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+++ presentation

Operator^ Good day, and thank you for standing by, and welcome to the Atlantic Union Bankshares' First Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to Bill Cimino. Thank you. Please go ahead.

William P. Cimino^ Thanks, Felicia, and good morning, everyone. I have Atlantic Union Bankshares' President and CEO, John Asbury; Executive Vice President and CFO, Rob Gorman, with me today. We also have other members of our executive management team with us virtually for the question-and-answer period.

Please note that today's earnings release and accompanying slide presentation we are going through on the webcast are available to download on our investor website investors.atlanticunionbank.com. The slide presentation is also available to those on the webcast today.

During today's call, we will comment on our financial performance using both GAAP metrics and non-GAAP filings financial measures. Important information about these non-GAAP financial measures is included, including reconciliations to comparable GAAP measures, is included in our earnings release for the first quarter of 2021 and in the appendix of our slide presentation.

Before I turn the call over to John, I would like to remind everyone that on today's call, we will make forward-looking statements, which are not

statements of historical fact and are subject to risks and uncertainties. There can be no assurance that actual performance will not differ materially from any future results expressed or implied by these forward-looking statements. We undertake no obligation to publicly revise or update any forward-looking statement.

Please refer to our earnings release for the first quarter of 2021 and our other SEC filings for further discussion of the company's risk factors and important information regarding our forward-looking statements, including factors that could cause actual results to differ from those expressed or implied in any forward-looking statement.

All comments made today on this call are subject to the safe harbor statement. At the end of the call, we will take questions from the research analyst community.

And now I'll turn the call over to John Asbury.

John C. Asbury^ Thank you, Bill. Thanks to all for joining us today, and I do hope everyone listening is safe and well. For those who follow us closely, you'll know that for the last year, we've been consistent in our commentary that we are managing through 2 significant and distinct challenges. First, the continuing COVID-19 pandemic, which we certainly hope is in its later stages; and second, a near 0 short-term rate environment that we believe still has years to run with all of its applications for the company's profitability.

We continue to believe that our strategic plan with our long-term goal to become the premier mid-Atlantic bank is the right one and that we have a great opportunity before us to create something uniquely valuable for our shareholders and the communities we serve. And we remain keenly focused on reaching the full potential of this powerful franchise despite the present challenges.

Our mantra of soundness, profitability and growth in that order of priority informs how we run our company, but sound bank is and will remain our highest priority. A prudent and conservative credit culture served our company well during The Great Recession, and it's serving us well in the current economic environment.

Our loan modifications have helped to clients weather the storm having peaked at about 17% of the non-PPP loan portfolio in May of 2020 and remained at a minimal 0.5% as of April 15. Our capital position has been strengthened, and we have ample liquidity.

Our second priority is profitability. And despite the noise in the Q1 expense line, you can see the impact of our actions to align our expense run rate to the new revenue reality of the lower rate environment. We closed 5 branches in the quarter, bringing down the total number of branches by 20 or 13% since this time last year. Rob will walk you through the expense details in his comments, but we continue to guide to a quarterly core expense run rate of about \$92 million a quarter.

While we could further reduce this expense run rate, we are choosing to invest over the short- and medium-term to make our company more competitive, more efficient or scalable for growth over the long term. Some of the spending is for projects that we did push out during our initial expense reduction actions early last year, and we feel now is the right time to get them done ahead of what we believe is going to be quite a strong economy. A number of these initiatives have front-end loaded expenses, such as third-party consultants, but they will result in lower annual expense growth rates and operating leverage improvements over time after they've completed as they will make our operations more efficient and more scalable. All must pass our internal business case hurdles in order to obtain approval.

As for growth, we are bullish in our economic outlook and believe we have a long runway ahead of us to grow both organically and through takeaway from our larger competitors that dominate market share in our home state of Virginia, supplemented by our operations in Maryland, North Carolina and our specialized lending capabilities in government contract finance and equipment finance.

We remain focused on and believe we are benefiting from the disruption occurring at 2 of our largest competitors. We do believe the pressures of a long-term near 0 rate environment, coupled with the rising tide of customer expectations for digital product offerings is going to motivate further bank consolidation. We're well positioned for this, and we will thoughtfully evaluate opportunities to complement our organic growth through disciplined M&A, consistent with the strategy we have previously articulated.

Let me provide a quick review of our pandemic response. About 90% of our non-branch personnel continue to work from home. All branch lobbies have been open to customer walk-in traffic since last fall. Corporate offices remain closed to all but essential personnel, and will remain that way through at least the first half of the year. Work from home continues to go well, and we're certainly not going to rush bringing people back in, given continued safety and social distancing challenges.

The short-term COVID-19 trends in our footprint have been good recently and the vaccination programs are gaining speed, but we want to be prudent in ensuring the safety of our teammates and our customers. We are hopeful these positive trends will hold over the coming months as vaccination levels continue to rise.

I'll now turn to PPP forgiveness and round 2 of the program. The first rounds of the Paycheck Protection Program was a brand builder for Atlantic Union, and our results support that statement. We remain focused on converting as many as possible of the more than 3,000 new-to-bank PPP clients from the first round to full relationships. It is clear to us that there's a great opportunity here from the negative experience, as many of them had with larger banks that caused them to come to us seeking help.

We took our successful round 1 PPP plan, and we improved on round 2. We started taking applications for round 2 as soon as the small business

administration opened to banks our size on January 19, and we received SBA approvals for approximately 5,500 loans totaling around \$542 million so far. We estimate this will ultimately represent about \$25 million of additional net fee income for us. It's difficult to predict how much continued demand will be for round 2, but the application flow has certainly slowed.

Round 2 PPP first and second draw loans are important and that they will help businesses through the end phase of the pandemic. This is both a boost for our clients, which should help mitigate credit losses from the pandemic, and it's also an unplanned revenue opportunity for us. The SBA paused round 1 PPP loan forgiveness during the quarter for about 2 months before reopening at the end of the period. Approximately 5,600 clients received forgiveness totaling approximately \$600 million through the first quarter of this year, and we do expect that to increase significantly in the second quarter. For example, since the first quarter ended, we've now had approximately 2,300 clients having received forgiveness for \$222 million.

As I've said before, our customers have learned to bank differently. We've seen usage of our digital channels increased substantially from the prior year. For example, digital log-ins are up 50% since this time last year and up 21% since the beginning of the year. Mobile check deposit utilization is up 33% year-over-year. Zelle utilization is up 158% year-over-year. Card control users are up around 241% year-over-year and commercial mobile deposit dollar volume is up 48% year-over-year.

