

ITEM 2.02 - RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On July 24, 2015, TowneBank issued a press release regarding its results of operations and financial condition for the second quarter ended July 24, 2015. A copy of the press release announcing the Registrant's results for the second quarter ended June 30, 2015 is attached hereto as Exhibit 99.1 and incorporated by reference herein.

ITEM 9.01 - FINANCIAL STATEMENTS AND EXHIBITS

Exhibit 99.1: News Release dated July 24, 2015.

SIGNATURES

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

TOWNE BANK
(Registrant)

/s/Clyde E. McFarland, Jr.

Clyde E. McFarland, Jr.
Senior Executive Vice President & Chief Financial Officer

Date: July 24, 2015



News Release

FOR IMMEDIATE RELEASE

For more information contact:

G. Robert Aston, Jr., Chairman and CEO, 757-638-6780

Clyde E. McFarland, Jr., Senior Executive Vice President and CFO, 757-638-6801

William B. Littreal, Chief Investment Relations Officer and COO, 757-638-6813

TOWNEBANK REPORTS SECOND QUARTER EARNINGS

Suffolk, Va. - Hampton Roads based TowneBank (the “Bank”) (NASDAQ: TOWN) reported record earnings of \$17.81 million for the quarter ended June 30, 2015, a 52.54% increase, or \$6.14 million, over the \$11.68 million reported for the comparative period in 2014. Fully diluted earnings per share were \$0.35 per share compared to \$0.33 per share for the comparative period of 2014. Earnings for the year-to-date period increased 41.84% to \$32.35 million as compared to the \$22.81 million earned in the same period of 2014. For the year-to-date period, fully diluted earnings per share were \$0.63 per share, down slightly from \$0.64 per share in comparative 2014. Earnings per share were affected in 2015 by the issuance of 15.55 million new common shares in conjunction with the acquisition of Franklin Financial Corporation (“Franklin”) on January 2, 2015.

The Bank’s common dividend was \$0.12 per share for the quarter with the common dividend totaling \$6.19 million. The current dividend represents an increase of 9.1% over the dividend paid during the same quarter of 2014.

“We are pleased to report record earnings for the quarter, as we continue to build on the momentum started earlier this year with the Franklin acquisition and our entry into the Richmond, Virginia market,” said G. Robert Aston, Jr., Chairman and Chief Executive Officer. “Our operating results reflect the benefits of the merger as revenue increased \$16.15 million, or 26.12%, from the second quarter of 2014 while producing a return on average assets of 1.21% and a return on average tangible equity of 11.77%

“We have continued to position ourselves for growth and success in the Richmond, Virginia metro market,” added Aston. “The strong team of Richmond hometown bankers we assembled combined with a comprehensive marketing campaign designed to introduce the market to our unique brand has resulted in \$66.7 million of new loan originations in Richmond since the merger.”

Second Quarter 2015 Performance Highlights

- Total revenues were \$77.97 million, an increase of \$16.15 million, or 26.12%, compared to the second quarter of 2014
 - Taxable equivalent net interest margin was 3.52%, including accretion of 0.10%, compared to 3.43% for second quarter 2014
 - Residential mortgage banking income increased 32.53% from second quarter 2014 to \$10.25 million on production volume of \$466.23 million
 - Insurance commissions increased 11.15% to \$9.88 million
 - Noninterest income was 42.43% of total revenue in second quarter 2015

- Return on average assets of 1.21%, increased from 0.97% for second quarter 2014

- Loans held for investment increased \$758.93 million, or 21.88%, from June 30, 2014 with organic growth of \$299.11 million, an increase of 8.62%
 - Commercial and industrial loans increased by \$74.10 million, or 11.25%, with organic growth of \$58.97 million
 - Owner occupied commercial real estate loans increased \$22.61 million, or 3.06% with organic growth of \$6.70 million
 - Income producing commercial real estate loans increased \$338.91 million, or 52.22% with organic growth of \$119.95 million
 - Construction and development loans increased \$66.44 million, or 13.63% with organic growth of \$22.24 million
 - Consumer and other loans increased \$55.81 million, or 108.90% through organic growth

- Total deposits were \$4.69 billion, an increase of \$890.82 million, or 23.47%, from the second quarter of 2014

