 289
Provision expense for credit losses on property and casualty insurance receivables	$ (184)	$ 65

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

The Company had no material contract assets or contract liabilities recorded on the Consolidated Balance Sheets as of March 31, 2025 or December 31, 2024.

This disclosure includes only revenue from contracts with third-party customers. See "Note 8. Segment Reporting" for additional information regarding other revenue streams, primarily from revenue between the Company's consolidated subsidiaries and lines of business, in addition to those included in the table above.

Note 17. Borrowings

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

The Company also has REPOs which are overnight short-term investments and are not insured by the FDIC. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. Collateral pledging requirements for REPOs are monitored daily. Securities pledged as collateral for REPOs consist primarily of MBSs issued by GSEs. The market value of securities pledged could decline. Due to the overnight short-term nature of REPOs, the carrying amount of repurchase agreements approximates fair value, and potential risk due to a decline in the value of the pledged collateral is low.

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

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

On December 5, 2024, TowneBank closed an offering of Series IV Towne Investment Units ("Series IV Units"). This subscription offering was to members and emeritus members of the Company's corporate and regional boards. Each Series IV unit consists of 138 shares of common stock priced at $36.44 per share and one 5-year 6% convertible subordinated capital note in the principal amount of $5,000. The convertible subordinated notes are convertible into common stock at the discretion of the noteholder at an initial conversion price of $36.44 per share (equal to a conversion rate of 138 shares per $5,000 principal amount of notes).

The Company sold 716 Series IV units, for aggregate proceeds of $7.16 million in the offering, which resulted in the issuance of an aggregate of $3.58 million in convertible subordinated capital notes and 98,808 shares of common stock. Interest on each note is payable on a semi-annual basis in arrears on June 1 and December 1 of each year, beginning June 1, 2025. The notes mature December 1, 2029.

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

	March 31, 2025	December 31, 2024
Market value of securities pledged as collateral for REPOs	$ 59,128	$ 59,002
Carrying value of capital notes assumed with Farmers acquisition	$ 8,065	$ 8,003
Carrying value of Company issued capital notes	$ 248,813	$ 248,659
Carrying value of Series IV Towne Investment Units	$ 3,320	$ 3,339
Total subordinated debt	$ 260,198	$ 260,001

PART I. FINANCIAL INFORMATION

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

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist readers in understanding and evaluating our consolidated results of operations and financial condition. The following should be read in conjunction with our 2024 audited Consolidated Financial Statements included in our 2024 Annual Report to Shareholders and our 2024 Annual Report on Form 10-K. The financial statements contained in this Form 10-Q have been subject to a review by Forvis Mazars, LLP, independent certified public accountants, as described in their report included as Exhibit 99.

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

- *competitive pressures in the banking industry that may increase significantly;*
- *changes in the interest rate environment that may reduce margins and/or the volumes and values of loans made or held as well as the value of other financial assets held;*
- *an unforeseen outflow of cash or deposits or an inability to access the capital markets, which could jeopardize our overall liquidity or capitalization;*
- *changes in the creditworthiness of customers and the possible impairment of the collectability of loans;*
- *insufficiency of our allowance for credit losses due to market conditions, inflation, changing interest rates, or other factors;*
- *adverse developments in the financial industry generally, such as the 2023 bank failures, responsive measures to mitigate and manage such developments, related supervisory and regulatory actions and costs, and related impacts on customer and client behavior;*
- *general economic conditions, either nationally or regionally, that may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit or other services;*
- *geopolitical instability, including wars, conflicts, trade restrictions and tariffs, civil unrest, and terrorist attacks and the potential impact, directly or indirectly, on our business;*
- *the effects of weather-related or natural disasters, which may negatively affect our operations and/or our loan portfolio and increase our cost of conducting business;*
- *public health events (such as the COVID-19 pandemic) and governmental and societal responses to them;*
- *changes in the legislative or regulatory environment, including changes in accounting standards and tax laws, that may adversely affect our business;*
- *our ability to successfully integrate the businesses of Old Point Financial Corporation. ("Old Point"), a pending merger, and Village Bank and Trust Financial Corp. ("Village"), a recently completed merger, to the extent that it may take longer or be more difficult, time-consuming, or costly to accomplish than expected;*
- *our ability to close the transaction with Old Point when expected or at all because required approvals and other conditions to closing are not received or satisfied on the proposed terms or on the anticipated schedule;*
- *deposit attrition, operating costs, customer losses, and business disruption associated with pending or recently completed acquisitions, including reputational risk and adverse effects on relationships with employees, customers or other business partners, that may be greater than expected;*

- *costs or difficulties related to the integration of the businesses we have acquired that 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;*
- *the diversion of management's attention and time from ongoing business operations and opportunities on merger-related matters;*
- *cybersecurity threats or attacks, whether directed at us or at vendors or other third parties with which we interact;*
- *the implementation of new technologies, and the ability to develop and maintain reliable electronic systems;*
- *our competitors may have greater financial resources and develop products that enable them to compete more successfully;*
- *changes in business conditions;*
- *changes in the securities market; and*
- *changes in our local economy with regard to our market area, including any adverse impact of actual and proposed cuts on federal spending, including defense, security, and other military spending, on the Greater Hampton Roads economy.*

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events, or otherwise. For additional information on factors that could materially influence forward-looking statements included in this report, see the "Risk Factors" in TowneBank's Annual Report on Form 10-K for the year ended December 31, 2024, and related disclosures in other filings that have been, or will be, filed by TowneBank with the Federal Deposit Insurance Corporation.

Overview

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

We have four reportable segments: Banking, Mortgage, Resort Vacation Management, 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 Mortgage segment provides originations of a variety of mortgage loans. The Resort Vacation Management segment provides vacation rentals of distinctive resort properties, and the Insurance segment provides a full line of commercial and consumer insurance products and financial services, as well as employee benefit services.

TowneBank had total assets of $17.51 billion at March 31, 2025, compared to $17.25 billion at December 31, 2024. The following table lists key asset and liability categories, as a percentage of total assets, as of the dates listed:

PART I. FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

	March 31, 2025	December 31, 2024
Total cash and cash equivalents	7.52 %	7.77 %
Total securities	15.40 %	15.02 %
Mortgage loans held for sale	0.96 %	1.16 %
Loans, net of unearned income and deferred costs	66.54 %	66.44 %
Total deposits	83.42 %	83.71 %
Noninterest-bearing deposits	24.63 %	24.66 %
Total borrowings	1.62 %	1.72 %

The following table lists key asset and liability categories at March 31, 2025 and December 31, 2024, for comparative purposes:

(dollars in thousands)	March 31, 2025	December 31, 2024	Total Change Change	%
Total assets	$ 17,511,880	$ 17,246,890	$ 264,990	1.54 %
Total cash and cash equivalents	1,317,330	1,339,475	(22,145)	(1.65)%
Total investment securities	2,696,769	2,589,876	106,893	4.13 %
Mortgage loans held for sale	168,510	200,460	(31,950)	(15.94)%
Loans, net of unearned income and deferred costs ("loans")	11,652,746	11,459,055	193,691	1.69 %
Allowance for credit losses on loans	(126,131)	(123,923)	2,208	1.78 %
Noninterest-bearing deposits	4,313,553	4,253,053	60,500	1.42 %
Total deposits	14,608,548	14,437,298	171,250	1.19 %
Total borrowings	284,102	296,902	(12,800)	(4.31)%
Allowance for credit losses on loans to period end loans	1.08 %	1.08 %		

The increase in total assets in the quarter was driven by growth in investment securities and loans. Investment securities increased due to a combination of AFS securities purchases and market value improvements during the quarter. Loans increased, primarily in real estate non-owner occupied and C&I loans. Net unrealized losses in our AFS debt securities decreased to $119.25 million at March 31, 2025, from $155.28 million at December 31, 2024. Management's focus remains on strategic balance sheet management with a concentration on aligning loan and deposit growth while maintaining strong levels of capital and liquidity.

The quarter-over-quarter increase in total deposits was attributable to growth in noninterest-bearing demand deposits and interest-bearing checking.