We continue to work on new projects and improve the omnichannel customer experience with quarterly releases and upgrades to our product offerings. During the first quarter of the year, we launched our on demand, which provides new deposit account customers with prequalified credit and lending offers at the time they open their account. We announced a newly hired dedicated leader of business banking as a part of our increased focus on this opportunity. We rebranded Middleburg Financial to Atlantic Union Bank wealth management to better leverage our bank brand and continue to make progress on the rollout of the enhanced wealth platform using Black Diamond technology. And we enhanced the call center technology to reduce time needed to authenticate our callers.

We also have a number of additional customer experience improvements that we expect to implement later in 2021, including the use of Zoom and DocuSign for lending applications and closings as well as having a completely digital client experience from application to closing in our mortgage business. As I've said before, we're not standing by waiting to return to the office, but we're making steady progress against our strategic plan.

Now turning to credit. We remain pleasantly surprised that the COVID-19 credit impact has not materialized as we initially forecast and feared. While the outlook is still influx, we are more confident on credit than we have been since the pandemic began, even more so than at the end of the fourth quarter. And we don't expect credit issues to be problematic, barring some unexpected negative development with the COVID-19 outlook. It's clear to us that the resiliency and diverse nature of our markets,

coupled with additional government stimulus and an accommodated federal reserve have had a positive impact. And we have seen the unemployment rate in our markets improve faster than expected.

Here, in our home state of Virginia, March unemployment came in at 5.1%. That's down from 5.6% in December, and it's also 90 basis points better than the national average. Our loan book also helps our credit performance as we don't have outsized exposure to the industries most directly impacted by the social distancing measures put in place such as hotels, restaurants and retail.

As we continue to climb out of the systemic downturn, our credit losses have been minimal so far. Charge-offs in Q1 remained at very low levels of only 3 basis points annualized or if you exclude PPP loans at 4 basis points annualized. At some point, credit losses are expected to normalize. But given all of the stimulus, the PPP round 2 and the strengthening economy, it's very hard to point to a specific time when that may be.

Looking ahead, we do expect normalized levels of credit losses after the impact of the pandemic works its way through the economy. Rob will talk you through the provision for credit losses and our CECL modeling that by our indications and metrics, credit remains solid.

Our total modification balances as of Thursday, April 15, were approximately 185 loans under modification with balances totaling approximately \$64 million and that's 0.4% of our total portfolio. This is down from \$1.9 billion and 4,000 loans as of April 24, 2020, which was then approximately 15% of the portfolio.

As I mentioned earlier, modifications peaked in May of 2020 at around 17%. Of the remaining loan modifications, approximately 70% or \$44 million are accounted for by 7 hotel loans. Our exposures to the most unfocused COVID sensitive industries are limited and are outlined on Slides 6 and 7 of our accompanying presentation. The amount of loans under a modification on these segments decreased from 16 loans for \$83 million on January 18 to 11 loans for \$48 million as of April 15, the majority of which do pertain to hotels.

As you may recall, our third-party consumer portfolio has been winding down for some time. The quarter-end balance for our lending club exposure was about \$40 million and continues to run off. Payment deferrals in the lending club portfolio declined to approximately \$363,000 during the quarter as accounts one-off modification and became current. The remaining portfolio for lending club is performing well, and it's in line or better than our expectations.

Overall, we continue to proactively work through this pandemic event with our clients while mitigating credit risk wherever we can. Our goal remains to achieve and maintain top-tier financial performance regardless of the operating environment. Our financial outlook will ultimately depend in part on the continued success against additional flare-ups of COVID-19 in our main operating areas and the vaccine rollout. This will

be one of the primary factors that determine the length of the disruption in our markets, but we believe we're in the late innings of this now.

We continue to face near-term uncertainty. But as I mentioned before, the economic outlook has improved, and we're optimistic while there may be some dips along the way to a full recovery, we believe the overall trend will remain upward and accelerate in the back half of 2021. The data continues to demonstrate better economic performance in our footprint than what is seen overall in the national economic model projections, and this gives us confidence in our outlook.

We will again point out that the Virginia economy is fairly unique with a broadly diverse set of regional economies and about 20% of it is anchored in some fashion by the federal government. The additional stimulus should be a net positive for the federal government's contribution to the Virginia economy.

While overall loans declined by 2.6% annualized, excluding PPP, our Q1 commercial loan growth was relatively flat, excluding PPP loans as we expected. Our commercial loan categories of all types on a combined basis declined about 0.6% annualized. Commercial line utilization dropped 1 percentage points over the quarter to 25%, and that's well below our normal line utilization of about 40%. This evidences the ample liquidity among our business borrowers.

Looking ahead, we are optimistic about the leading indicators for loan growth. Currently, our loan pipelines are back to pre pandemic levels, and our Q1 commercial production was strong. In fact, it was better than what we experienced in either Q1 2020 or Q1 2019. We do believe we are now on an improving growth trend line, and we expect that loan growth in the second half of the year will be better than the first half and that we could hit 4% to 5% loan growth for the full year, excluding our third-party consumer runoff and PPP loan activity.

We see no reason at this time while we've not returned to high single-digit loan growth in 2022. Our franchise, our market dynamics and our economic outlook certainly support that opportunity.

Our goal remains creating a company who's able to consistently deliver differentiated performance. As I mentioned before, we are working on ways to make the company more efficient, more scalable, while improving the customer experience and should see operating leverage improvements as a result. Once we get through all of the noise of PPP, we would expect to publicly reestablish our top-tier financial targets. So we remain focused on credit risk mitigation and positioning for success while we busily work to improve our company, its efficiency and scalability and provide a better customer experience. At the same time, we always try to think a few steps ahead, and we do see strategic opportunities on our horizon.

I am convinced we'll emerge from this crisis stronger, better, more efficient than before, and that will give us opportunity, both organic and potentially through the hype. We are leveraging our learnings and graining our newfound capabilities, agility and innovation into the company's culture so that we have the flexibility to adapt to the lower-

for-longer rate environment and the coming next normal, whatever that may be, while delivering a differentiated customer experience.

We continue to see opportunity in all of this chaos, and we've weathered the storm better than I could have hoped by taking care of our teammates and our customers and protecting the bank. I remain confident in what the future holds for us and the potential we have to deliver long-term sustainable financial performance for our customers, our communities, our teammates and our shareholders.

