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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Atlantic Union Bankshares' Second Quarter 2021 Earnings Call. Please note that today's call is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker for today, Bill Cimino. Please go ahead.

William P. Cimino ***Atlantic Union Bankshares Corporation - SVP of IR***

Thank you, Jay, and good morning, everyone. I have Atlantic Union Bankshares' President and CEO, John Asbury; and Executive Vice President, CFO, Rob Gorman; and Atlantic Union Bank President, Maria Tedesco, with me today. We also have other members of our executive management team with us remotely for the question-and-answer period.

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

During today's call, we may make forward-looking -- we will comment on our financial performance using both GAAP metrics and non-GAAP financial measures. Important information about these non-GAAP financial measures, including reconciliations to comparable GAAP measures is included in our earnings release and earnings supplement for the second quarter of 2021.

Before I turn the call over to John, I would like to remind everyone that on today's call, we will be making 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 statements.

Please refer to our earnings release and earnings supplement for the second quarter of 2021 and our other SEC filings for further discussion of the company's risk factors and other 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 during today's call are subject to that 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 ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Thank you, Bill, and thanks to all for joining us today. As those of you who follow us closely know, for the last year or the quarter, we've been consistent in our commentary that we are managing through 2 significant and distinct challenges: first, the COVID-19 pandemic; and second, a near 0 short-term rate environment that we expect still has years to run, pressuring the company's profitability.

While we can and do hope that interest rates will rise sooner than forecast, which would be a great benefit to us, for purposes of planning and running the company, we expect near 0 short-term rates through at least next year. We are watchful of the different COVID variants in monitoring the trends, but nonetheless, continue to believe based on information from state officials, the pandemic's major impacts are behind us, at least in our primary markets. Despite the human tragedy of the pandemic, Atlantic Union has emerged from it stronger, more capable, more agile and resilient.

Our experiences over the past 1.5 years have confirmed our belief 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, customers and the communities we serve. And we remain keenly focused on reaching the full potential of this powerful franchise.

Our mantra of soundness, profitability and growth in that order of priority serves us well and continues to inform how we run our company. A 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 is serving us well in the current environment.

Our loan modifications have helped our clients weather the storm, having peaked at about 17% of the non-PPP loan portfolio in May of 2020 and remain at a minimal 0.3% as of June 30, 2021. Our capital position has been strengthened, and we have ample liquidity.

Our second priority is profitability, and we are pleased to report a very clean quarter without meaningful onetime gains or losses, allowing you to better see our core performance, expense action results and investment in the business for the long haul. While we remain mindful of the continuing challenges of the low rate environment, you will recall, we forecasted a quarterly expense run rate of about $92 million a quarter, and we hit it.

As for growth, we continue to be optimistic 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 here in their 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're benefiting from the disruption occurring at 2 of our largest competitors.

Loan growth, excluding the impacts of PPP returned this quarter with an annualized growth rate of 2.5%. Loan growth was over 3% annualized when you adjust for the runoff of the third-party consumer portfolio. Now this is not where we want to be, but it is consistent with our prior messaging that we believe we are on an improving growth trajectory and we still do believe that. Our commercial loan categories of all types increased by approximately 3.5% annualized with consumer loans declining 2.9%, as we continue to run down our third-party consumer portfolio, which we expect to drop below $100 million this quarter.

Total consumer loans, excluding our third-party portfolio, actually showed some slight balance growth in an encouraging turn of events. Line utilization is still well below normal at 28%, which, while about a 3 percentage point increase from the prior quarter points to just how much liquidity remains in the system. Based on our commercial pipeline, which is currently at a record high, we believe we do have line of sight to a continued upward trend in loan growth and that the second half of the year will be better than the first half. This could bring our full year 2021 loan growth up to mid-single digits, excluding third-party consumer loan runoff and PPP loans. Next year, we do expect to return to high single-digit loan growth in our franchise. Market dynamics and economic outlook certainly support that opportunity.

Aside from the significant amount of excess liquidity being held by our clients, 2 other headwinds impacting our loan growth to date are supply chain disruptions, creating a scarcity of pretty much anything our business clients seem to need, and the difficulty they're having filling their open jobs. This is muting growth for us, but this effect should diminish as the year works on.

I'll now turn to PPP forgiveness since it is clouding our reported balance sheet growth. The first and second round of the Paycheck Protection Program were brand builders for Atlantic Union and our results support that assertion. We remain focused on converting as many as possible with the more than 3,500 new-to-bank PPP clients to full relationships. And per our analysis, we have become the primary bank for well over half of them, and we continue working all the others. We started taking applications for round 2 as soon as the

Small Business Administration opened to banks our size and received SBA approval for approximately 5,700 loans totaling around $555 million for round 2. PPP loan forgiveness during the second quarter ramped up from the first quarter. Approximately 5,000 clients from both round 1 and round 2 received forgiveness totaling approximately $705 million during the quarter bringing the total amount forgiven to date to approximately $1.3 billion. Our current PPP balances totaled $859 million. Overall, the PPP loan forgiveness process is running smoothly.