The following table presents the key components affecting the Company's financial performance in the three months ended March 31, 2025, compared to prior year:

	Three Months Ended March 31,			
(dollars in thousands)	2025	2024	Change	%
Net income attributable to TowneBank	$ 50,592	$ 34,687	$ 15,905	45.85 %
Net interest income	120,478	103,218	17,260	16.72 %
Noninterest income	71,566	63,884	7,682	12.02 %
Total revenue	192,044	167,102	24,942	14.93 %
Provision for credit losses	2,420	(877)	3,297	(375.94)%
Noninterest expense	130,536	125,591	4,945	3.94 %

PART I. FINANCIAL INFORMATION

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

	Three Months Ended March 31,			
(dollars in thousands)	2025	2024	Change	%
Acquisition-related expenses	420	595	(175)	(29.41)%
Noninterest expense, excluding acquisition-related expenses	130,116	124,996	5,120	4.10 %

The first quarter 2025 increase in net income attributable to TowneBank, when compared to 2024, was driven primarily by revenue growth. Net interest income increased, primarily, due to a decline in interest expense. Noninterest income increased in the year-over-year comparison. Noninterest expense increased slightly less than 4% from the prior year quarter. This discussion should be read in conjunction with our Consolidated Financial Statements and notes to the financial statements appearing elsewhere in this report.

Critical Accounting Estimates and Significant Accounting Policies

Preparation of financial statements and related disclosures in conformity with GAAP requires management to make judgments, assumptions, and estimates in certain circumstances that affect amounts reported in the Consolidated Financial Statements and accompanying footnotes. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. We consider our policy for the allowance for credit losses to be a critical accounting policy. Refer to our 2024 Annual Report to Shareholders for further discussion of significant accounting policies.

ANALYSIS OF RESULTS OF OPERATIONS

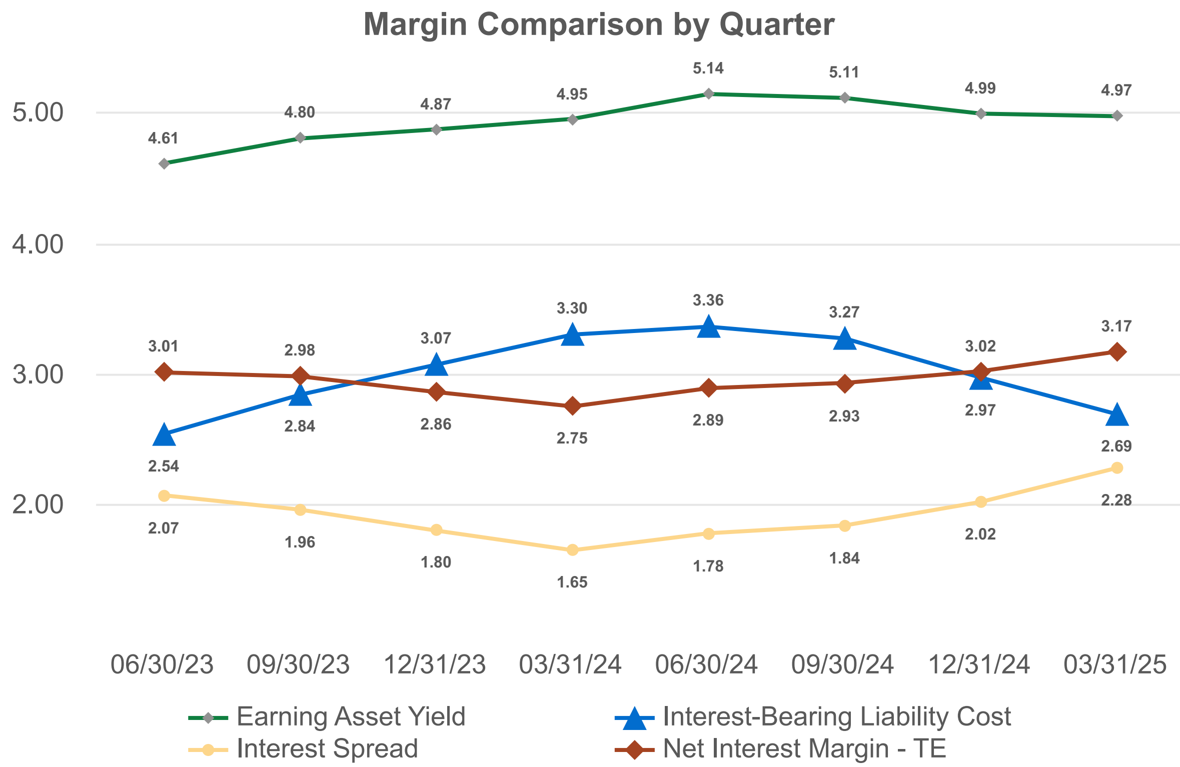
Consolidated Performance Summary

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

	Three Months Ended	
(dollars in thousands, except per share data)	March 31, 2025	March 31, 2024
Total revenue	$ 192,044	$ 167,102
Operating revenue (non-GAAP)	$ 190,044	$ 167,028
Diluted earnings per share	$ 0.67	$ 0.46
Return on average assets	1.19 %	0.83 %
Return on average tangible assets (non-GAAP)	1.29 %	0.92 %
Return on average equity	9.50 %	6.84 %
Return on average tangible equity (non-GAAP)	13.08 %	9.87 %
Net interest margin	3.14 %	2.72 %
Net interest margin TE (non-GAAP)	3.17 %	2.75 %

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

The following graph summarizes the key components of net interest margin over the past eight quarters. The cost of interest-bearing liabilities peaked in second quarter 2024 and has declined 67 bp since then. Net interest margin began increasing after first quarter 2024 and has increased 42 bp since that point.



TowneBank reported net interest income, on a TE basis ("net interest income-TE"), of $121.55 million for the quarter ended March 31, 2025, which was $17.22 million, or 16.51%, higher than first quarter 2024. Interest income-TE was $190.68 million in the quarter ended March 31, 2025, a $2.66 million, or 1.41%, increase over quarter-end March 31, 2024. Additionally, interest expense decreased $14.57 million, or 17.40%, for the same period, driven by year-over-year decreases in rate.

Average earning assets increased 1.84% to $15.55 billion in the quarter ended March 31, 2025, from the comparative prior year quarter. The yield on earning assets increased 2 bp compared to prior year. Average loan balances increased 1.31% in first quarter 2025 compared to the same period one year ago, and loan yields increased 1 bp.

Average interest-bearing liabilities were $10.42 billion in first quarter 2025, an increase of 2.08% over the comparative prior year quarter. The cost of interest-bearing liabilities was 2.69% in first quarter 2025, a 61 bp decrease from first quarter 2024.

TE net interest margin, which is net interest income-TE expressed as a percentage of average earning assets, was 3.17% for the quarter ended March 31, 2025, or 42 bp higher compared to quarter end March 31, 2024.

In response to economic indicators, the FOMC began increasing the Federal Reserve's Federal Funds target range, a key financial index, in first quarter 2022. Those increases peaked in third quarter 2023 and remained there until late September 2024 when, in three consecutive meetings, the FOMC lowered the range a total of 100 basis points.

Repricing of interest-earning assets and interest-bearing liabilities is driven by the properties of the underlying product and has a continuing impact on yields and margins. The following table lists the Federal Funds target range for the periods indicated:

Date	Target Range for Federal Funds (%)
March 16, 2020 - March 16, 2022	0 - 0.25
March 17, 2022 - May 4, 2022	0.25 - 0.50
May 5, 2022 - June 15, 2022	0.75 - 1.00
June 16, 2022 - July 27, 2022	1.50 - 1.75
July 28, 2022 - September 21, 2022	2.25 - 2.50
September 22, 2022 - November 2, 2022	3.00 - 3.25
November 3, 2022 - December 14, 2022	3.75 - 4.00
December 15, 2022 - February 1, 2023	4.25 - 4.50
February 2, 2023 - March 22, 2023	4.50 - 4.75
March 23, 2023 - May 3, 2023	4.75 - 5.00
May 4, 2023 - July 26, 2023	5.00 - 5.25
July 27, 2023 - September 18, 2024 (1)	5.25 - 5.50
September 19, 2024 - November 7, 2024	4.75 - 5.00
November 8, 2024 - December 18, 2024	4.50 - 4.75
December 19, 2024 - present	4.25 - 4.50

(1) 23-year high

From a repricing standpoint, interest-bearing liabilities are typically short-term and reprice more quickly than interest-earning assets which, in a declining rate environment, benefits earnings and, in an increasing rate environment, is detrimental to earnings. The Company has seen a 28 bp decrease in interest-bearing deposit costs from the linked quarter, and a 55 bp decrease from the prior year quarter, as a result of the decrease in the Federal Funds target range.