And I'll end with my usual comments. As you know, Atlantic Union Bankshares' remains a uniquely valuable franchise. It's dense and compact in great markets with a story unlike any other in our region. We are scalable with the right capabilities, the right markets and the right team to deliver high-performance even in the most trying of times.

I'll now turn the call over to Rob to cover the financial results for the quarter. Rob?

Robert Michael Gorman^ Thank you, John, and good morning, everyone. Thanks for joining us today. Before I get into the details of Atlantic Union's financial results for the first quarter 2021, I think it's important to once again reinforce John's comments on Atlantic Union's governing philosophy of soundness, profitability and growth in that order of priority.

This core philosophy is serving us well as we continue to manage the company through the current COVID-19 pandemic while preparing us for what comes next. Atlantic Union continues to be in a strong financial position with a well fortified balance sheet, ample liquidity and a strong capital base, which is allowing us to weather the current storm and come out stronger once the pandemic has passed.

Now let's turn to the company's financial results for the first quarter. Please note that for the first -- for the most part, my commentary will focus on Atlantic Union's first quarter financial results on a operating non-GAAP basis, which excludes an after-tax debt extinguishment loss of \$11.6 million, resulting from the prepayment of long-term Federal Home Loan Bank advances in the first quarter and also excludes \$16.4 million in after-tax debt extinguishment losses in the fourth quarter of 2020.

For clarity, I will specify which financial metrics are on a reported versus non-GAAP operating basis. In the first quarter, reported net income available to common shareholders was \$53.2 million and earnings per share -- per common share was \$0.67, down approximately \$3.2 million or \$0.05 per common share from the fourth quarter. The reported return on equity for the first quarter was 8.4%, which was down from 8.8% in the prior quarter.

The reported non-GAAP return on tangible common equity in the first quarter was 14.6%, down from 15.6% in the fourth quarter. Reported first quarter return on assets was 1.16%, down slightly from the 1.19% in the fourth quarter. And finally, the reported first quarter efficiency ratio was 67.5% which was down from 68.4% for the fourth quarter.

On a non-GAAP operating basis, net adjusted operating earnings available to common shareholders in the first quarter was \$64.8 million and earnings per common share were \$0.82. This is down approximately \$8.1 million or \$0.11 per common share from the fourth quarter.

Non-GAAP pretax pre-provision adjusted earnings were \$68.6 million compared to \$77 million in the fourth quarter. The non-GAAP adjusted operating return on tangible common equity was 17.6% in the first quarter compared to 19.9% in the fourth quarter. First quarter non-GAAP adjusted operating return on assets was 1.4%, down from 1.52% in the fourth quarter. The non-GAAP adjusted operating efficiency ratio was 55.4% in the first quarter as compared to 53.6% in the fourth quarter.

Turning to credit loss reserves. As of the end of the first quarter, the total allowance for credit losses was \$155.7 million, comprised with the allowance for loan and lease losses of \$142.9 million and the reserve for unfunded commitments of \$12.8 million.

In the first quarter, the total allowance to credit losses decreased \$14.8 million, primarily due to lower expected losses than previously estimated as a result of improvements in Virginia's unemployment rate, benign credit quality metrics to date and an improved economic outlook over the forecast period due to the rollout of COVID-19 vaccines and additional government stimulus inclusive of more PPP loan funding.

The allowance for loan and lease losses as a percentage of the total loan portfolio was 1% at March 31, which was down 14 basis points from the end of the fourth quarter and the total allowance for credit losses as a percentage of total loans was 1.09% at the end of March, which was down from 1.22% in the prior quarter.

Excluding SBA guaranteed PPP loans, the allowance for loan and lease losses as a percentage of adjusted loans declined 13 basis points to 1.12% from the fourth quarter and the total allowance for credit losses as a percentage of adjusted loans decreased 11 basis points to 1.22% from the prior quarter.

The coverage ratio of the allowance for loan and lease losses to nonaccrual loans was 3.4x at March 31, as compared to 3.8x at December 31.

The \$15 million decline in the company's total allowance for credit losses took into consideration, the COVID-19 pandemic impact on credit losses both from the 2-year reasonable and supportable macroeconomic forecast utilizing the company's quantitative CECL model and through management's qualitative adjustments.

Beyond the 2-year reasonable and supportable forecast period, the CECL quantitative model estimates expected credit losses using a reversion to the mean of the company's historic loss rates on a straight-line basis over 2 years.

In estimating expected credit losses, within the loan portfolio at quarter end, the company utilized Moody's marked baseline macroeconomic forecast for the 2-year reasonable and supportable forecast period. Moody's March economic forecast improved since December, and is now assumed that on a national level, GDP will increase 5.7% in 2021 and 2022 as compared to GDP increases of 4.1% in 2021 and 4.4% in 2022, in the December forecast.

Moody's forecast for Virginia, which covers the majority of our footprint, had previously assumed that the unemployment rate in the state would average around 5% during the 2-year forecast period, but the March forecast now assumes a 2-year average of 4%.

In addition to the quantitative modeling, the company also made qualitative adjustments for certain industries viewed as being highly impacted by COVID-19, as noted by John.

Additional economic scenarios were considered as part of the qualitative framework in order to capture the economic uncertainty and concerns related to the path of the virus, vaccination distribution efforts and the potential for other unfavorable economic developments.

The negative provision for credit losses of \$13.6 million in the first quarter of 2021 was consistent with the negative provision for credit losses in the previous quarter and was a decline of \$73.8 million compared to the first quarter in 2020. The provision for credit losses for the first quarter of 2021 reflected a negative provision of \$16.5 million in the provision for loan losses and \$2.8 million in the provision for unfunded commitments. The material decrease in the provision for credit losses as compared to the same quarter in 2020, was driven by the better-than-anticipated credit impacts since the pandemic began the significant recovery in the economy since last year as well as the improvement in the economic forecast utilized in estimating the allowance for credit losses as of March 31.

In the first quarter, net charge-offs were \$1.2 million or 3 basis points of total average loans on an annualized basis as compared to \$1.8 million or 5 basis points for the prior quarter and \$5 million or 16 basis points for the first quarter last year. As in previous quarters, the majority of the net charge-offs, approximately 63% in Q1 came from nonrelationship third-party consumer loans, which are in runoff mode.

Now turning to the pretax pre-provision components of the income statement. For the first quarter, tax equivalent net interest income was \$138 million, which was down \$10.7 million from the fourth quarter, primarily driven by the lower day count in the first quarter and the \$7.2 million decline in PPP loan fee accretion interest income due to lower levels of PPP loans process for forgiveness during the current quarter versus the prior quarter.