Let me speak now to our current operating environment and our workplace strategy. While our branches have been open to walk-in traffic since last fall, corporate offices remain closed to all but essential personnel. As a people-focused organization, we have sought input from and listened to our teammates, conducting numerous surveys and focus groups to better understand their desires and expectations for the office environment while balancing that with our own business requirements. After Labor Day, we will transition to work in a hybrid office approach. Relatively small percentages of our teammates will be fully remote, and those who are assigned to corporate offices will be eligible for a hybrid option. This is a great experiment. And while we intend to be flexible and responsive to our people's request for a hybrid work opportunity, if we find that the hybrid approach is not as productive as we expect or if it fails to meet our business requirements, we will revise it. Like everything else we do here, this will evolve based on actual experience and our learnings.

The past year challenged us in new and unexpected ways bringing out our best to meet the unprecedented needs of our customers and our teammates. As I said before, we've come out on the other side of this as a stronger and more capable organization. Our culture has evolved too, and it continues to evolve. This is happening due to 2 important mergers over the past few years, which brought us new teammates with new perspectives. New leadership having joined the bank, creating new expectations. And of course, the new environment that has changed the way in which we all work together and interact with our customers. For these reasons and more, we wanted to study and reflect on the Atlantic Union Bank culture and revisit our core values to ensure they still align with who we have become and with all that has worked for us during these challenging times. Our core values guide our actions and shape our culture as we continue to grow and as we continue to evolve.

We purposely reflected on how our culture has enabled our success to ensure it will enable our future as well. This rearticulating of our core values is clear, it's concise. It's simple to understand, and we think is uniquely us. The core values we chose to reflect our new organization are caring, courageous and committed. Caring means working together towards common goals, acting with kindness, respect and a genuine concern for others. Courageous means speaking honestly, openly and accepting our challenges and our mistakes as opportunities to learn and grow. And committed means being driven to help our customers, our teammates and our companies succeed, doing what is right always and being accountable for our actions. This is all here now. It's not some aspirational statement.

While it's easy to talk about culture, it's harder to show how your culture performs in the competitive environment in which we operate. I am proud to say that our words more than match the reality. In addition to winning a number of local and regional awards, we were #1 in J.D. Power's Retail Banking Customer Satisfaction for the Mid-Atlantic region in 2021 and and this is the second time in the last 3 years we've won this award. As we dig deeper into the J.D. Power study, our online banking experience, website, mobile application and branch experience all scored the highest in the Mid-Atlantic. This is something I would not have expected a few years ago. And it's not just retail customers who rate us highly, we were also named the Greenwich Excellence Award winner for businesses with $1 million to $10 million in revenue for the entire South region.

As I've said before, as we've learned to work differently, our customers have learned to bank differently. We've seen usage of our digital channels increase substantially from the prior year. For example, digital logins are up 63% since this time last year with 73% of logins coming from a mobile device. Mobile check deposit utilization is up 46% year-over-year. Zelle utilization is up 196% year-over-year, and card control users are up around 241% year-over-year. Finally, commercial mobile deposit dollar volume is up 49% 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 second quarter of the year, our most significant digital accomplishments and major undertakings were having completed the business e-banking platform upgrade to the Digital One platform, and we rolled out a dedicated Atlantic Union Bank Wealth Management branded mobile application and a new personal finance portal powered by Black Diamond. Initial feedback from clients has been very complementary with higher-than-expected login rates and I can attest, as a client of our Wealth Management group, it's terrific.

Turning to credit. The headline here is the absence of credit problems. With the usual disclaimer that anything could still happen, we're more confident on credit than we have been since the pandemic began, even more so than at the end of the first quarter. And we don't expect credit issues to be problematic in the near term, barring some unexpected negative turn 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 accommodative Federal Reserve and our own actions and client selectivity have had a positive impact and we've seen the unemployment rate in our markets improve faster than expected. Here in our home state of Virginia, June unemployment came in at 4.3%, down from 5.1% in March. And that was 160 basis points better than the national average of 5.9%. Having said that, the employment challenge in our markets is not the unemployment rate. It's the ability of businesses to fill their open jobs.

As we continue to climb out of the systemic downturn, our credit losses have been minimal so far. Charge-offs in Q2 improved off the very low levels we've seen and netted to 0 basis points, which is an impressive accomplishment. Realistically though, at some point, credit losses will have to normalize. But given all of the stimulus and the strengthening economy, there's simply no way of knowing when that may be. Rob will talk through the provision for credit losses in our CECL modeling, but by all indications and metrics, credit appears to have never been better.