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

	Three Months Ended						Increase/(Decrease) Three Months Ended March 31, 2025 Compared to Three Months Ended March 31, 2024		
	March 31, 2025			March 31, 2024					
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Rate (4)	Volume	Total
Assets:									
Loans (net of unearned income and deferred costs)	$11,527,915	$ 153,068	5.38 %	$11,379,323	$ 151,811	5.37 %	$ 271	$ 986	$ 1,257
Taxable investment securities	2,478,048	21,301	3.44 %	2,440,652	18,716	3.07 %	2,294	291	2,585
Tax-exempt investment securities	176,081	1,860	4.23 %	161,538	1,549	3.84 %	165	146	311
Total securities	2,654,129	23,161	3.49 %	2,602,190	20,265	3.12 %	2,459	437	2,896
Interest-bearing deposits	1,199,650	11,801	3.99 %	1,167,322	14,234	4.90 %	(2,799)	366	(2,433)
Mortgage loans held for sale	164,358	2,653	6.46 %	116,868	1,716	5.87 %	184	753	937
Total earning assets	15,546,052	190,683	4.97 %	15,265,703	188,026	4.95 %	115	2,542	2,657
Less: allowance for loan losses	(124,265)			(127,413)					
Total nonearning assets	1,790,075			1,725,945					
Total assets	$17,211,862			$16,864,235					
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	$ 7,279,365	$ 40,606	2.26 %	$ 6,828,053	$ 47,985	2.83 %	(10,269)	2,890	(7,379)
Savings	312,118	714	0.93 %	329,036	881	1.08 %	(122)	(45)	(167)
Certificates of deposit	2,540,438	25,813	4.12 %	2,583,938	29,522	4.60 %	(3,189)	(520)	(3,709)
Total interest-bearing deposits	10,131,921	67,133	2.69 %	9,741,027	78,388	3.24 %	(13,580)	2,325	(11,255)
Borrowings	29,606	(300)	(4.05)%	212,375	3,078	5.73 %	(2,246)	(1,132)	(3,378)
Subordinated debt, net	260,070	2,304	3.54 %	255,878	2,236	3.50 %	31	37	68
Total interest-bearing liabilities	10,421,597	69,137	2.69 %	10,209,280	83,702	3.30 %	(15,795)	1,230	(14,565)
							$ 15,910	$ 1,312	$ 17,222
Demand deposits	4,276,586			4,224,104					
Other noninterest-bearing liabilities	353,665			390,576					
Total liabilities	15,051,848			14,823,960					
Shareholders' equity	2,160,014			2,040,275					
Total liabilities and equity	$17,211,862			$16,864,235					
Net interest income-TE (3)		$ 121,546			$ 104,324				
Reconciliation of Non-GAAP Financial Measures									
TE basis adjustment		(1,068)			(1,106)				
Net interest income (GAAP)		$ 120,478			$ 103,218				
Interest rate spread (1)(3)			2.28 %			1.65 %			
Interest expense as a percent of average earning assets			1.80 %			2.21 %			
Net interest margin-TE (2)(3)			3.17 %			2.75 %			
Total cost of deposits			1.89 %			2.26 %			

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

Provision for Credit Losses. The first quarter 2025 provision for credit losses was an expense of $2.42 million, compared to a benefit of $0.88 million for the same period one year ago. In first quarter 2025, we had net charge-offs of $0.63 million compared to $0.52 million in first quarter 2024. Factors impacting the current quarter provision included loan growth, changes in macroeconomic forecast scenarios utilized in our models, and continued strength in credit quality.

Noninterest Income. Total noninterest income for the three months ended March 31, 2025, was $71.57 million compared to $63.88 million for the same period in 2024. Noninterest income as a percentage of total operating income was 37.66% for first quarter 2025, compared with 38.25% for first quarter 2024.

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

	Three Months Ended March 31,		Increase/(Decrease) Three Months Ended 2025 over 2024	
(dollars in thousands)	**2025**	**2024**	**Amount**	**Percent**
Residential mortgage banking income, net	$ 10,361	$ 10,477	$ (116)	(1.11)%
Insurance commissions and other income, net	26,424	25,539	885	3.47 %
Property management income, net	19,500	16,773	2,727	16.26 %
Service charges on deposit accounts	3,327	3,079	248	8.05 %
Credit card merchant fees, net	1,697	1,551	146	9.41 %
Investment commission income, net	3,075	2,343	732	31.24 %
BOLI	1,872	1,842	30	1.63 %
Gain on sale of equity investments	2,000	—	2,000	N/M
Other income	3,310	2,206	1,104	50.05 %
Subtotal before gain on investment securities	71,566	63,810	7,756	12.15 %
Net gain on investment securities	—	74	(74)	N/M
Total noninterest income	$ 71,566	$ 63,884	$ 7,682	12.02 %
Noninterest income/operating income (non-GAAP)	37.66 %	38.25 %		

In first quarter 2025, residential mortgage banking income, net of commission expense, decreased slightly compared to the prior year period driven by a decline in margin. Production volume was $445.19 million in first quarter 2025, an increase of $20.81 million, or 4.90%, compared to first quarter 2024, driven by higher per loan average balances. The number of units closed decreased to 1,181 from 1,247 in the prior year quarter. Margins on the sale of loans decreased 16 bp from 3.34% in first quarter 2024 to 3.18% in first quarter 2025. Purchase volume was 89.94% of total loan volume in first quarter 2025, compared to 95.66% in the prior year quarter. Management expects continued softness in mortgage banking given the current interest rate environment coupled with historically low inventory levels in several key markets.

Insurance commissions increased due to organic growth in property and casualty commission income. The increase was partially offset by a decrease from prior year in contingency and bonus revenue, which consists primarily of amounts received from various property and casualty carriers, and employee benefits insurance. Management continues to search for opportunities to grow insurance segment revenues both organically and through disciplined insurance agency acquisitions.

Property management income, net of commission expense, increased in first quarter 2025 compared to first quarter 2024, driven by higher pre-season reservation levels and an acquisition in first quarter 2024 The primary source of income from this line of business is vacation property commissions and associated fees.

In first quarter 2025, we recorded a $2 million gain on the sale of an equity investment originally obtained in 2013 as collateral for a charged-off loan. We did not sell any investment securities in first quarter 2025. We sold seven investment securities with a carrying value of $48.10 million in first quarter 2024, and recorded net gains on the sale of $74 thousand.

Noninterest Expense. For the quarter ended March 31, 2025, total noninterest expense was $130.54 million, which was $4.95 million more than comparative 2024. As a percentage of operating income, noninterest expense was 68.69% for first quarter 2025 and 75.19% for comparative 2024.

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

	Three Months Ended March 31,		Increase/(Decrease) Three Months Ended 2025 over 2024	
(dollars in thousands)	**2025**	**2024**	**Amount**	**Percent**
Salaries and employee benefits	$ 75,078	$ 71,377	$ 3,701	5.19 %
Occupancy expense	9,333	9,422	(89)	(0.94)%
Furniture and equipment	4,621	4,478	143	3.19 %
Amortization - intangibles	3,026	3,246	(220)	(6.78)%
Software	6,293	6,100	193	3.16 %
Data processing	3,835	3,916	(81)	(2.07)%
Professional fees	2,653	3,180	(527)	(16.57)%
Advertising and marketing	4,472	4,582	(110)	(2.40)%
Other noninterest expenses:				
Acquisition-related expenses	420	595	(175)	(29.41)%
Bank franchise tax/SCC fees	2,846	2,720	126	4.63 %
Charitable contributions	4,118	3,465	653	18.85 %
Directors fees and expenses	1,154	1,321	(167)	(12.64)%
FDIC and other insurance	2,860	4,358	(1,498)	(34.37)%
Foreclosed property expenses	52	45	7	15.56 %
Other	6,254	3,142	3,112	99.05 %
Stationery and supplies	613	740	(127)	(17.16)%
Telephone and postage	1,685	1,583	102	6.44 %
Travel/meals/entertainment	1,223	1,321	(98)	(7.42)%
Total other noninterest expenses	21,225	19,290	1,935	10.03 %
Total noninterest expense	$ 130,536	$ 125,591	$ 4,945	3.94 %
Salaries and employee benefits/total noninterest expense	57.52 %	56.83 %		
Noninterest expense/operating income (non-GAAP)	68.69 %	75.19 %		

In first quarter 2025, salaries and employee benefits represented 57.52% of total noninterest expense compared to 56.83% in first quarter 2024. The increase in salaries and benefits was driven by annual base salary increases that went into effect October 2024, producer incentives, and health insurance costs. The

Company opened a full-service branch in second quarter 2024, which is also impacting the year-over-year comparison.

In our Banking segment, we had a total of 1,485 full-time equivalent employees at March 31, 2025, as compared to 1,475 at March 31, 2024. In our non-Banking segments we had a total of 1,219 full-time equivalent employees at March 31, 2025, as compared to 1,268 at March 31, 2024.

Prior year FDIC and other insurance expense was higher due the impact of the special assessment, recorded in that quarter, on certain banks to recover losses to the Deposit Insurance Funds associated with uninsured depositors in several 2023 bank failures. The increase in other noninterest expense was primarily related to a $2.12 million non-recurring sales tax expense in our resort vacation management segment recorded in first quarter 2025.