Net accretion of purchase accounting adjustments added 9 basis points to the net interest margin in the first quarter, which is in line with the 9 basis point impact in the fourth quarter. The first quarter's tax equivalent net interest margin was 3.16%, which was a decrease of 16

basis points from the previous quarter as a result of a 23 basis point decrease in the yield on earning assets, partially offset by a 7 basis point decline in the cost of funds. The quarter-to-quarter earning asset yield decrease was driven by a 30 basis point decline in the loan portfolio yield. The loan portfolio yield decreased to 3.69% from 3.99% in the fourth quarter, primarily driven by the impact of lower levels of PPP loan fee accretion, resulting from lower levels of PPP round 1 loans were given by the SBA in the first quarter. Also core loan yield compression due to lower market interest rates as well as lower levels of non-PPP loan fees.

The quarterly decrease in the cost of funds to 30 basis points from 37 basis points was primarily driven by a 7 basis point decline and the cost of deposits to 23 basis points in the first quarter.

Interest-bearing deposit cost declined by 10 basis points from the fourth quarter to 32 basis points in the first quarter due to continued aggressive repricing deposits and the maturity of high-cost time deposits in the quarter.

Noninterest income decreased \$1.2 million to \$31 million in the first quarter, primarily driven by the \$1.2 million decline in service charges on deposit accounts due to lower levels of overdraft fees, a decrease in mortgage banking income of \$858,000, driven by lower mortgage origination volumes in the first quarter and lower loan-related interest rate swap income of \$950,000 due to lower transaction volumes. These quarterly declines were partially offset by increases in several other noninterest income categories, including an increase in wealth management fees of \$368,000, an increase in insurance-related income of \$481,000 and an increase in unrealized gains on equity method investments of approximately \$700,000.

Noninterest expense declined \$9.8 million to \$111.9 million in the first quarter from \$121.7 million in the prior quarter. The decline in noninterest expense related to the decrease in debt extinguishment costs to \$14.7 million during the quarter ended March 31 compared to \$20.8 million in the prior quarter. In addition, noninterest expenses decreased by approximately \$5 million in salaries and benefits, which was driven by lower performance-based variable incentive compensation and profit sharing expenses in the first quarter of 2021, partially offset by seasonal increases in payroll-related taxes and 401(k) contribution expense.

In addition, OREO and related credit expenses declined from the fourth quarter by approximately \$625,000, driven by \$575,000 in gains on the sale of closed branches. These net reductions were offset by an increase of \$1.2 million in professional service costs, driven by an uptick in legal and audit fees and costs related to strategic projects.

Noninterest expense for the first quarter of 2021 also included approximately \$1.1 million in costs related to the company's closure of 5 branches in February, seasonal snow removal costs of approximately \$370,000, approximately \$300,000 in costs related to the company's response to the COVID-19 pandemic and approximately \$500,000 in expenses

related to PPP round 1 loan forgiveness processing and PPP round 2 loan setup costs incurred during the quarter.

The effective tax rate for the first quarter increased to 16.8% from 15.1% in the fourth quarter. And for 2021, we continue to expect the full year effective tax rate to be in the 16.5% to 17% range.

Now turning to the balance sheet. Period end total assets stood at \$19.9 billion at March 31, that's an increase of \$226 million from December 31, primarily due to an increase in PPP loan balances. At period end, loans held for investment were \$14.3 billion, which was an increase of \$251 million or approximately 7.3% annualized from the prior quarter, driven by the addition of \$512 million of round 2 PPP loans, partially offset by \$165 million in round 1 PPP loans that were forgiven during the first quarter.

Excluding the PPP loans, loan balances in the first quarter declined approximately 2.6% on an annualized basis, driven by declines in commercial loan balances of \$16 million or 0.6% annualized and reductions in consumer loan balances of \$66 million or 13% on an annualized basis.

The overall design in consumer loan balances during the quarter was driven by continued paydowns in the HELOC and residential mortgage loan portfolios as well as the continued runoff of nonrelationship third-party consumer loan balances, which was partially offset by 5.1% annualized growth in the indirect auto balances for the quarter. Excluding PPP loans, loan yields declined by approximately 14 basis points to 3.72% from the fourth quarter.

At the end of March, total deposit stood at \$16.3 billion. That's an increase of \$575 million or approximately 15% annualized from the prior quarter, driven by an increase of \$698 million in demand deposits as a result of PPP round 2 loan-related deposits and government stimulus checks and an increase of \$87 million in savings account balances. These deposit account balance increases were partially offset by time deposit balance run-off of \$196 million.

At March 31, low-cost transaction accounts comprised 53% of total deposit balances, which was up from 51% in the fourth quarter. As mentioned, the average total cost of deposits declined by 7 basis points to 23 basis points, while interest-bearing deposit costs declined by 10 basis points in the first quarter.

The company's liquidity position remains strong at both the bank and holding company levels with multiple sources that can be tapped, if needed. From a shareholder stewardship and capital management perspective, we remain committed to managing our capital resources prudently as the deployment of capital for the enhancement of long-term shareholder value remains one of our highest priorities.

From a capital perspective, the company continues to be well positioned as it continues to manage through the uncertainties of the pandemic and its potential impact on the company's financial results. At the end of

the first quarter, Atlantic Union Bankshares' and Atlantic Union Bank's capital ratios were well above regulatory capitalized levels.

During the first quarter of 2021, the company paid a common stock dividend of \$0.25 per share and also paid a quarterly dividend of \$171.88 on each outstanding share of Series A preferred stock.

In summary, Atlantic Union delivered solid financial results in the first quarter, while positioning itself for stronger profitability and growth as the year progresses and the pandemic's impact on the economy subsides. Please note that while we continue to proactively manage the company through the uncertainties of the pandemic, we also remain focused on leveraging the Atlantic Union franchise to generate sustainable, profitable growth and remain committed to building long-term value for our shareholders.

And with that, let me now turn it back over to Bill Cimino to open it up for questions.

William P. Cimino^ Thanks, Rob. And Felicia, we have time for few questions, and we're ready for our first caller, please.

+++ q-and-a

Operator^ (Operator Instructions) Your first question comes from the line of Eugene Koysman of Barclays.