- Noninterest bearing deposits increased by 13.34%, to \$1.36 billion
 - Average interest-bearing deposit costs were 0.55%, up 4 basis points from the prior year
 - Noninterest bearing deposits were 29.09% of total deposits compared to 31.69% at June 30, 2014
 - Total cost of deposits increased to 0.39% from 0.36% at June 30, 2014 reflective of a greater mix of savings deposits acquired in the Franklin merger
- Asset quality showed continued strength
 - Nonperforming assets were \$53.61 million, or 0.89% of total assets compared to 1.02% at June 30, 2014
 - Nonperforming loans decreased 0.61% to \$7.46 million
 - Foreclosed property increased to \$46.15 million, including \$10.33 million acquired in the Franklin merger
 - Performing troubled debt restructurings decreased \$8.79 million
 - Provision for loan losses was \$1.72 million for second quarter 2015
- The Bank remained well-capitalized
 - Common equity tier 1 capital ratio of 12.93%
 - Tier 1 leverage capital ratio of 11.14%
 - Tier 1 risk-based capital ratio of 13.04%
 - Total risk-based capital ratio of 13.80%
 - Tangible book value increased to \$12.00

Net Interest Income

Net interest income increased to \$44.88 million, an \$8.35 million, or 22.84%, increase from the second quarter of 2014. The primary driver of the increase was the significant increase in earning assets from the Franklin merger along with the restructuring of the Franklin balance sheet. Average earning assets increased \$994.38 million, or 22.53%, from the second quarter of 2014. Augmenting the increase was a 9 basis point widening of the tax-equivalent net interest margin to 3.52% in the current quarter from 3.43% in the second quarter of 2014. Accretion income added \$1.08 million, or 10 basis points, to margin in the current quarter.

On a linked quarter basis, net interest income increased \$1.33 million or 3.05%, in second quarter 2015 versus first quarter 2015, while tax-equivalent net interest margin was unchanged from the first quarter of 2015 at 3.52%.

Noninterest Income

| <i>(in millions)</i> | % Change | | | | |
|--|------------|------------|------------|--------------------|--------------------|
| | Q2 2015 | Q2 2014 | Q1 2015 | Q2 15 vs. Q2 14 | Q2 15 vs. Q1 15 |
| Residential mortgage banking income, net | \$ 10,251 | \$ 7,735 | \$ 8,443 | 32.53 % | 21.41 % |
| Real estate brokerage and property management, net | 4,584 | 3,248 | 3,955 | 41.13 % | 15.90 % |
| Insurance commissions and other title fees and income, net | 9,885 | 8,893 | 11,049 | 11.15 % | (10.53)% |
| Service charges on deposit accounts | 2,326 | 2,366 | 2,197 | (1.69)% | 5.87 % |
| Credit card merchant fees, net | 566 | 965 | 432 | (41.35)% | 31.02 % |
| Other income | 5,354 | 2,139 | 2,691 | 150.30 % | 98.96 % |
| Subtotal before gain on investment securities | 32,966 | 25,346 | 28,767 | 30.06 % | 14.60 % |
| Net gain on investment securities | 119 | (62) | 49 | N/M | 142.86 % |
| Total noninterest income | \$ 33,085 | \$ 25,284 | \$ 28,816 | 30.85 % | 14.81 % |

Noninterest income, excluding gains or losses on investment securities, was \$32.97 million for the second quarter of 2015, an increase of \$7.62 million, or 30.06%, from the second quarter of 2014. The majority of the increase from the comparative period in 2014 is attributable to residential mortgage banking income, which increased \$2.52 million, or 32.53%, from the second quarter of 2014 primarily due to increased production volumes and improved pricing and margins. Mortgage production was \$466.23 million in the second quarter of 2015, which was \$131.35 million greater than second quarter 2014. Also contributing to the increase were insurance commissions, which increased \$0.99 million, or 11.15%, primarily due to the acquisition of two insurance agencies in February 2015 and one agency in May 2014. The increase in real estate brokerage and property management income was driven by the acquisition of a resort property management company in Hilton Head, South Carolina in fourth quarter 2014 and was partially offset by the sale of our North Carolina-based property management business on April 1, 2015, which generated management fee revenue of \$0.97 million in second quarter 2014. The Bank recognized a gain of \$1.36 million on the sale, which was recorded in other noninterest income, partially offset by expenses of \$0.24 million recorded in noninterest expense.