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. As I mentioned before, the economic outlook is strongly positive, 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 it should 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 that gives us confidence in our outlook.

We will again point out 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. As an aside, Virginia recently became the first back-to-back winner of the best day to do business by CNBC, and it comes as no surprise to those of us who live and work here. This is the fifth time Virginia's achieved this #1 ranking.

Our goal remains creating a company that's able to consistently deliver differentiated performance. As I mentioned in the last quarterly call, we continue to work on ways to make the company more efficient and more scalable while improving and automating processes and the customer experience. We should see operating leverage improvements as a result. Once we get through the noise of PPP, we would expect to publicly reestablish our top tier financial targets.

I am convinced we're emerging from the pandemic stronger, better and more efficient than before, and that will give us opportunities, both organic and perhaps under the right circumstances through M&A. We are leveraging our learnings and ingraining our newfound capabilities, agility and innovation into the company's culture so that we are flexible and adaptable in the current lower-for-longer rate environment and the forthcoming post-pandemic next normal, whatever that may be, while delivering a differentiated customer experience. I do remain confident in what the future holds for us and the potential we have to deliver long-term sustainable financial performance for our customers, communities, teammates and shareholders.

And I'll close, as always, with my customary reminder that Atlantic Union Bankshares remains a uniquely valuable franchise, it is dense and it is compact. It is 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.

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

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

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 second quarter of 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 has served us well as we manage the company through the COVID-19 pandemic crisis 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 has allowed us to weather the economic impact of COVID-19 and come out stronger as the pandemic subsides.

Now let's turn to the company's financial results for the second quarter. Please note that for the most part, my commentary will focus on Atlantic Union's second quarter financial results, which will be compared on a non-GAAP operating basis to the first quarter's results, which excludes the first quarter's after-tax debt extinguishment loss of $11.6 million resulting from the prepayment of long-term Federal Home Loan Bank advances. For clarity, I will specify which financial metrics are on a reported versus non-GAAP operating basis.

In the second quarter, reported net income available to common shareholders was $82.4 million, and earnings per share per common share were $1.05, up approximately $29.2 million or $0.38 per common share from the first quarter. The reported return on equity for the second quarter was 12.5%, up from 8.4% in the first quarter. Reported non-GAAP return on tangible common equity in the second quarter was 21.4%, which was up from 14.6% in the first quarter. Reported second quarter return on assets was 1.72%, up from 1.16% in the first quarter. And the reported second quarter efficiency ratio was 54.4%, which was down from 67.5% in the first quarter.

Comparing the second quarter to the first quarter on a non-GAAP operating basis, net adjusted operating earnings available to common shareholders in the second quarter was $82.4 million, and earnings per common share were $1.05, which was up approximately $17.6 million or $0.23 per common share from the first quarter. Non-GAAP pretax pre-provision adjusted earnings were $77 million, which compares to $68.6 million in the first quarter. The non-GAAP adjusted operating return on tangible common equity was 21.4% in the second quarter, which compares to the non-GAAP adjusted operating return on tangible common equity of 17.6% in the first quarter. Second quarter non-GAAP adjusted operating return on assets was 1.72%, which was up from 1.4% in the first quarter's non-GAAP adjusted operating return on assets. Second quarter non-GAAP pretax pre-provision adjusted earnings return on assets was 1.55%, which was up from 1.41% in the first quarter. Non-GAAP operating efficiency improved to 51.4% in the second quarter as compared to the adjusted operating efficiency ratio of 55.4% in the first quarter.

Now turning to credit loss reserves. As of the end of the second quarter, the total allowance for credit losses was $128.3 million, which was comprised of the allowance for loan and lease losses of $118.3 million and a reserve for unfunded commitments of $10 million. In the second quarter, the total allowance for credit losses declined by $27.5 million, primarily due to the lower expected losses than previously estimated as a result of economic improvements in our footprint, benign credit quality metrics to date and an improved macroeconomic outlook over the forecast period. The total allowance for credit losses as a percentage of total loans was 0.94% at the end of June, which was down from 1.09% in the prior quarter. Excluding SBA-guaranteed PPP loans, the total allowance for credit losses as a percentage of adjusted loans decreased 22 basis points to 1% from the prior quarter. The coverage ratio of the allowance for loan and lease losses to nonaccrual loans was 3.25x at June 30 as compared to 3.4x at March 31.

The $27.5 million decline in the company's total allowance for credit losses took into consideration, the COVID-19 pandemic impact on credit losses, both through the 2-year reasonable and supportable macroeconomic forecast utilized in 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 historical 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 June baseline macroeconomic forecast for the 2-year reasonable and supportable forecast period. Moody's June economic forecast improved since March and is now assumed that on the national level, GDP will increase 6.9% in 2021 and 5% in 2022 as compared to GDP increases of 5.7% in 2021 and 2022 in the March 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 about 4% during the 2-year forecast period, but the June forecast now assumes a 2-year average of 3.2%.