Eugene Koysman^ I guess just zeroing on expenses, it looks like -- so you raised your quarterly expense run rate outlook higher a few times in the recent quarters from the high \$80s and one to be \$90 million to \$92 million range. And now to the upper end of that \$92 million. That said, I really appreciate that the 2 drivers here are PPP and product costs and also investing in the franchise. Can you share with us what kind of return are you expecting on these investments? And when can we start seeing and materializing a firm of higher revenues on low balances?

Robert Michael Gorman^ Yes. Eugene, this is Rob. I think you're asking what we expect -- we've got a number of projects we'll be working in. As we mentioned, we look at this on a business return perspective. So all of our major projects go through a process that both financially and strategically are evaluated, and we looked for approximately 15% -- we have a 15% hurdle rate for all major projects, meaning we may make, as John mentioned in his comments, we'll make some investments upfront and reap the benefits down the road. But the internal rate of return needs to be at least 15%.

John C. Asbury^ Eugene, you broke up a little bit in your commentary. So if we're not fully answering your question, just repeat the question, please.

Eugene Koysman^ So what I was asking is now looks like the annual run rate of expenses went up maybe \$10-plus million from last -- over the last few quarters. What kind of returns are you expecting and when can we see the returns on that \$10 million in annual expenses?

Robert Michael Gorman^ Yes. So in terms of the returns, you can start to expect to see some of those coming in, in the second half of the year, but most likely most of these would be paybacks in 2022. The way we look at this, Eugene, is it may not lead to declines in overall expense levels, but it will mitigate the growth in expenses year-to-year. We're looking at it to keep our expense base growth levels lower to improve operating leverage and increase operating leverages. Eventually, we expect that revenue growth will improve.

John C. Asbury^ We've been trying to attack manual processes for a long time. Candidly, we had expected in the absence of COVID that last year would have been the year to take some of this on. And that, obviously, the time line changes as we dealt with all of the disruption.

So from our standpoint, we're focused on the scalability of the franchise, driving operating efficiency, improving operating leverage to Rob's point.

Eugene Koysman^ Got it. And if I may, I wanted to switch over to NII. So looking at the asset side of the balance sheet, how much more repricing headwind you think is left in the loan and securities books? And on the funding side, is CD book runoff, your only remaining lever?

Robert Michael Gorman^ Yes. So yes, a couple of points on that, Eugene. Yes, in terms of -- on the earning asset side, we do expect that we'll continue to see some compression over the next several quarters just due to the low interest rate environment compared to what our portfolios are earning today.

The good news there is we do -- coming -- if we look at it from the fourth quarter to where we sit today, there has been a steepening of the curve, as you know, on the long end. And that is helpful for us as -- from a fixed rate loan pricing perspective and also from reinvestments and investments in our investment portfolio.

So for instance, I think we said last quarter, we were reinvesting in the investment portfolio and adding to the investment portfolio at about a 1.5% rate. Today, we're actually seeing that reinvestment rate closer to 2%. So that's a nice lift. So that will kind of mitigate some of the compression on net interest -- on the earning asset yield, although we do expect to continue to tick down basis points.

Eugene Koysman^ Yes. So that 2% reinvestment rate, where are the securities coming along and what kind of yields?

Robert Michael Gorman^ Yes. Yes. So the overall securities portfolio, if you look at this quarter, was earning 2.79%. So reinvesting -- you're still reinvesting at a lower rate over time over the current period. So that's why you'll continue to see some compression in the earning asset yields.

On the deposit side, we continue to have, yes, opportunities as we reprice CDs. I think we've talked about this in prior calls that we've

got over \$1 billion of CDs that are maturing over the next few quarters and we've seen that in the first quarter. So our deposit costs came down 7 bps on average quarter-to-quarter.

If you look at it from an X 23 basis points, if you look at it March -- if you look at it in just the month of March, we are 21 basis points. We expect to see over the next 2 quarters to be in the mid-teens there on the cost of funds side. As for other levers, really, we pay back all -- we don't have any Federal Home Loan Bank advances anymore. We paid all of those off. As you know, we have added a couple of swaps where we see fixed -- received fixed swaps that have -- will be reducing some of our asset sensitivity, which will allow for some pickup on margin. For instance, we're picking up about a -- I think we have a couple of hundred million of swaps we put on in the first quarter, and we're picking up about 100 basis points on those swaps as we speak.

So those are kind of -- we continue to look at all levers there, Eugene, but those are the ones that currently will be playing out over the next few quarters.

Eugene Koysman^ Rob, would you restate NIM guidance, please?

Robert Michael Gorman^ Yes. Yes. So you take out PPP, which is going to fluctuate for forgiveness as we go through the next couple of quarters and accretion income, our core NIM call is remaining pretty much the same at 305 core NIM level. Again, kind of a combination of earning asset yields coming down, but being offset by some of the swaps that I'm talking about, but also most importantly, is the cost of deposits, cost of funds coming down as well to offset that earning asset yield compression.

So we haven't really come off that guidance at all. It's about 305. We'll continue to see that as we go forward. Unless there's a change in the interest rate environment, where it's steepening would help if we get short rates move, we're not expecting that to happen, but if they did, that would be a positive impact for us.

Operator^ Your next question comes from the line of Brody Preston of Stephens, Inc.

Broderick Dyer Preston^ Rob, I just want to circle back on expenses. I didn't hear if you gave a sort of a quarterly guide for next quarter. But I guess with the amortization included, I have about \$95 million in core for this quarter and about \$92 million ex AM. And so just want to get a sense for what you expect the run rate to look like for the rest of the year?

Robert Michael Gorman^ Yes. So we're not coming off. We don't think we'll be in the 92-ish quarterly run rate going forward here. We had a few outsized expenses that won't reoccur in the out quarters. Biggest one being we had seasonal increases in our payroll taxes, 401(k). That's primarily driven by incentive payouts and a big chunk of that relates to vesting of stock, the restricted stock. So you should see those numbers

coming down fairly materially in the second quarter and beyond. So we're sticking with \$92 million or so, give or take, on that.

Broderick Dyer Preston^ And that's inclusive of the amortization of intangibles?

Robert Michael Gorman^ Yes. It is, Brody. That's right.

Broderick Dyer Preston^ Okay. Great. And then I wanted to ask, core C&I actually held up and expanded a little bit this quarter when you back out PPP. And so I wanted to ask, was there any specific drivers of that? Or I guess, did you make any headwind with borrowers in market?

John C. Asbury^ Brody, I'll start, and I'm going to ask Dave Ring to comment here. If you look at key areas of strength, probably the single best-performing region within the franchise would have been simple Virginia, which means the Greater Richmond area, which is doing quite well.