Provision for Income Taxes. Our provision for income tax expense represented an effective tax rate of 13.95% in first quarter 2025 compared to an effective rate of 17.31% for first quarter 2024. The lower effective tax rate in the current quarter as compared to first quarter 2024 was primarily due to the increase in credits and losses related to LIHTC investment properties placed in service over the past 12 months and purchase accounting adjustments for a prior partnership acquisition.

Segment Performance Summary

Our reportable segments are a traditional full-service community bank, a mortgage business, a resort vacation management company, and a full-service insurance agency. In this section, we discuss the performance and financial results of our segments. For further financial details, see "Note 8. Segment Reporting" of the Notes to Consolidated Financial Statements in this report.

Banking Segment. The Banking segment contributed 80.24% of consolidated net income attributable to TowneBank in the first quarter ended March 31, 2025, compared to 74.73% in the prior year quarter. The increase in total revenue was driven by net interest income growth. The gain on sale of equity investment, noted previously, is included in other income. This gain and growth in investment commissions, net, are the primary drivers of the increase in noninterest income.

Salaries and benefits increased due to a higher number employees, producer incentives, and health insurance costs. Prior year FDIC and other insurance expense was higher due to the impact of the special assessment, recorded in that quarter, on certain banks to recover losses to the Deposit Insurance Funds associated with uninsured depositors in several 2023 bank failures.

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

	Three Months Ended March 31,		Increase/(Decrease) Three Months Ended March 31, 2025 March 31, 2024	
(dollars in thousands)	**2025**	**2024**	**Amount**	**Percent**
Interest income	$185,597	$183,895	$ 1,702	0.93 %
Interest expense	66,013	81,213	$ (15,200)	(18.72)%
Net interest income	$119,584	$102,682	$ 16,902	16.46 %

	Three Months Ended March 31,		Increase/(Decrease) Three Months Ended March 31, 2025 March 31, 2024	
(dollars in thousands)	2025	2024	Amount	Percent
Service charges on deposit accounts	3,327	3,079	248	8.05 %
Credit card merchant fees	1,697	1,551	146	9.41 %
Investment commissions, net	3,075	2,343	732	31.24 %
BOLI	1,821	1,792	29	1.62 %
Other income	4,674	1,637	3,037	185.52 %
Net gain (loss) on investment securities	—	74	(74)	— %
Total noninterest income	14,594	10,476	4,118	39.31 %
Total revenue	134,178	113,158	21,020	18.58 %
Provision for credit losses	2,367	(976)	3,343	342.52 %
Salaries and employee benefits	49,684	46,474	3,210	6.91 %
Occupancy	6,979	7,061	(82)	(1.16)%
Furniture and equipment	3,808	3,648	160	4.39 %
Amortization - intangibles	981	1,162	(181)	(15.58)%
Software	4,022	4,054	(32)	(0.79)%
Data processing	2,609	2,548	61	2.39 %
Professional fees	2,010	2,659	(649)	(24.41)%
Advertising and marketing	2,897	3,008	(111)	(3.69)%
FDIC and other insurance	2,590	4,122	(1,532)	(37.17)%
Acquisition related expenses	420	147	273	185.71 %
Other expenses	11,971	10,415	1,556	14.94 %
Total noninterest expenses	87,971	85,298	2,673	3.13 %
Income before income tax and corporate allocation	43,840	28,836	15,004	52.03 %
Corporate allocation	1,396	1,069	327	30.59 %
Income before income tax provision and noncontrolling interest	45,236	29,905	15,331	51.27 %
Provision for income tax expense	4,681	4,105	576	14.03 %
Net income	40,555	25,800	14,755	57.19 %
Noncontrolling interest	42	120	(78)	(65.00)%
Net income attributable to TowneBank	$ 40,597	$ 25,920	$ 14,677	56.62 %
Salaries and employee benefits/total noninterest expense	56.48%	54.48%		
% of total consolidated income	80.24%	74.73%		
Efficiency ratio (non-GAAP)	64.83%	74.40%		

Mortgage Segment. For the three months ended March 31, 2025, the Mortgage segment reported losses before income tax provision and noncontrolling interest of $898 thousand, as compared to $765 thousand in 2024. Units of residential mortgage production decreased, but volume increased, due to larger per loan averages. Gross realized gain on sale margin declined 16 bps, compared to the prior year quarter.

Noninterest expenses increased marginally, compared to the prior year, due to a moderate increase in salaries and benefits related to annual cost of living increases and incentive compensation accruals. The total number of full-time equivalent employees in our residential mortgage banking business decreased to 406 at March 31, 2025, compared to 423 at March 31, 2024.

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

	Three Months Ended				
	March 31, 2025	December 31, 2024	September 30, 2024	June 30, 2024	March 31, 2024
Gross realized gain on sales and fees as a % of loans originated	3.18 %	3.25 %	3.28 %	3.28 %	3.34 %
Loans sold	$ 475,518	$ 629,120	$ 526,998	$ 605,134	$ 410,895
Purchase %	89.94 %	89.46 %	91.49 %	94.85 %	95.66 %
Refinance %	10.06 %	10.54 %	8.51 %	5.15 %	4.34 %

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

	Three Months Ended March 31,		Increase/(Decrease) Three Months Ended March 31, 2025 March 31, 2024	
(dollars in thousands)	2025	2024	Amount	Percent
Residential mortgage banking income, net	$ 10,580	$ 10,798	$ (218)	(2.02)%
BOLI	51	50	1	2.00 %
Income from unconsolidated subsidiary	42	30	12	40.00 %
Net interest and other income	1,059	718	341	47.49 %
Total revenue	11,732	11,596	136	1.17 %
Provision for credit losses	53	99	(46)	(46.46)%
Salaries and employee benefits	7,031	6,656	375	5.63 %
Occupancy	939	1,061	(122)	(11.50)%
Furniture and equipment	195	178	17	9.55 %
Amortization - intangibles	—	144	(144)	(100.00)%
Software	727	787	(60)	(7.62)%
Data processing	163	148	15	10.14 %
Professional fees	226	234	(8)	(3.42)%
Advertising and marketing	389	382	7	1.83 %
FDIC and other insurance	96	102	(6)	(5.88)%
Other expenses	2,461	2,222	239	10.76 %
Total expenses	12,227	11,914	313	2.63 %
Income before income tax, corporate allocation, and noncontrolling interest	(548)	(417)	(131)	(31.41)%
Corporate allocation	(350)	(348)	(2)	(0.57)%
Income before income tax provision and noncontrolling interest	(898)	(765)	(133)	(17.39)%
Provision for income tax	(240)	(202)	(38)	(18.81)%
Net income	(658)	(563)	(95)	(16.87)%
Noncontrolling interest	(117)	(115)	(2)	(1.74)%
Net income attributable to TowneBank	$ (775)	$ (678)	$ (97)	(14.31)%
Salaries and employee benefits/total noninterest expense	57.50 %	55.87 %		

(dollars in thousands)	Three Months Ended March 31, 2025	Three Months Ended March 31, 2024	Increase/(Decrease) Three Months Ended March 31, 2025 March 31, 2024 Amount	Percent
% of total consolidated income	(1.53)%	(1.95)%		
Key data:				
Efficiency ratio (non-GAAP)	104.22%	101.50%		
Loans originated, mortgage	$300,699	$289,191	$ 11,508	3.98 %
Loans originated, joint venture	144,495	135,197	9,298	6.88 %
Total loans originated	$445,194	$424,388	$ 20,806	4.90 %
Number of loans, mortgage	746	803	(57)	(7.10)%
Number of loans, joint venture	435	444	(9)	(2.03)%
Total number of loans	1,181	1,247	(66)	(5.29)%
Average loan amount, mortgage	$ 403	$ 360	$ 43	11.94 %
Average loan amount, joint venture	332	304	28	9.21 %
Average loan amount	$ 377	$ 340	$ 37	10.88 %
Number of originators, mortgage	120	128	(8)	(6.25)%
Number of originators, joint venture	41	48	(7)	(14.58)%
Total number of originators	161	176	(15)	(8.52)%

Resort Vacation Management Segment. The Resort Vacation Management segment contributed 9.37% of consolidated net income attributable to TowneBank in the first quarter ended March 31, 2025, compared to 10.58% in the prior year quarter. Net property management fees increased in first quarter 2025 compared to 2024 due to higher future reservation levels, driven primarily by an acquisition in prior year. Increases in occupancy and amortization of intangibles were also related to the acquisition that occurred in March 2024, while the increase in other expenses was due to a $2.12 million non-recurring sales tax expense.