In addition to the quantitative modeling, the company also made qualitative adjustments for certain industries viewed as being highly impacted by COVID-19. 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 $27.4 million in the second quarter was higher than the negative provision for credit losses of $13.6 million in the previous quarter and was a decline of $61.6 million from the $34.2 million provision for credit losses reported in the second quarter of 2020. The significant decrease in the provision for credit losses as compared to the same quarter in 2020 was driven by the better-than-anticipated credit impact 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 June 30.

In the second quarter, net charge-offs was $70,000 compared to $1.2 million or 3 basis points for the prior quarter and $3.3 million or 9 basis points for the second quarter of last year.

Now turning to pretax pre-provision components of the income statement for the second quarter. Tax equivalent net interest income was $143.7 million, which was up $5.7 million from the first quarter, primarily driven by a $3.7 million increase in PPP loan fee accretion in the second quarter, an increase of $176.8 million in average earning assets and a higher calendar day count in the second quarter. Net accretion of purchase accounting adjustments added 9 basis points to the net interest margin in the second quarter, which was in line with the 9 basis point impact in the first quarter.

The second quarter's tax equivalent net interest margin was 3.23%, which was an increase of 7 basis points from the previous quarter as a result of a stable earning asset yield compared to the first quarter and a 7 basis point decline in the cost of funds. The loan portfolio yield increased to 3.76% from 3.69% in the first quarter, primarily driven by the impact of higher levels of PPP loan fee accretion interest income resulting from higher levels of PPP loans given by the SBA in the second quarter, which was partially offset by core loan yield compression due to lower market interest rates.

The quarterly decrease in the cost of funds to 23 basis points from 30 basis points was primarily driven by a 5 basis point decline in the cost of deposits to 18 basis points in the second quarter. Interest-bearing deposit costs declined by 7 basis points from the first quarter to 25 basis points in the second quarter due to the continued aggressive repricing deposits and the maturity of high-cost time deposits in the quarter.

Noninterest income decreased $2.5 million to $28.5 million in the second quarter, primarily driven by a $3.6 million decline in mortgage banking income driven by a 13% reduction in mortgage origination volumes and also a decline in loan interest rate swap income of $433,000 due to lower transaction volumes in the quarter. In addition, there was a decline in unrealized gains on equity method investments of approximately $1.1 million during the second quarter of 2021. These quarterly declines were partially offset by increases in several other noninterest income categories, including an increase in service charges on deposit accounts of $1.1 million, high debit card interchange fees of $356,000, an increase in bank-owned life insurance income of $944,000, primarily due to life insurance proceeds received during the quarter and an increase in fiduciary and asset management fees of $344,000 due to quarterly growth in assets under management.

Noninterest expense decreased $19.9 million to $92 million from approximately $112 million in the prior quarter. The decline in noninterest expense was primarily driven by the recognition of debt extinguishment costs of $14.7 million during the first quarter, resulting from the prepayment of $200 million in long-term FHLB advances, reductions in salaries and benefits of approximately $1.9 million due to decreases in seasonal payroll-related taxes, lower professional fee costs, professional services cost of $552,000 primarily due to legal fees and costs related to strategic projects recognized in the first quarter. In addition, noninterest expenses decreased $1.3 million due to costs related to the company's closure of 5 branches in February 2021, recognized during the first quarter of this year.

OREO and related Credit expenses also declined from the first quarter of 2021 by approximately $795,000, which was driven by gains on the sale of closed branches of $930,000. These net reductions were offset by an increase of $694,000 of seasonally higher marketing and advertising expenses and an increase in technology and data processing expenses of $315,000. Noninterest expense for the second quarter also included approximately $200,000 in costs related to the company's response to the COVID-19 pandemic and approximately $250,000 in expenses related to PPP loan forgiveness processing.

Effective tax rate for the second quarter increased to 18.3% from 16.8% in the first quarter. And for 2021, we now expect the full year effective tax rate to be in the 17% to 18% range.

Turning to the balance sheet. Period-end total assets stood at $20 billion at June 30, which was an increase of $135 million from March 31, primarily due to an increase in cash and cash equivalents as well as net growth in the investment securities portfolio as excess liquidity was put to work in the second quarter, partially offset by decreases in loans due to PPP loan forgiveness process during the quarter. At period-end, loans held for investment were $13.7 billion, inclusive of $859 million in PPP loans, which was a decrease of $574 million or approximately 16% annualized from the prior quarter, driven primarily by $705 million in PPP loans that were forgiven during the second quarter.