Atlantic Union equipment finance, we continue to be very pleased with and proud of. If you look at everything that's going on out there, there is a very good reason to believe we're going to see more capital investment, anything around transportation, logistics, wholesale and industrial is white hot. And that is a good business to be in for us right now.

So a reminder, when we talk about equipment finance, we're talking about not small dollar. We're talking about things that are a minimum \$1 million. It's just basic secured equipment finance, and we have leasing capabilities as well.

Dave Ring, do you want to comment on kind of what we're seeing from a commercial standpoint? Also, I'll reiterate my comments, I said this intentionally. If you look at our pipeline right now, it's at pre-pandemic levels. The last time I saw pipeline this large was Q3 of 2019, which is, I think, one of our best quarters ever. In Q1 production, even though it's not evident in outstandings yet because we're still seeing suppressed line utilization, was higher than Q1 '20 or Q1 '19. So these are all things that are giving us confidence that we should be on improving trend.

Dave, do you have any comments you want to give us as headline is what you're seeing from a commercial or wholesale banking standpoint?

David V. Ring^ Sure, John. And then Brody, what we've done over the last few years is we put a sales process in place, which kind of takes us -- our sales cycle -- reduces the time frame of our sales cycle. And so we're able to build pipeline quicker. We've never stopped cold calling during the pandemic. So we continue to knock on doors, waiting for the opportunities to talk to companies as they saw some sunshine coming into their businesses.

We've been hiring people from other banks. We've -- over the last 16 months, we've hired 65 new people in the commercial, some of which were in support roles, other in new business roles. And so we've constantly

tried to add talent into the growth markets like Greater Washington, Baltimore Coastal regions and into equipment finance where we continue to grow. So we've constantly invested in the business, and we've also put in a sales culture where we're constantly calling, even if the opportunities aren't quite there yet, but to form relationships with companies that we think would be good long term.

So we've done a lot of those things over the last 3 years, and we're continuing to do them now. And what we've seen in our pipeline because the real estate market has kind of ticked down a little bit. Our pipeline is more overweighted towards C&I business. For the first time really in the last 5 quarters, it's more C&I business. And over the last 5 quarters, it is our largest pipeline right now that we have going into Q2. So we're in pretty good shape.

Broderick Dyer Preston^ Understood. And I did just have one last one, John, for you. There's -- with the stimulus, obviously, and a swap fees and overdraft fees have gone down across the industry and I think you guys called that out as one of the things that weighed on service charges this quarter. But we've seen a couple of banks, specifically this quarter, PNC, one of the larger ones, Cullen/Frost down in Texas announced specific initiatives to curb overdraft fees for their clients. And it seems like this is a trend that the industry is kind of following. And so I guess, is this something that you expect to maybe kind of pursue at Atlantic Union? And I guess, how do you expect that to impact the industry overall?

John C. Asbury^ Well, we're certainly paying attention to it. We have never had overdraft fees as any sort of designed strategy for the bank. And we're not outsized in terms of the amount of overdraft fees that we have. We do think that when a bank pays an overdraft, it is providing an unsecured short-term loan and should be compensated for that. So we don't have any plans at this very moment to make any substantial changes, but we'll continue to watch it.

Maria Tedesco is President. Maria, do you have any comments on that?

Maria P. Tedesco^ No, not anything additional. I think you're right on, and we will continue to monitor and watch what's happening in the industry. And we're always evaluating how we go-to-market with these types of things.

John C. Asbury^ Yes. I think if banks are overweighted, over relying on overdraft, you're going to be in a different position.

Maria P. Tedesco^ Yes. Agree.

Operator^ Your next question comes from the line of Casey Whitman of Piper Sandler.

Casey Cassidy Whitman^ I'll just, John, maybe ask you one higher-level question. You've seen M&A pick up across the industry. Can you give us the latest on your thoughts on Atlantic Union's M&A appetite, maybe in

terms of to what excites you most in terms of geography, size range, et cetera, that would be helpful?

John C. Asbury^ Sure. Thanks, Casey. Well, it's no surprise to us that we've seen an uptick in M&A. We've been talking about this coming for some time. And I continue to believe that it's, first and foremost, a function of the long-term pressure on net interest margin across the industry based on the expectation of a near 0 short-term interest rate environment for years. That's one.

There's no question that scale helps in terms of the ability to invest in technology and digital product offerings, specifically as you can spread that over a larger base. I think that -- so none of that surprises us. From our standpoint, Casey, nothing has fundamentally changed. It's kind of the same story for years. We like the contiguous, compact, dense franchise. We think about the brand power. We think about the scarcity value of the franchise.

We continue to believe that fundamentally, this is an organic growth strategy that could be supplemented by select M&A, but we would not do anything that doesn't make strategic and financial sense. Strategic sense means it kind of fits with the general philosophy that we've consistently outlined for years and years. And financial means that there has to be a value creation opportunity on a risk-weighted basis for the shareholder. We've been very clear and have recently been reiterating acquisition parameters.

So yes, are there going to be more opportunities in this environment? Yes, I think there are. We said last quarter that this is something that we recognize likely is an opportunity for us. There's certainly more chatter and more conversation going on out there. Do we have to do something? No. Might we do something? Perhaps. And we do look at the full range of opportunities in terms of -- from smaller -- smaller for us means what we've been doing, like \$3 billion, not going to see us go buy \$1 billion bank.

On 2 things that are larger, there aren't that many larger scale things that would actually make sense, but that doesn't mean it's 0. As you think about something larger scale, you've got to make sure that that's more of a partnership. You have to make sure that your culturally aligned, it have to be a very special case. The strategies are complementary and that it creates value and just sort of adds to the strength that we believe we have. So we'll look at it. We'll be thoughtful. We'll be disciplined. We won't surprise anybody, I think, in terms of -- you're not going to see us show up in IOWA. We like -- we kind of like what we're doing right now. But I do -- there's a reason why we're talking about improving the scalability of the franchise with the sort of investments that we're making. I think it's a scalable franchise. I absolutely believe, in my heart, it's a scalable leadership team. And I think they're going to be opportunities.

One word we don't like to use around here is opportunistic. I don't like using the word opportunistic as it relates to M&A. Because to me, that suggests that you're just sort of taking what might come. We're very

planful. We have a view toward this. And we try to think 2 and 3 steps ahead if we do X, then what? So you've got to think a few steps ahead, and that's our philosophy on it. So I guess I'll just leave it at that.

William P. Cimino^ Anything else, Casey, or are you good?