The following charts present revenue and expenses for the Resort Vacation Management segment for the periods presented:

(dollars in thousands)	Three Months Ended March 31, 2025	Three Months Ended March 31, 2024	Increase/(Decrease) Three Months Ended March 31, 2025 March 31, 2024 Amount	Percent
Property management fees, net	$ 19,500	$ 16,773	$ 2,727	16.26 %
Net interest and other income	13	16	(3)	(18.75)%
Total revenue	19,513	16,789	2,724	16.22 %
Salaries and employee benefits	5,448	5,532	(84)	(1.52)%
Occupancy	614	508	106	20.87 %
Furniture and equipment	405	416	(11)	(2.64)%
Amortization - intangibles	637	533	104	19.51 %
Software	859	608	251	41.28 %
Data processing	944	1,102	(158)	(14.34)%
Professional fees	126	152	(26)	(17.11)%
Advertising and marketing	892	1,038	(146)	(14.07)%
FDIC and other insurance	67	35	32	91.43 %

(dollars in thousands)	Three Months Ended March 31, 2025	Three Months Ended March 31, 2024	Increase/(Decrease) Three Months Ended March 31, 2025 March 31, 2024 Amount	Percent
Acquisition related expenses	—	447	(447)	(100.00)%
Other expenses	2,613	942	1,671	177.39 %
Total expenses	12,605	11,313	1,292	11.42 %
Income before income tax, corporate allocation, and noncontrolling interest	6,908	5,476	1,432	26.15 %
Corporate allocation	(320)	—	(320)	N./M
Income before income tax provision and noncontrolling interest	6,588	5,476	1,112	20.31 %
Provision for income tax	1,629	1,358	271	19.96 %
Net income	4,959	4,118	841	20.42 %
Noncontrolling interest	(220)	(445)	225	(50.56)%
Net income attributable to TowneBank	$ 4,739	$ 3,673	$ 1,066	29.02 %
Salaries and employee benefits/total noninterest expense	43.22 %	48.90 %		
% of total consolidated income	9.37 %	10.58 %		
Efficiency ratio (non-GAAP)	61.33%	64.21%		

Insurance Segment. The Insurance segment contributed 11.92% of consolidated net income attributable to TowneBank in the first quarter ended March 31, 2025, compared to 16.64% in the prior year quarter. This decline in contribution was related to the increase in Banking segment net income, rather than to performance. Revenue increased, driven by organic growth in property and casualty insurance commissions.

Salaries and employee benefits expense increased largely due to increases in health insurance costs. Professional fees increased due to consulting fees, and marketing increased due to corporate sponsorships.

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

(dollars in thousands)	Three Months Ended March 31, 2025	Three Months Ended March 31, 2024	Increase/(Decrease) Three Months Ended March 31, 2025 March 31, 2024 Amount	Percent
Net commission and fee income				
Property and casualty	$ 23,322	$ 20,722	$ 2,600	12.55 %
Employee benefits	4,725	4,826	(101)	(2.09)%
Specialized benefit services	—	9	(9)	(100.00)%
Total net commissions and fees	28,047	25,557	2,490	9.74 %
Contingency and bonus revenue	3,620	4,503	(883)	(19.61)%
Other income	4	11	(7)	(63.64)%
Total revenues	31,671	30,071	1,600	5.32 %
Employee commission expense	5,050	4,512	538	11.92 %
Revenue, net of commission expense	26,621	25,559	1,062	4.16 %
Salaries and employee benefits	12,915	12,715	200	1.57 %

	Three Months Ended March 31,		Increase/(Decrease) Three Months Ended March 31, 2025 March 31, 2024	
(dollars in thousands)	**2025**	**2024**	**Amount**	**Percent**
Occupancy	801	792	9	1.14 %
Furniture and equipment	213	236	(23)	(9.75)%
Amortization - intangibles	1,408	1,407	1	0.07 %
Software	685	651	34	5.22 %
Data processing	119	118	1	0.85 %
Professional fees	291	135	156	115.56 %
Advertising and marketing	294	154	140	90.91 %
FDIC and other insurance	107	99	8	8.08 %
Acquisition related expenses	—	1	(1)	(100.00)%
Other expenses	900	758	142	18.73 %
Total operating expenses	17,733	17,066	667	3.91 %
Income before income tax, corporate allocation, and noncontrolling interest	8,888	8,493	395	4.65 %
Corporate allocation	(726)	(721)	(5)	(0.69)%
Income before income tax provision and noncontrolling interest	8,162	7,772	390	5.02 %
Provision for income tax	2,131	2,000	131	6.55 %
Net income	6,031	5,772	259	4.49 %
Noncontrolling interest	—	—	—	— %
Net income attributable to TowneBank	$ 6,031	$ 5,772	$ 259	4.49 %
Salaries and employee benefits/total noninterest expense	72.83 %	74.50 %		
% of total consolidated income	11.92 %	16.64 %		
Efficiency ratio (non-GAAP)	61.32 %	61.27 %		

PART I. FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

ANALYSIS OF FINANCIAL CONDITION

Overview. At March 31, 2025, total assets were $17.51 billion, which is $264.99 million, or 1.54%, higher than total assets at December 31, 2024. Our loan portfolio, less unearned income and deferred costs, made up 66.54% of our period-end assets and totaled $11.65 billion at March 31, 2025. Average assets for the quarter ended March 31, 2025, were $17.21 billion, a decrease of $137.27 million, or 0.79%, from the quarter ended December 31, 2024. Management continues to prioritize balance sheet strength and strong levels of liquidity in the current environment.

Average earning assets for first quarter 2025 decreased $167.16 million from fourth quarter 2024 to $15.55 billion. Our average total deposits were $14.41 billion for first quarter 2025, a decrease of $145.13 million, or 1.00%, compared to fourth quarter 2024. Average noninterest-bearing deposits for the quarter ended March 31, 2025, decreased $110.33 million, or 2.51%, from the quarter ended December 31, 2024.

Interest-Bearing Deposits in Financial Institutions. Interest-bearing deposits in other banks and at the FRB and federal funds sold are used for daily cash management purposes, management of short-term interest rate opportunities, and liquidity. At March 31, 2025 and December 31, 2024, respectively, these balances were $1.19 billion and $1.23 billion and consisted mainly of deposits in other banks and overnight deposits with the FRB.

The average balance of interest-bearing deposits in other banks and at the FRB during first quarter 2025 was $1.20 billion, or 7.72%, of average total earning assets, compared to $1.45 billion, or 9.24%, of average total earning assets for fourth quarter 2024.

Securities Available for Sale. Our AFS debt securities portfolio is reported at fair value, which is determined based on market prices of similar instruments. The AFS debt securities portfolio was $2.47 billion at March 31, 2025, compared with $2.35 billion at December 31, 2024. The average balance during first quarter 2025 was $2.42 billion, compared to $2.36 billion during the quarter ended December 31, 2024. The average AFS debt securities portfolio represented 15.58% and 15.02% of average earning assets in first quarter 2025 and the quarter ended December 31, 2024, respectively. During the three months ended March 31, 2025, we had sales, maturities, and calls totaling $41.56 million in investment securities that were classified as AFS.

Net unrealized losses related to the fair value of AFS debt securities decreased $28.19 million in the first three months of 2025. Unrealized losses in the AFS debt securities portfolio are primarily driven by the increase in market interest rates rather than credit quality. AFS debt securities are reviewed quarterly to assess whether an allowance for credit losses is required. An allowance for credit losses on impaired AFS debt securities is recorded when the present value of expected future cash flows of the investment security is less than its amortized cost basis, limited to the amount by which the security's amortized cost basis exceeds the fair value. At March 31, 2025, the allowance for credit losses on AFS debt securities was $1.26 million, compared to $1.33 million at December 31, 2024. For further financial details, see "Note 4. Investment Securities" of the Notes to Consolidated Financial Statements in this report.

Securities Held to Maturity. HTM debt securities are valued at amortized cost and totaled $201.95 million at March 31, 2025, and $212.28 million at December 31, 2024. The average balance during first quarter 2025 was $207.48 million, compared with $212.31 million in fourth quarter 2024, representing 1.33% and 1.35% of total average earning assets, respectively. These securities are held primarily for yield and pledging purposes. HTM debt securities are reviewed quarterly for potential credit losses. The allowance for credit losses on HTM debt securities was $68 thousand at March 31, 2025, and $77 thousand at December 31, 2024. During the three months ended March 31, 2025, we had maturities and calls totaling $10.31 million in HTM debt securities. For further financial details, see "Note 4. Investment Securities" of the Notes to Consolidated Financial Statements in this report.