Excluding the PPP loans, loan balances in the first quarter increased $79 million or 2.5% annualized, driven by increases in commercial loan balances of $93 million or 3.5% annualized and reductions in consumer loan balances of $14 million or 2.9% on an annualized basis. The overall decline in consumer loan balances during the quarter was driven by continued runoff of nonrelationship third-party consumer loan balances of approximately $20 million.

At the end of June, total deposits stood at $16.7 billion, which is an increase of $361 million or approximately 9% annualized from the prior quarter, driven by an increase of $560 million across all customer deposit categories, except high-cost deposits, time deposits, which had balanced runoff of $167 million during the second quarter.

At June 30, low-cost transaction counts now comprise 54% of total deposit balances, which is up from 53% in the first quarter. As previously mentioned, the average total cost of deposits declined by 5 basis points to 16 basis -- to 18 basis points, while interest-bearing costs declined by 7 basis points to 25 basis points in the second quarter.

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 manages 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 well-capitalized levels. During the second quarter of 2021, the company paid a common stock dividend of $0.28 per share, which was an increase of $0.03 or 12% from the prior quarter and also paid a quarterly dividend of $171.88 on each outstanding share of Series A preferred stock. The Board of Directors also authorized a $125 million share repurchase authorization in May, and the company repurchased approximately 1.1 million shares for $42.3 million during the quarter. Additionally, from quarter-end through July 21, the company has repurchased another 900,000 shares for $32 million. The company has approximately -- now has approximately $50 million remaining on the board authorization.

In summary, Atlantic Union delivered solid financial results in the second 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 end stages 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, I'll turn it back over to Bill to open it up for questions.

William P. Cimino ***Atlantic Union Bankshares Corporation - SVP of IR***

Thank you, Rob. And Jay, we're ready for our first caller, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Brody Preston from Stephens Inc.

Broderick Dyer Preston ***Stephens Inc., Research Division - VP & Analyst***

I just wanted to start on the buybacks. Given the average price and the timing of the authorization, I'm assuming the purchases came some point in June. So with the stock below where you were previously buying, should we expect you to be similarly aggressive here in the third quarter?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. Brody, that would be the case as the stock price has declined fairly significantly since the first quarter and since the authorization was put in place. We will be -- we will continue to be aggressive on that. As I mentioned, we bought 1.1 million shares as of June 30, and we bought another 900,000 as from June 30 to yesterday. So we continue to be aggressive there.

Broderick Dyer Preston ***Stephens Inc., Research Division - VP & Analyst***

Okay. Good. And then the core C&I strength that you saw, I think it was about 8% annualized backing out PPP. John, is some of that from the pipeline last quarter and then you mentioned that pipelines are still at record levels. Do you -- would you expect that core C&I strength to kind of accelerate from what you saw this quarter and the third quarter?

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

We hope so, Brody, a couple of things. If you look at our total commitment production for Q2 '21, it actually exceeded all quarters of 2019, except for Q4, which is traditionally the strongest quarter of the year. By the way, the same is true for Q1. The reason why you're not seeing more on the balance sheet growth side is twofold. One is depressed line utilization. And then 2 is the elevated paydowns that we've been fighting off, and that's really more of a commercial real estate issue. Dave Ring, Head of Wholesale Banking or Commercial Banking is on. Dave, do you have any comments in terms of your expectations? My view is at some point, we're going to get more traction on the actual outstandings.

David V. Ring ***Atlantic Union Bankshares Corporation - Executive VP & Wholesale Banking Group Executive***

Yes, John, just to tag on to your comments, our -- and Brody, your question was about core C&I growth. So right now, our pipeline is overweighted towards C&I. So about 44% of our pipeline is real estate and 55%, 56% of our pipeline is C&I. So we do expect C&I to continue to grow.

Broderick Dyer Preston ***Stephens Inc., Research Division - VP & Analyst***

Okay. Great. And then I'll just ask one more and then hop back because I know you have a long line. Just wanted to -- you gave good disclosures on the portfolio pricing mix on Slide 13. Just the 15% of the portfolio that has floors, Rob, what percentage of that is currently at or below -- at floor levels or below?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. So the 15%, Brody, about 7% is below floors and to bring them up looking at about a 50 to 75 basis point on average for rates to go up to -- to go back above the floors, so about 7%.

Operator

Next question comes from the line of Eugene Koysman from Barclays.