Casey Cassiday Whitman^ You cleared all. Thanks.

Operator^ Next question comes from the line of Catherine Mealor of KBW.

Catherine Fitzhugh Summerson Mealor^ I just want to have a quick follow-up on expenses, just to clarify. The \$92 million, Rob, that you're talking about, to confirm, that includes the amortization of intangibles. So that's kind of relative to the \$97 million that we saw this quarter, excluding the extinguishment?

Robert Michael Gorman^ Yes. Yes, it does include that. Yes.

Catherine Fitzhugh Summerson Mealor^ Great. Okay, just want to confirm. And then on the ACL, just wanted to think about big picture, how much reserve release you think you've got ahead of you? I guess the day 1 reserve was about 90 -- or excuse me, that 71 basis points. So do you think we add back to kind of the day 1 CECL level or do you think we still kind of hang at a level above that as we move through the next year or so?

Robert Michael Gorman^ Yes. In terms of that, Catherine, of course, it depends on -- if things continue to play out the way we've currently playing out and the forecast remains favorable, we don't get any hiccups along the way here. Yes, you're going to continue to see releases of the allowance for credit losses, eventually making their way back to that day 1 CECL level.

Our view is that, that could be as soon as the end of the fourth quarter into the first quarter of next year just based on what we're seeing currently, really no deteriorating metrics, risk ratings are pretty stable. So we don't see any negatives going forward, but we'll continue to monitor that. But yes, that's what -- the way we're thinking about it is eventually, it will get back to that. Let's call it, 70 to 75 basis point CECL day 1 reserve.

Catherine Fitzhugh Summerson Mealor^ And then how much flexibility do you really have in maintaining the reserve? If growth is really going to start to improve in the back half of the year, can you -- is there flexibility within the CECL model that you can maybe release a little bit less, just to kind of give yourself a cushion to provide for some of that growth?

Robert Michael Gorman^ Yes. Right. So we're not going to go quickly in terms of reducing that reserve. We're going to monitor it closely, take steps down, if you will, because you can -- there is the opportunity to provide these qualitative factors as an overlay to your quantitative model, which may suggest a lower reserve.

There's always going to be uncertainty out there. So there always would be some ability to overlay those factors. But I think we're going to kind of be conservative here and stair-step this stuff down based on what we're seeing on the ground and the future outlook, and see how that plays out.

But as you saw, we kind of took a step in the fourth quarter. We've taken another step -- comparable step in the first quarter. And I think it can continue -- if it plays out, you'll continue to see that. Right now, if you look at our allowance for credit losses, approximately 35% of the \$156 million in reserves we have out there are qualitative -- those are qualitative factors that have been added back into our quantitative model. Because of the uncertainty and not seeing, there's always going to be some uncertainty there. So we always have some of that. But that's where we stand today, and we'll continue to evaluate that.

Operator^ Next question comes from the line of William Wallace of Raymond James.

William Jefferson Wallace^ John, in your prepared remarks, you gave the utilization rates in your lines of credit. Could you repeat what that rate was? What it was down from? And then could you opine on how you might anticipate the borrowers spending the cash on their balance sheet and having a need for those accessing those lines again?

John C. Asbury^ Yes, commercial line utilization. Now when I say commercial line utilization, I'm not talking about construction lending, forget that. I'm talking about revolving credits to commercial and industrial businesses, which generally support working capital and sometimes general corporate purposes.

Utilization for C&I lines was 25% at the end of Q1 versus 26% at the end of Q4 2020. Normal for us would be low 40, low 40s. So that's a substantial difference. And we saw it tick down, which is simply the build of liquidity. I think there's a burn rate concept here, Wally, I've said it before. Yes, I think businesses have been flush with cash.

And typically, what you would see as sales pick up, they begin to carry. It's timing differences. It's working capital needs. It's classic, commercial and industrial banking. So they'll carry receivables, they'll build inventory. And to some extent, make capital expenditures as well that may or may not ultimately be financed over term.

So I think just improving business conditions, improving sales activity. As you get into things like the government contractor space, you're clearly financing contracts. We are seeing more M&A go on in that space, and so that will impact it. So we do think that companies will continue to burn through or absorb some of this excess liquidity. Having been in a commercial industrial background, having been in the business for 33 years, I predict that businesses will carry a little more liquidity on a go-forward basis, used to be that they would effectively carry 0 cash, and they would always pay down lines of credit with excess cash. I don't think we'll see as much of that. But I do think that the rising economic

tide will lift this both, and I think that you're going to see more line utilization.

Obviously, new client acquisition is impactful, too. But all indications to us lead us to believe that companies are investing, business is improving. There are lots of things that are scarce right now. It's difficult to get -- if you're going to ship something, good luck. There's very little capacity among the freight lines and the railroads. The -- I know from being on the board of the Port of Virginia, I'm told that there's 1.5 orders for every one slot on containerships worldwide right now.

And so I think that we'll -- this will pick up. These are historic lows. This is a historic level of liquidity, and the rising tide is going to lift that boat. So I think that we'll be on a gradual improving trend.

William Jefferson Wallace^ And I mean, obviously, there's -- that could be a potentially significant driver of growth in the portfolio next year, maybe even late this year. Is that something that you think would be a benefit to your kind of high single digits target? Or do you think you need that increase in utilization to kind of get back to that high single-digit rate?

John C. Asbury^ Well, I think that we're going to need some improvement in line utilization in order to hit those objectives. But that will be a combination of new client acquisition, existing clients engaged in capital expenditures.

If you look at the outlook, talk to our guys over in equipment finance. I mean, we -- there is a very good reason to believe we are going to see substantial capital investment across most industries. And so we -- I don't want to be overly bullish here, Wally, but I do think that there's a very bull -- real bull case and I think -- I don't know exactly what the timing is going to be, but I think that there's going to be an improving trend line.

So we don't -- I'll repeat what I said in my opening comments. We see no reason right now to not believe that we should get back to where we've been for as long as I've been here, which is the ability to generate high single-digit growth on an organic basis. I think that's a next year issue, to be clear, that we should be on an improving trend should be for the remainder of this year.

William Jefferson Wallace^ Okay. And on the expense, John, you're saying that your -- you made the decision to, I guess, increase your investment levels and you measure these on a return basis. Are we -- should we anticipate that we would see the returns in the form of slower expense growth in out years or accelerating revenue growth due to productivity enhancements?