In comparison to the first quarter of 2015, noninterest income, excluding gains or losses on investment securities, increased \$4.20 million, or 14.60%. Residential mortgage banking income increased by

\$1.81 million, or 21.41%, from the first quarter of 2015 as mortgage production increased by \$147.81 million. Real estate brokerage and property management income increased due to a seasonal increase related to our resort property management business. The increase was offset by the sale of our North Carolina-based property management business, which generated \$1.80 million in management fee revenue in first quarter 2015. The sale resulted in a gain of \$1.36 million, which was recorded in other noninterest income. Insurance commissions decreased due to lower contingent commission revenue, which is mostly received during the first quarter of each year.

Noninterest Expense

| <i>(in millions)</i> | % Change | | | | |
|------------------------------|------------------|------------------|------------------|--------------------|--------------------|
| | Q2 2015 | Q2 2014 | Q1 2015 | Q2 15 vs. Q2 14 | Q2 15 vs. Q1 15 |
| Salaries and benefits | \$ 26,544 | \$ 25,325 | \$ 27,679 | 4.81% | (4.10)% |
| Occupancy expense | 4,856 | 4,393 | 4,930 | 10.54% | (1.50)% |
| Furniture and equipment | 2,369 | 2,040 | 2,369 | 16.13% | — % |
| Acquisition-related expenses | 370 | 35 | 415 | 957.14% | (10.84)% |
| Other | 14,928 | 12,875 | 15,047 | 15.95% | (0.79)% |
| Total noninterest expense | <u>\$ 49,067</u> | <u>\$ 44,668</u> | <u>\$ 50,440</u> | <u>9.85%</u> | <u>(2.72)%</u> |

Noninterest expense increased by \$4.40 million, or 9.85%, from the comparative quarter of 2014. Driving the increase were operating expenses of \$2.51 million related to the Franklin merger. Additionally, operating expenses increased \$2.13 million due to our insurance and resort property management acquisitions in first quarter of 2015 and in 2014.

Noninterest expense decreased by \$1.37 million, or 2.72%, from the first quarter of 2015. Driving the decrease were salary and benefits expenses, which decreased by \$1.14 million due to lower payroll taxes and employee incentive compensation combined with a decrease in costs related to foreclosed properties.

Segment Results

| <i>(in millions)</i> | \$ Change | | | | |
|----------------------|------------------|------------------|------------------|--------------------|--------------------|
| | Q2 2015 | Q2 2014 | Q1 2015 | Q2 15 vs. Q2 14 | Q2 15 vs. Q1 15 |
| Segment Net Income | | | | | |
| Banking | \$ 13,067 | \$ 8,919 | \$ 11,108 | \$ 4,148 | \$ 1,959 |
| Realty | 3,727 | 1,434 | 1,647 | 2,293 | 2,080 |
| Insurance | 1,018 | 1,324 | 1,783 | (306) | (765) |
| Total net income | <u>\$ 17,812</u> | <u>\$ 11,677</u> | <u>\$ 14,538</u> | <u>\$ 6,135</u> | <u>\$ 3,274</u> |

Banking

Net income for the three months ended June 30, 2015 for the Banking segment was \$13.07 million, increasing \$4.15 million, or 46.51%, from the comparative 2014 quarter. The increase in earnings was driven by an increase in net interest income of \$8.02 million, primarily due to the increase in earning assets acquired in the Franklin merger. The increase in net interest income was partially offset by an increase in the loan loss provision driven by loan growth and the reclassification of industrial revenue bonds from investment securities to loans, as shown below, combined with an increase in noninterest expense related to the Franklin merger and increases in charitable contributions, marketing expenses, and the opening of a new banking office in May 2015.

The increase in earnings of \$1.96 million, or 17.64% from the first quarter of 2015 was primarily driven by an increase in revenue due to a combination of higher net interest income of \$0.89 million, which was primarily due to loan growth, and an increase in other income of \$1.05 million driven by a gain of \$0.57 million on the sale of land owned by the Bank. Also contributing to the increase in earnings was a decrease in noninterest expenses of \$2.07 million as personnel costs, foreclosed property expenses and outside processing costs all saw decreases. The increase was partially offset by an increase in the loan loss provision as discussed above.