Eugene Koysman ***Barclays Bank PLC, Research Division - Research Analyst***

Can you help us unpack the specific drivers behind the decline in mortgage revenue this quarter? It looks like the refi volume has come down significantly, and I assume sale margin has declined too. But how are you thinking about the mortgage dynamics for the third quarter? And what does your pipeline look like today?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. Eugene, as you noted, we're down from a high point in the first quarter in terms of gain on sale from mortgages and it was down in the second quarter, as volumes declined primarily as a result of lower refi origination volume that came through. We're also seeing -- as rates went up, we're seeing a lot of competition in the mortgage business. So also our gain on -- net gain on sale also came down a bit in the second quarter. We think going forward here, depending on what the inventory of homes from a purchase perspective comes back online, that's also had some effect on our originations. We do expect that mortgage will probably be down a bit in the next 2 quarters, although we think gain on sale will probably stabilize at the levels we saw in the second quarter. I would expect that you'll see some further decline in the mortgage revenue line in the third and fourth quarters.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

I will say that the drop in treasury yield helps because that means lower mortgage rates, which potentially will drive some pickup in refinance activity, believe it or not, there's still a refinance opportunity up there. Rob is right, one of the big issues in our markets is scarcity of homes for sale, that plus the number of cash offers that are being made. But nevertheless, lower rates help, and we'll work our way through it.

Eugene Koysman ***Barclays Bank PLC, Research Division - Research Analyst***

That's actually very helpful. If I can get another question, and I wanted to zero in on your expense trajectory. It looks like the core expenses came in closer to $93 million this quarter when adjusting out the gain on sale of branches. And that also includes the $0.5 million decline in professional costs that was effectively offset by higher market, right? How do we think about the expenses going forward? And is there a chance that when the roughly $0.5 million of COVID and PPP costs decline, that will result in lower overall expenses? Or will that just be reinvested back as you continue to build out the bank?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes, Eugene, in terms of the expenses, our reported number was, call it, $92 million, which is pretty much in line with what we had projected for the quarter. There were some positives in there, as you mentioned, some gain on sales. That $92 million didn't include what we said we were kind of carving out the COVID-related expenses and then forgiveness related expenses. So those will subside, although I don't think they will over the next 2 quarters as we get back to the office, there's going to be expenses incurred related to that. We'll consider those kind of the COVID back-to-work expenses.

And we have about -- as we mentioned, about $850 million or so of PPP loans that's still around the balance sheet that will continue to work to be forgiven, and we'll continue to incur those expenses. But if you take those out, we're hovering around that $92 million level, give or take. There's -- it can be a little lumpy. We've got a number of projects going on, as we mentioned early in the first quarter in terms of having some external third parties helping us out on projects that should help us as we go forward from an efficiency productivity perspective, going to be a little bit lumpiness around that $92 million.

We're also seeing -- as you probably heard from other banks, we're starting to see some pressure on the wage pressure, and we've got to look at that as well, which could impact our expenses going forward. Although I don't think that's going to be a big number, big driver here.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

And to Rob's point, there are always some pluses and minuses and that will likely continue that we keep targeting $92 million.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. I should also mention, of course, incentives is a variable cost. So we continue to accrue to our targeted levels of incentives during the past 2 quarters, and we'll see where we go based on what projections look like and that's a lever we could pull as well if that is...

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

That's correct. That lever is available if needed.

Operator

Next question comes from the line of Casey Whitman from Piper Sandler.

Casey Cassiday Whitman ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

Just a bigger picture question for you, John. We've seen M&A start to pick up in your markets. Can you just give us an update to how you're viewing M&A opportunities across your footprint and just how you're weighing that against the organic growth opportunities?

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Yes. Sure, Casey. Nothing has really changed from the commentary last quarter in terms of our overall view. First of all, we are principally focused on organic performance. And whenever you hear us talk about our projects, and we call them out for a reason. We just want to demonstrate the projects that are underway. There are strategically important activities going on in this company that have us very busy. And so as we think about M&A, we have to balance the implications of taking something on versus things we need to do anyway. We can always -- we've organically, I think, driven excellent results and proven we can start new businesses, most notably equipment finance, expanding government contractor finance. We feel good about our pipeline. We can always buy back shares. And those are all pretty safe propositions for us. And so we think about that compared to the M&A options that are out there. We're less likely to look at what I'll call small M&A because even though it could be smaller, it would have an opportunity cost. And we have been watching with great interest and fascination, these competitive bids that have gone on in our markets, none of which we have participated in, by the way.

While I will never say never, it is not our style to engage in bid wars for banks. Our style is to build relationships and partner with people who have a similar vision for the future and who take the long view, not simply sell to the highest bidder because there are downsides, and you can see cost take out and all the consequences of that.

So again, nothing is impossible. That doesn't mean we would never ever do that. We just don't see anything, haven't seen anything yet that would be so important to us that would cause us to feel the need to do it. And then we also think we'd rather keep powder dry, take the long view, think about something that could potentially be more impactful, create more value, create more scarcity, shareholder value and scarcity value. So fundamentally, we're patient. We're not feeling pressured. We're not feeling pushed. We have lots of friends. We have lots of conversations. Many of these conversations go on for years at a time. This follow out, I've been here for 5 years. So I have some 5-year-old friends, too. So we may or may not do something. We'll see. You can ask again next quarter.