John C. Asbury^ And you make a good point. I do want to point out some of these projects are revenue related, our foreign exchange business would be a good example. So there are some things that we're doing in terms of making investment in order to build revenue generation capabilities. It's

not -- the big ticket items are absolutely about better automation, process improvement.

Some of them are in some of our compliance activities, whether it's BSA, AML, fraud mitigation, which should reduce loan losses et cetera, in addition to kind of the blocking and tackling and loan-to-deposit operations.

Rob, do you want to answer that question?

Robert Michael Gorman^ Yes, I agree with what you just said, John. But yes, while the primary benefit is going to be a slower loan -- slower expense growth going forward because a lot of this stuff is back office efficiency, scalability, taking manual processes out of the equation, not having to put FTE in place as we grow the company. So I think we'll see it manifests itself mostly in a subdued annual growth rate going forward on the expense side.

John C. Asbury^ The better operating leverage. And I will say also, it's not lost on us that we have -- we are sitting on an embedded \$25 million of fee income from PPP round 2, which we did not plan on. That was not lost on us as we thought about is now the time to pull forward a couple of these things and try to knock them out. Obviously, we're not spending much of that, but that was not a bad thing to take into consideration.

Operator^ Your final question comes from the line of Laurie Hunsicker of Compass Point.

Laurie Katherine Havener Hunsicker^ I just wondered if we could go back sort of a little bit to expenses and just how you're thinking about branch closures? I know you are at 149, you're now at 129, 129 is our goal. Are there more branches to go here? How are you thinking about that? And then also with 3 loan production offices, do you maybe shutter those in light of what we're seeing now with rates or how are you thinking about that?

John C. Asbury^ Regarding the branch network, as you know, Laurie, we've closed 20 branches over the last year. That's 13% of the network. As a annual process, we do formally review the entire branch network. I don't think you're going to see us turn around and close another 20 in short term, but this never ends in terms of the look toward optimizing the branch distribution network. There's some repositioning opportunities, perhaps. We have 1 going on right now here in Richmond. We're effectively closing 2 opening 1 new one in a better location that is of a design that is what we want for a modern banking requirement. And it's certainly less expensive. So you may see some more of that.

Robert Michael Gorman^ Yes, that's a build. We're building a new brand.

John C. Asbury^ Yes. Right. So you may see us -- the classic way of doing it is you close branch A and move that business to branch B. The other way to do it is to close branch A and branch B and build branch C, which is in a better location. And so that's a different way of thinking.

You're starting to see a little bit of that go on in the system. So we'll continue to evaluate this on a disciplined basis.

You mentioned about the loan production offices, you're talking about Charlotte and our Columbia, Maryland operation? Is that a...

Laurie Katherine Havener Hunsicker^ I think you have 3 of them, is that right?

John C. Asbury^ Well, I would say we have 2, really. Yes, we have Columbia, Maryland, which is Baltimore area. And we have Charlotte. Technically, we have a small office in Greensboro as well.

Robert Michael Gorman^ Yes, I went through equipment financing there, but...

John C. Asbury^ Equipment finance is a business at that time. So we -- we're doing well. We're investing in those -- Charlotte is principally a commercial real estate play, whereas Columbia is not. We're very happy with those markets. We certainly are not thinking about closing them.

Laurie Katherine Havener Hunsicker^ Okay. Okay. And then, Rob, do you have numbers in terms of what your balances are on third-party consumer and lending club as of March 31?

Robert Michael Gorman^ Yes.

Laurie Katherine Havener Hunsicker^ So I can get them from you offline?

Robert Michael Gorman^ No. The numbers are -- it's about \$123 million total, \$40 million of that is lending club and then service finance is about \$85 million. So they're paying down pretty quickly to the tune of \$20 million to \$25 million a quarter.

Laurie Katherine Havener Hunsicker^ That's great. And then, John, last question to you, just kind of going back to what Casey was asking on M&A, you are very well positioned on M&A. You have very strong stock currency. Can you just help us fine tune a little bit in terms of how small will you go on assets? How big would you grow on assets? Would you consider an MOE?

John C. Asbury^ Yes. Sure thing, Laurie. On this, we debate constantly this question, very good question of how small would you go to make sense? I don't want to say something. I try to never say never, but I would say that it's difficult to imagine we would do something much below, say, \$3 billion. I cannot conceive of any scenario whatsoever where we would go below \$1 billion. So it just doesn't move the needle enough. You have to think about the work that goes on.

Smaller deals aren't particularly risky. They're relatively low risk. But how impactful are they in terms of the value creation opportunity, that's what it's really about. How much does it add to the scarcity value of the franchise? How good is this fit? So a preference, as you've seen us do,

at least in my time, would be no lower than roughly the \$3 billion range. It could be a little lower, but not \$1 billion.

And then on the upper end, this -- a slightly different message that we delivered intentionally last quarter is that, sure, we recognize is a \$20 billion bank that even a \$3 billion acquisition is not as incrementally impactful in terms of value creation as what it used to be when we were a smaller company.

And so we do think about the full set of opportunities from kind of that low end that I've been discussing up to something that some might call an MOE, and different people have different interpretations of what that means. But that just means something that's starting to get sort of close to your own size, plus or minus, whatever the line may be. Would we consider that? Yes, we would consider that. But I would reiterate, execution risk goes way up.

And so then you have to think about that is more of a partnership. That is not a straight acquisition. And what are the benefits? How much value could be created? And how do you compare that against the risks involved, et cetera? And do you or do you not have a complementary culture, business strategy and all important for Atlantic Union Bank, what does it do to the power and the scarcity value of this franchise? You do not want to do anything that dilutes the power of the franchise, the scarcity value of the franchise, the opportunity that we have because we're very focused. So that's how we think about it.

Truth is, there just aren't that many things that would screen as being sensible from our standpoint, but it doesn't mean 0. It simply means not that many. So we try to be open minded. We have lots of good relationships. We have lots of friends out there. There are conversations that have been going on for my 4.5 years that I've been here. And these things don't just happen overnight. You don't just get a phone call, and it's something that -- we think it's important to maintain optionality. It's all about optionality.

And then you have to think about what's your optionality after you do something smaller or larger? Do you have more options? Or do you have fewer options? So it's all about value creation. It's all about thinking 2 and 3 steps ahead. It's about being strategic. It's not about being opportunistic because your fund rose. That's my view.

William P. Cimino^ Thanks, Laurie. And thanks, John. And thanks, everybody, for calling in today. We appreciate your time, and we look forward to talking with you in July. Take care. Thank you.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.