Mortgage Loans Held for Sale. At March 31, 2025, we held $168.51 million in mortgage loans originated and intended for sale in the secondary market, as compared with $200.46 million at December 31, 2024. Average mortgage loans held for sale were 1.06% of average earning assets for the quarter ended March 31, 2025, compared to 1.33% for the quarter ended December 31, 2024. The majority of mortgage loans held for sale are precommitted to investors, which minimizes our interest rate risk.

Loan Portfolio. Loans, net of unearned income and deferred costs, were $11.65 billion at March 31, 2025, which was a $193.69 million, or 1.69%, increase over $11.46 billion at December 31, 2024. As a percentage of total average earning assets, average loans were 74.15% for the quarter ended March 31, 2025, compared with 72.90% for the quarter ended December 31, 2024.

Commercial real estate loans constituted 58.63% and 58.54% of our loan portfolio at March 31, 2025 and December 31, 2024, respectively. The following table provides additional information regarding commercial real estate loans segregated by the type of property securing the loans and the geographic region in which the loans were originated at March 31, 2025 (dollars in thousands):

Description Within Major Classification	Consolidated	% of Major Class	Virginia / NENC	North Carolina	Classified (1)
Residential construction	$ 220,739	21.94 %	$ 137,534	$ 83,205	$ —
Improved lots	176,420	17.54 %	116,570	59,850	350
Raw land	153,065	15.21 %	88,407	64,658	—
Land development	138,552	13.77 %	109,057	29,495	769
Construction-to-perm	48,087	4.78 %	24,042	24,045	—
Presold residential construction	45,768	4.55 %	31,908	13,860	—
All other	223,455	22.21 %	133,421	90,034	—
Construction and land development	**$ 1,006,086**	**100.00 %**	**$ 640,939**	**$ 365,147**	**$ 1,119**
Percentage of Consolidated			**63.71 %**	**36.29 %**	**0.11 %**
Office buildings	$ 475,977	28.77 %	$ 325,770	$ 150,207	$ 792
Warehouse light industry	331,037	20.01 %	231,174	99,863	1,344
Auto dealer and repair	181,029	10.94 %	164,328	16,701	11,944
Restaurants	123,815	7.48 %	78,031	45,784	—
Retail Buildings	62,017	3.75 %	47,542	14,475	—
Churches	93,166	5.63 %	84,250	8,916	—
All other	387,360	23.42 %	235,397	151,963	9,935
Owner occupied	**$ 1,654,401**	**100.00 %**	**$ 1,166,492**	**$ 487,909**	**$ 24,015**
Percentage of Consolidated			**70.51 %**	**29.49 %**	**1.45 %**
Office buildings	$ 790,958	23.75 %	$ 473,647	$ 317,311	$ —
Hotels	787,257	23.64 %	680,439	106,818	3,553
Shopping centers	735,909	22.10 %	382,538	353,371	1,607
Warehouse light industry	401,129	12.05 %	211,609	189,520	—
All other	614,475	18.46 %	420,665	193,810	4,267
Non-owner occupied	**$ 3,329,728**	**100.00 %**	**$ 2,168,898**	**$ 1,160,830**	**$ 9,427**
Percentage of Consolidated			**65.14 %**	**34.86 %**	**0.28 %**
Less than $1 Million Origination	$ 66,734	7.93 %	$ 33,351	$ 33,383	$ —

Description Within Major Classification	Consolidated	% of Major Class	Virginia / NENC	North Carolina	Classified (1)
More than $1 Million Origination	774,596	92.07 %	435,009	339,587	5
Multi-family	**$ 841,330**	**100.00 %**	**$ 468,360**	**$ 372,970**	**$ 5**
Percentage of Consolidated			**55.67 %**	**44.33 %**	**— %**
Total Commercial Real Estate	**$ 6,831,545**		**$ 4,444,689**	**$ 2,386,856**	**$ 34,566**
Percentage of Consolidated Total Commercial Real Estate			**65.06 %**	**34.94 %**	**0.51 %**

(1) Classified loans are defined as substandard or doubtful. Classified commercial real estate loans totaled $34.57 million, or 62.99%, of total classified credits at March 31, 2025.

Allowance for Credit Losses and Asset Quality. The allowance for credit losses on funded loans at March 31, 2025 and December 31, 2024, was $126.13 million and $123.92 million, respectively. The increase in the allowance was driven by increases in the loan portfolio combined with a continuation of our use of higher weightings of more adverse macroeconomic forecast scenarios utilized in our model. The allowance was equal to 1.08% of total loans outstanding at March 31, 2025, compared with 1.08% at December 31, 2024.

Classified loans, defined as loans in the substandard and doubtful categories, represented 0.47% of total loans at March 31, 2025, and 0.43% of total loans at December 31, 2024. Total criticized loans, defined as special mention and classified loans, increased to $155.24 million in first quarter 2025 from $154.53 million in fourth quarter 2024. Loans 30 to 89 days past due totaled $18.27 million at March 31, 2025, as compared to $9.88 million at December 31, 2024. The allowance for credit losses on funded loans was equal to 19.15x of nonperforming loans at March 31, 2025, compared with 16.69x at December 31, 2024. 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):

	March 31, 2025	December 31, 2024
Real estate - construction and land development	$ 17,197	$ 18,158
Real estate - commercial owner occupied	14,303	14,550
Real estate - commercial non-owner occupied	21,445	21,175
Real estate - multi-family	3,854	3,819
Real estate - residential 1-4 family	30,436	30,908
HELOC	18,182	17,371
C&I	11,220	9,594
Government	2,458	2,603
Indirect	5,186	3,781
Consumer loans and other	1,850	1,964
Total	$ 126,131	$ 123,923

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

	Three Months Ended		
	March 31,		December 31,
(dollars in thousands)	2025	2024	2024
Nonperforming Assets			
Nonperforming loans	$ 6,586	$ 6,987	$ 7,424
Foreclosed property	786	780	443
Total nonperforming assets	$ 7,372	$ 7,767	$ 7,867
Loans past due 90 days and still accruing interest	$ 15	$ 323	$ 1,264
Asset Quality Ratios			
Allowance for credit losses to nonperforming loans	19.15x	18.01x	16.69x
Allowance for credit losses to period-end loans	1.08%	1.10%	1.08%
Nonperforming loans to period-end loans	0.06%	0.06%	0.06%
Nonperforming assets to period-end assets	0.04%	0.05%	0.05%
Quarterly net charge-offs (recoveries) to average loans (annualized)	0.02%	0.02%	0.01%

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

	March 31, 2025	December 31, 2024
CRE - Construction and land development	$ —	$ 273
CRE - Owner occupied	407	415
CRE - Non-owner occupied	1,409	1,452
CRE - Multi-family	—	—
Residential 1-4 family	2,052	2,421
HELOC	301	485
C&I	1,293	1,030
Government	—	—
Indirect	1,122	1,346
Consumer loans and other	2	2
Total nonperforming loans	$ 6,586	$ 7,424

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

At March 31, 2025, we had $7.37 million in nonperforming assets, which amounted to 0.04% of total assets. Additionally, loans 60-89 days past due, excluding nonperforming loans, totaled $0.68 million, and there were $15 thousand in loans past due 90 days or more that were accruing interest. Nonperforming assets consisted of $6.59 million in nonperforming loans and $0.79 million in foreclosed property at March 31, 2025. Nonperforming loans decreased by $838 thousand from December 31, 2024. Foreclosed property increased $343 thousand from December 31, 2024.

Deposits. Total deposits at March 31, 2025, were $14.61 billion, representing an increase of $0.48 billion, or 3.42%, compared to March 31, 2024. Total average deposits were $14.41 billion during first quarter 2025, compared to $13.97 billion during first quarter 2024 and $14.55 billion during fourth quarter 2024.

	Total Deposits Period Ended			March 31, 2025 vs. March 31, 2024		March 31, 2025 vs. December 31, 2024	
	March 31,		December 31,	Change		Change	
(dollars in thousands)	2025	2024	2024	$	%	$	%
Interest-bearing demand and money market accounts	$ 7,463,355	$ 6,916,701	$ 7,329,669	$ 546,654	7.90 %	$ 133,686	1.82 %
Regular savings	312,151	326,179	311,841	$ (14,028)	(4.30)%	$ 310	0.10 %
Certificates of deposit	2,519,489	2,689,062	2,542,735	$ (169,573)	(6.31)%	$ (23,246)	(0.91)%
Total interest-bearing	10,294,995	9,931,942	10,184,245	$ 363,053	3.66 %	$ 110,750	1.09 %
Noninterest-bearing demand	4,313,553	4,194,132	4,253,053	$ 119,421	2.85 %	$ 60,500	1.42 %
Total	$ 14,608,548	$ 14,126,074	$ 14,437,298	$ 482,474	3.42 %	$ 171,250	1.19 %

At March 31, 2025, we had $7.17 billion in estimated uninsured deposits, $0.64 billion of which are collateralized by securities, for an estimated uncollateralized and adjusted uninsured deposit total of $6.52 billion, roughly 45% of total deposits. Total liquidity sources at March 31, 2025, totaled $6.85 billion, or 105% of adjusted uninsured deposits.