Operator

Next question comes from the line of Laurie Hunsicker from Compass Point.

Laurie Katherine Havener Hunsicker ***Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst***

I was hoping we could go back to expenses because I too am sitting netting back that -- and the OREO line item expense is a [900 and 9,000 dollar] credit. Is that correct? Because I didn't see that breaking out in the income statement. I'm just taking your -- the adjustments that you know.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes, that's right, Laurie. It's about $900,000 positive impact on the OREO line there.

Laurie Katherine Havener Hunsicker ***Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst***

And you normally have ...

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

It's in other -- it's all in other...

Laurie Katherine Havener Hunsicker ***Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst***

It's -- right, it's in other, right. And then normally, you guys do have tax payments. So I guess I'm looking at that and adjusting that, I'm over $93 million for the quarter. Can you -- sorry, can you just share with us, I know, Rob, you mentioned probably $92 million run rate, but just any sort of other branch rationalization that you're thinking about, again, also dovetailing off the fact that mortgage banking is going to be very, very challenged. How you're thinking about what are your variable costs? Can you pull anything out of there? Just maybe as we look even beyond '21, if we're looking into '22, how we should be thinking about expenses?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes, I'll let John take leaving the branch rationalization question and comment beyond that.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Sure. We continue to look at -- we look at branches formally on an annual basis. But as a practical matter, we're always thinking about it. Something we've recently done here in Richmond is we went 2 for 1. And so the old way of thinking about this was close branch A and consolidate into branch B. Something we've done recently that we're looking to replicate is close branch A and branch or build branch C, better located, smaller, exactly the way we want it designed, exactly where we want it in a better location. That's a metropolitan market strategy, obviously, and we're looking for more opportunities. And we have a couple of ideas around that. We also have an opportunity that we will likely undertake where we do have one branch that will likely be sold and repositioned and I don't want to talk too much about that, but that is one of the ways that we think about it, Laurie. And we're always looking at the change in consumer behavior. Maria Tedesco is here, our bank president. Do you have anything to add to that, Maria?

Maria P. Tedesco ***Atlantic Union Bank - President***

I would just add that we have much data to understand our customers' behavior, their banking pattern. And that I don't -- that doesn't just mean consumer. We also talk about business and commercial and how they're leveraging the branches. And that plays into this whole modeling that we're doing in our branches. I would also say we've recently opened 2 new locations, which you alluded to in the consolidation. But that was based off of where we saw the market, good market opportunity and customer demand for a brand space.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Yes. So I don't envision we're going to have another round of a big bang of branch consolidations. It will be announced as an event anytime soon, but we'll continue to pare it down. And I think back to your underlying question, Laurie, every quarter, there's always some degree of put and take. And if we have a -- we call them blue birds. If we have a gain, we're looking at, is there anything else we need to do. But we keep our eye on the target of $92 million. We always have incentive compensation as a variable cost that we can draw down if we need to, we'd rather not, but we'll do it if we have to. And everything is a trade-off. We're constantly managing trade-offs.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. I would also add, we are making investments in some productivity plays, efficiency plays. Robotic process automation continues to be worked on. And these are things that you won't necessarily see a decline in the expense base, but you should see a lower level of expense increases as we go forward. So we don't have to add hefty [technology].

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Excellent. That's operating leverage.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. So that's what we're really working towards, Laurie, is try to produce positive operating leverage where expenses aren't growing nearly as fast as the revenue growth.

Laurie Katherine Havener Hunsicker ***Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst***

Okay. Perfect. That's helpful. And then just last question. Rob, on margin, hoping you can just give us a little bit of help understanding this going forward. Just point number one, if you can remind me how much is left unamortized fees on your $859 million of PPP loans? And then any thoughts about pace of loan forgiveness? And then I guess sort of dovetailing on to that because you had certainly outsized PPP fees this time and then outsized accretion. Just looking at your accretion tables, the $4 million this quarter looks like on Page 2, it will probably run closer to $1.5 million. Just how we should be thinking about net interest income and net interest margin? Any guidance you can give us would be really helpful.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. So in terms of the PPP deferred fees, we have about $25 million left on that $850 million or so PPP loans left on the balance sheet. We're anticipating that the bulk of those fees will be accreted through income over the balance of this year and probably some into the first quarter. We're working on -- and these are mostly related $550 million or $600 million that's related to PPP-2, which is really just getting underway from a forgiveness perspective. But based on PPP-1, for given this, we think it will accelerate over the next, call it, 2 to 3 quarters. which will add to net interest income on a dollar basis.