Average noninterest-bearing demand deposits as a percentage of average total deposits were 29.68% during first quarter 2025 and 30.25% during the same period in 2024. The cost of interest-bearing deposits was 2.69% for first quarter 2025, compared with 3.24% for first quarter 2024.

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

	Average Balance/Cost Rate Three Months Ended					
	March 31,				December 31,	
	2025		2024		2024	
Interest-bearing demand and money market accounts	$ 7,279,365	2.26 %	$ 6,828,053	2.83 %	$ 7,157,076	2.44 %
Regular savings	312,118	0.93 %	329,036	1.08 %	315,414	0.98 %
Certificates of deposit	2,540,438	4.12 %	2,583,938	4.60 %	2,694,236	4.61 %
Total interest-bearing	10,131,921	2.69 %	9,741,027	3.24 %	10,166,726	2.97 %
Noninterest-bearing demand	4,276,586		4,224,104		4,386,911	
Total	$ 14,408,507	1.89 %	$ 13,965,131	2.26 %	$ 14,553,637	2.07 %

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

	Average Balance and Composition Three Months Ended March 31,			
	2025		2024	
Interest-bearing demand and money market accounts	$ 7,279,365	50.52 %	$ 6,828,053	48.89 %
Regular savings	312,118	2.17 %	329,036	2.36 %
Certificates of deposit	2,540,438	17.63 %	2,583,938	18.50 %
Total interest-bearing	10,131,921	70.32 %	9,741,027	69.75 %
Noninterest-bearing	4,276,586	29.68 %	4,224,104	30.25 %
Total	$ 14,408,507	100.00 %	$ 13,965,131	100.00 %

Advances from the Federal Home Loan Bank of Atlanta. Advances from the FHLB at March 31, 2025, were $3.03 million, compared to $3.22 million at December 31, 2024. The average borrowing cost for FHLB advances in first quarter 2025 was 3.22%, and 3.24% in fourth quarter 2024.

The scheduled maturity dates, call dates, and related fixed interest rates on advances from the FHLB at March 31, 2025, are summarized as follows (dollars in thousands):

Maturity	Interest Rate	Call / Reset Date	Outstanding Amount
11/15/2028	3.43%	—	$ 1,778
12/01/2028	2.83%	—	1,251
		Total FHLB Loans	$ 3,029

At March 31, 2025, certain residential, HELOCs, agency securities, and commercial mortgages secured by real estate with carrying values of $2.97 billion collateralized the advances from the FHLB. At December 31, 2024, certain residential HELOCs, second mortgages, agency securities, and commercial mortgages secured by real estate with carrying values of $3.05 billion collateralized the advances from the FHLB.

In addition to borrowings from the FHLB, we maintain various borrowing arrangements with financial institutions to support liquidity needs. Average total borrowings, including FHLB advances, were $29.61 million during first quarter 2025, compared with $36.71 million for fourth quarter 2024, while the average cost of these funds was (4.05)% and (1.61)%, respectively. The interest credit is related to a combination of low average borrowings during the quarter and the effects of interest capitalization on our construction in progress.

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

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

On December 5, 2024, TowneBank closed an offering of Series IV Towne Investment Units ("Series IV units"). This subscription offering was to members and emeritus members of the Company corporate and regional boards. Each Series IV unit consisted of 138 shares of common stock priced at $36.44 per share and one 5-year 6% convertible subordinated capital note in the principal amount of $5,000. The convertible subordinated notes are convertible into common stock at the discretion of the noteholder at an initial conversion price of $36.44 per share (equal to a conversion rate of 138 shares per $5,000 principal amount of notes).

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

	March 31, 2025	December 31, 2024
Carrying value of subordinated notes	$ 260,198	$ 260,001
Average subordinate debt for the quarter ended	$ 260,070	$ 257,667
Average cost of subordinated notes for the quarter ended	3.54 %	3.51 %

Common Stock and Dividends. Our common stock is listed on the Nasdaq Global Select Market under the symbol TOWN. The following table shows dividends declared in 2025:

Applicable Quarter	Per Share Amount	Declaration Date	Record Date	Paid Date
First Quarter 2025	$ 0.25	February 26, 2025	March 31, 2025	April 11, 2025

All dividends paid are limited by the requirement to meet capital guidelines issued by regulatory authorities, and future declarations are subject to financial performance and regulatory requirements.

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

The following table provides summarized information on our availability of liquid funds and borrowings as of March 31, 2025 (in thousands):

	March 31, 2025
Available Liquid Funds:	
Cash and cash equivalents	$ 1,317,330
Unencumbered investment securities	1,885,375
Availability of Borrowings:	
Amount available from FHLB	1,577,211
Amount available from unsecured lines of credit with correspondent banks	150,000
Amount available from Federal Reserve discount window	1,924,951
	$ 6,854,867

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

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

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

Risk-based capital ratios, which include CET1, Tier 1 capital, total capital, and leverage capital, are calculated based on Basel III regulatory transitional guidance related to the measurement of capital, risk-weighted assets, and average assets. Under FDIC rules, we are considered "well capitalized" as of March 31, 2025.

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

	March 31,		December 31,
	2025	2024	2024
Risk-based capital ratios (1):			
Common equity Tier 1 (4.5% minimum requirement)	12.75 %	12.20 %	12.77 %
Tier 1 (6.0% minimum requirement)	12.87 %	12.32 %	12.89 %
Total (8.0% minimum requirement)	15.65 %	15.10 %	15.68 %
Tier 1 leverage ratio (4.0% minimum requirement)	10.61 %	10.15 %	10.36 %

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

Non-GAAP Financial Measures

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

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

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

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

	Three Months Ended March 31,	
(dollars in thousands)	**2025**	**2024**
Average assets (GAAP)	$ 17,211,862	$ 16,864,235
Less: average goodwill and intangible assets	516,661	522,675
Average tangible assets (non-GAAP)	$ 16,695,201	$ 16,341,560
Average equity (GAAP)	$ 2,160,014	$ 2,040,275
Less: average goodwill and intangible assets	516,661	522,675
Average tangible equity (non-GAAP)	$ 1,643,353	$ 1,517,600
Average common equity (GAAP)	$ 2,143,806	$ 2,024,169
Less: average goodwill and intangible assets	516,661	522,675
Average tangible common equity (non-GAAP)	$ 1,627,145	$ 1,501,494
Net income (GAAP)	$ 50,592	$ 34,687
Amortization of intangibles, net of tax	2,391	2,564
Tangible net income (non-GAAP)	$ 52,983	$ 37,251
Total revenue (GAAP)	$ 192,044	$ 167,102
Net (gain)/loss on investment securities/equity investments	(2,000)	(74)
Operating income (non-GAAP)	$ 190,044	$ 167,028
Noninterest expense (GAAP)	$ 130,536	$ 125,591
Less: Amortization of intangibles	3,026	3,246
Noninterest expense net of amortization (non-GAAP)	$ 127,510	$ 122,345

	Three Months Ended March 31,	
	2025	2024
Return on average assets (GAAP basis)	1.19 %	0.83 %
Impact of excluding average goodwill and other intangibles and amortization	0.10 %	0.09 %
Return on average tangible assets	1.29 %	0.92 %

	Three Months Ended March 31,	
	2025	2024
Return on average equity (GAAP basis)	9.50 %	6.84 %
Impact of excluding average goodwill and other intangibles and amortization	3.58 %	3.03 %
Return on average tangible equity	13.08 %	9.87 %

	Three Months Ended March 31,	
	2025	2024
Efficiency ratio (GAAP)	67.97 %	75.16 %
Impact of excluding goodwill and other intangibles and amortization	(0.87)%	(1.91)%
Efficiency ratio (non-GAAP)	67.10 %	73.25 %

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

	March 31,	
	2025	2024
Book value per share (GAAP basis)	$ 29.19	$ 27.33
Impact of excluding goodwill and other intangibles and amortization	(6.83)	(7.02)
Tangible book value per share	$ 22.36	$ 20.31

Disclosures About Market Risk. Our ALCO monitors loan, investment, and liability portfolios to ensure comprehensive management of interest rate risk. These portfolios are analyzed for proper fixed-rate and variable-rate mixes under various interest rate scenarios.