In terms of going forward in the margin, if you probably noted -- if you look at our reported margin, yes, we were up. But if you take out the PPP impact and the accretion income impact, which was of 9 basis points, our core margin came down a bit. We have been guiding to plus or minus 3.05. That has come down a bit, a couple of -- 2, 3 basis points this quarter. We're anticipating that we could see some near-term further compression in that range. And that's all because of the excess liquidity we continue to see and we're trying to put that to work as best as we can.

You would have noted that we've increased our investment portfolio considerably over the last 6 to 9 months, up about $1 billion actually from about 15% of earning assets to closer to 20%. We feel like that's -- it's margin -- negative to the margin, but it's a positive to net interest income. So it's a dollar-margin question that we continue to evaluate. So our view is that we want to put that money to work and not let it sit in 5 to 10 basis point cash position. So that said, I think you'll see on a core basis net interest income going up, but you may see some pressure on the core margin itself.

Operator

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

Catherine Fitzhugh Summerson Mealor ***Keefe, Bruyette, & Woods, Inc., Research Division - MD & SVP***

Most of my questions were answered, but I just wanted to have one quick follow-up on the expense conversation, that could be worse. But you typically talk about the $92 million as your target that, that typically excludes the intangible amortization. Is that still how we're thinking about it, so it's kind of $92 million on a core ex amortization, but more like $95 million if we include that $3 million expense?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

No. Yes. Yes, Catherine, I know you talked about this quarter, but the $92 million is inclusive of the amortization. So if you back that out, it's like $3.5 million to $4 million, you'll be closer to the $88 million nonamortization expense but we do include that in our guidance to the $92 million, again, give or take around that level.

Catherine Fitzhugh Summerson Mealor ***Keefe, Bruyette, & Woods, Inc., Research Division - MD & SVP***

That's in your guidance of -- your guidance of trying to keep it around $92 million is back out that amortization?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

No. Yes. So the $92 million we reported this quarter includes about $4 million of the amortization, yes. So that $92 million target is inclusive of the amortization.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Otherwise, it's $88 million.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes.

Catherine Fitzhugh Summerson Mealor ***Keefe, Bruyette, & Woods, Inc., Research Division - MD & SVP***

Got it. Okay. But last quarter, you had guided to a $92 million expense number. So you're saying including the amortization of intangibles.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes, we did. Yes, it's right.

Catherine Fitzhugh Summerson Mealor ***Keefe, Bruyette, & Woods, Inc., Research Division - MD & SVP***

So you were kind of coming right on with that?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes, last quarter, we were around $95 million or so after picking out some of the noise, $96 million, and that included amortization. And then we're dialing that back to $92 million inclusive of the amortization.

Catherine Fitzhugh Summerson Mealor ***Keefe, Bruyette, & Woods, Inc., Research Division - MD & SVP***

Great. Okay. Perfect. Yes. So I just want to make sure that we were all on the same page. That's perfect. Got it. Okay. And then on the reserve, we've seen really big negative provisions in the past couple of quarters. I'm assuming that, that kind of moderates as we move forward, just given where the reserve ratio is? And any thoughts on kind of provisioning levels in the back half of the year?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. As you noted, this is the third quarter in a row that we've released reserves, this one being the largest, about $28 million. And it's all about our quantitative CECL modeling and the outlook and the pristine credit metrics that we are seeing, I mean, as John mentioned, basically 0 charge-offs this quarter, past dues down. We're not seeing any migration -- negative migrations in the loan book in terms of loan ratings, actually we're seeing them improve. So all of that suggests that unless we see some sort of worsening situation on the economic front that we will continue to see releases as we go forward here. Where that bottoms out is a question. We've been suggesting that if you go back to our CECL day 1, it was about 75 basis points of the loan portfolio, balanced portfolio. We think that's probably a pretty good guide to be, again, all things being positive going forward here that we'll get there over a period of time. And maybe depending on what our mix of loans are actually could be a bit lower than that. But our bias is you can expect to see continued releases unless something material changes.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Now we're conservative by nature. We apply qualitative overlays uncertainty to the extent that we can justify it, which is our bias. But at the end of the day, you can't make it up. We can't simply say we choose not to release. We sometimes hear our counterparts make comments that sound to our ear like we choose not to release. They don't appear to have the same account as we do. You can't do that. So there is a point where it's principally driven by quantitative metrics. They are what they are. Yes, we apply qualitative overlay and we'd be as conservative so we can justify, but you can't make it up and say...

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes, that's a good point, John. I should mention that of the -- of these allowance as of this quarter, what we've done over the last several quarters is about 35% of the allowance dollars is about -- is related to qualitative overlays that management is putting on.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Correct. So rest assured, we dial that needle up as high as we can justify and then we stop.

William P. Cimino ***Atlantic Union Bankshares Corporation - SVP of IR***

Thanks, everyone, for joining us today. We look forward to speaking with you over the next quarter and in 3 more months with our next results. Thank you, and have a good day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Have a great day.