The asset and liability management process is designed to achieve relatively stable net interest margins and ensure liquidity by coordinating the volumes, maturities, or repricing opportunities of earning assets, deposits, and borrowed funds. It is the responsibility of the ALCO to determine and achieve the most appropriate volume and mix of earning assets and interest-bearing liabilities, as well as ensure an adequate level of liquidity and capital within the context of corporate performance goals. The ALCO also sets policy guidelines and establishes long-term strategies with respect to interest rate risk exposure and liquidity. The ALCO meets regularly to review our interest rate risk and liquidity positions in relation to present and prospective market and business conditions, and adopts funding and balance sheet management strategies intended to ensure that the potential impact on earnings and liquidity as a result of fluctuations in interest rates is within acceptable standards.

PART I. FINANCIAL INFORMATION
Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk. The effective management of market risk is essential to achieving our strategic objectives. As a financial institution, our most significant market risk exposure is interest rate risk. The primary objective of interest rate risk management is to minimize the effect that changes in interest rates have on net interest income. This is accomplished through active management of asset and liability portfolios, with a focus on the strategic pricing of asset and liability accounts and management of appropriate maturity mixes of assets and liabilities. The goal of these activities is the development of appropriate maturity and repricing opportunities in our portfolios of assets and liabilities that will produce consistent net interest income during periods of changing interest rates.

Prudent balance sheet management requires processes that monitor and protect us against unanticipated or significant changes in the level of market interest rates. Net interest income stability should be maintained in changing rate environments by ensuring that interest rate risk is kept to an acceptable level.

The ability to reprice our interest-sensitive assets and liabilities over various time intervals is of critical importance. An asset-sensitive balance sheet structure implies that assets, such as loans and securities, will reprice faster than liabilities; consequently, net interest income should be positively affected in an increasing interest rate environment. Conversely, a liability-sensitive balance sheet structure implies that liabilities, such as deposits, will reprice faster than assets; consequently, net interest income should be positively affected in a decreasing interest rate environment.

Interest Rate Risk. We utilize a variety of measurement techniques to identify and manage our exposure to interest rates. We do not use off-balance-sheet financial instruments to manage interest rate sensitivity and net interest income. We do, however, use a variety of traditional and on-balance-sheet tools to manage our interest rate risk. Gap analysis, which monitors the "gap" between interest-sensitive assets and liabilities, is one such tool. In addition, we use simulation modeling to forecast future balance sheet and income statement behavior. By studying the effects on net interest income of rising, stable, and falling interest rate scenarios, we can position ourselves to take advantage of anticipated interest rate movement and to protect ourselves from unanticipated rate movements by understanding the dynamic nature of our balance sheet components.

At March 31, 2025, we had $4.47 billion more liabilities than assets subject to repricing within one year. This is a one-day position, which is continually changing and is not necessarily indicative of our position at any other time.

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

PART I. FINANCIAL INFORMATION
Item 3. Quantitative and Qualitative Disclosures About Market Risk

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
+ 200 basis points	10.32 %
+ 100 basis points	6.88 %
- 100 basis points	0.17 %
- 200 basis points	(0.35)%

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 (dollars in thousands)	
+ 200 basis points	$	52,057
+ 100 basis points	$	50,617
- 100 basis points	$	21,894
- 200 basis points	$	25,270

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

PART I. FINANCIAL INFORMATION
Item 4. Controls and Procedures

As of March 31, 2025, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are adequate and effective.

Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2025. There were no changes that occurred during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For information regarding factors that could affect the Company's results of operations, financial condition, or liquidity, see the risk factors discussed in Part I, Item 1A, of TowneBank's 2024 Annual Report. See also "Forward-Looking Statements," included in Part I, Item 2, of this Quarterly Report on Form 10-Q. There have been no material changes from the risk factors previously disclosed in TowneBank's 2024 Annual Report on Form 10-K other than the addition of the risk factors relating to recently closed and pending acquisitions as set forth below.

We may not be able to successfully integrate the operations from recently closed and pending acquisitions into the Company, where integration may be more difficult, costly or time-consuming than expected.

The success of recently closed and pending acquisitions and our future operating performance will depend, in part, on our ability to realize the anticipated benefits and cost savings from combining each of the business of Village Bank, which we acquired on April 1, 2025, and the business of Old Point, which we agreed to acquire on April 2, 2025, into the business of TowneBank. The success of these transactions will, in turn, depend on a number of factors, including our ability to (i) integrate the operations and branches of these banks, (ii) retain their deposits and customers, (iii) control the incremental increase in noninterest expense arising from the mergers in a manner that enables the combined bank to improve its overall operating efficiencies, and (iv) retain and integrate the appropriate personnel into our operations and reduce overlapping bank personnel. Bank integrations both before and following mergers require the dedication of the time and resources of our management team and may temporarily distract management’s attention from our day-to-day business. If we are unable to successfully complete the integration of Village Bank and integrate Old Point, the anticipated benefits and cost savings of the mergers, including expected operating efficiencies and eliminating redundant costs, may not be realized fully, or at all, or may take longer to realize than expected.

We expect to incur significant costs associated with completing the merger and integrating the operations of Village Bank and Old Point. We continue to assess the impact of these costs. Although we believe that the elimination of duplicate costs, as well as the realization of other efficiencies related to the integration of the businesses, will offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

Regulatory approvals for the Old Point merger may not be received, may take longer than expected, or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the merger.

Before the merger with Old Point may be completed, various approvals must be obtained from bank regulatory authorities, including the FDIC and the Virginia Bureau of Financial Institutions. These regulators may impose conditions on the granting of such approvals or request changes to the terms of the merger. Such conditions or changes and the process of obtaining regulatory approvals could have the effect of delaying completion of the merger or of imposing additional costs or limitations on us following the merger. If the necessary governmental approvals contain such conditions or changes, our business, financial condition and results of operations following the merger may be materially adversely affected. Furthermore, such conditions or changes may constitute, result in or be reasonably expected to result in a burdensome condition that may allow us or Old Point to refuse to complete the merger.

A significant delay in the completion of the Old Point merger could have a material adverse effect on us as a combined company.

The Old Point merger agreement is subject to a number of conditions that must be fulfilled in order to complete the merger. Those conditions include, among others: (i) approval of the merger agreement by the Old Point shareholders, (ii) receipt of all required approvals from bank regulatory authorities and expiration of all applicable waiting periods, and (iii) absence of any order, decree or injunction enjoining or prohibiting the completion of the merger. If these conditions to the completion of the merger are not fulfilled when expected and, as a result, the completion of the merger is delayed, the diversion of management attention from pursuing other opportunities, the interruptions to each company's ongoing business during the pendency of the merger, the incurrence of additional merger-related expenses, and other market and economic factors could have a material adverse effect on the combined company's business, financial condition and results of operations.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description
(31.1)	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31.2)	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Certification Pursuant to 18 U.S.C. Section 1350 as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
(99)	Report of Independent Registered Public Accounting Firm dated May 7, 2025.

Signatures

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

TOWNEBANK

May 7, 2025	By:	/s/ William I. Foster III
Date		William I. Foster III President and Chief Executive Officer
May 7, 2025	By:	/s/ William B. Littreal
Date		William B. Littreal Senior Executive Vice President/Chief Financial Officer

Exhibit (31.1)

CERTIFICATIONS

I, William I. Foster III, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2025, of TowneBank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors, and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 7, 2025	/s/ William I. Foster III
Date	William I. Foster III
	President and Chief Executive Officer

Exhibit (31.2)

CERTIFICATIONS

I, William B. Littreal, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2025, of TowneBank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors, and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 7, 2025	/s/ William B. Littreal
Date	William B. Littreal Senior Executive Vice President/Chief Financial Officer

Exhibit (32)

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

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

1. Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2025 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, our financial condition and results of operations as of and for the period covered by the Report.

May 7, 2025	/s/ William I. Foster III
Date	William I. Foster III President and Chief Executive Officer
May 7, 2025	/s/ William B. Littreal
Date	William B. Littreal Senior Executive Vice President/Chief Financial Officer

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

Exhibit (99)

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Tysons, VA 22102
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of TowneBank

Results of Review of Interim Financial Statements

We have reviewed the condensed consolidated balance sheet of TowneBank (the "Company") as of March 31, 2025, and the related condensed consolidated statements of income, comprehensive income (loss), equity, and cash flows for the three-month periods ended March 31, 2025 and 2024, and the related notes (collectively referred to as the "interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of the Company as of December 31, 2024, and the related consolidated statements of income, comprehensive income (loss), equity and cash flows for the year then ended (not presented herein), and in our report dated February 28, 2025, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2024, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Forvis Mazars, LLP

Tysons, VA

May 7, 2025