| June 30, 2015 | <u>Reclassification of Industrial Revenue Bonds</u> | | |
|---|--|--------------------------------|--|
| | <u>Prior to Reclassification</u> | <u>Reclassification</u> | <u>Subsequent to Reclassification</u> |
| Securities held to maturity, at amortized cost | \$ 254,702 | \$ (174,507) | \$ 80,195 |
| Loans, net of unearned income and deferred costs: | 4,053,620 | 174,507 | 4,228,127 |
| Allowance for loan losses | <u>(36,486)</u> | <u>(804)</u> | <u>(37,290)</u> |
| Net loans | <u>4,017,134</u> | <u>173,703</u> | <u>4,190,837</u> |
| | <u>Three Months Ended June 30, 2015</u> | | |
| | <u>Prior to Reclassification</u> | <u>Reclassification</u> | <u>Subsequent to Reclassification</u> |
| INTEREST INCOME: | | | |
| Loans, including fees | \$ 46,941 | \$ 1,229 | \$ 48,170 |
| Investment securities | 4,550 | (1,229) | 3,321 |
| Provision for loan losses | 919 | 804 | 1,723 |

Realty

For the three months ended June 30, 2015, the Realty segment had net income of \$3.73 million, an increase of \$2.29 million compared to the second quarter of 2014. Contributing to the improvement was an increase in residential mortgage banking income of \$2.64 million, or 33.77%. Also contributing to the improvement was an increase in property management fees of \$1.22 million, or 86.67%. Additionally, second quarter results included a gain of \$1.36 million on the sale of our North Carolina-based property management business, partially offset by expenses of \$0.24 million.

Net income in the Realty segment increased by \$2.08 million from the linked quarter ended March 31, 2015. The increase resulted from a combination of higher residential mortgage banking income of \$1.94 million, a seasonal increase in real estate brokerage income of \$0.70 million, and the gain on the sale of our North Carolina-based property management business. The improvement in earnings was partially offset by a decrease in property management fees of \$0.07 million due to the sale of our North Carolina-based property management business, which generated \$1.80 million in management fee revenue in first quarter 2015, and an increase in noninterest expenses of \$0.55 million.

Insurance

The Insurance segment had net income of \$1.02 million for the three months ended June 30, 2015, a decrease of \$0.31 million as compared to the second quarter of 2014. Contributing to the decline were increases in personnel costs related to 401(k) expenses, acquisition-related expenses, and legal fees. The insurance agency acquisitions in first quarter 2015 and second quarter 2014 resulted in additional commissions and fee revenue of \$0.98 million and additional \$0.94 million of noninterest expenses.

Net income decreased \$0.77 million from the first quarter of 2015. The decline from the linked quarter was driven by a decrease in contingency and bonus revenue of \$2.14 million, which offset a seasonal increase in property and casualty commission income of \$1.06 million. Contingent commissions are seasonal in nature and are mostly received during the first quarter of each year.

Balance Sheet

At June 30, 2015, total Bank assets reached \$6.06 billion, an increase of \$1.15 billion, or 23.33%, over June 30, 2014.

Loans

| <i>(in thousands)</i> | % Change | | | | |
|--|---------------------|---------------------|---------------------|--------------------|--------------------|
| | Q2 2015 | Q2 2014 | Q1 2015 | Q2 15 vs. Q2 14 | Q2 15 vs. Q1 15 |
| Construction and land development | \$ 554,053 | \$ 487,613 | \$ 519,390 | 13.63% | 6.67 % |
| Commercial real estate - investment related properties | 987,945 | 649,040 | 954,826 | 52.22% | 3.47 % |
| Commercial real estate - owner occupied | 760,622 | 738,008 | 770,880 | 3.06% | (1.33)% |
| Multifamily real estate | 137,378 | 55,620 | 146,395 | 146.99% | (6.16)% |
| 1-4 family residential real estate | 948,138 | 828,832 | 915,205 | 14.39% | 3.60 % |
| Commercial and industrial business loans | 732,936 | 658,839 | 700,252 | 11.25% | 4.67 % |
| Consumer loans and other | 107,055 | 51,246 | 88,747 | 108.90% | 20.63 % |
| Total | <u>\$ 4,228,127</u> | <u>\$ 3,469,198</u> | <u>\$ 4,095,695</u> | <u>21.88%</u> | <u>3.23 %</u> |

The Bank's loan portfolio ended the period at \$4.23 billion representing an increase of 21.88%, or \$758.93 million, from the prior year and an increase of 3.23%, or \$132.43 million, from March 31, 2015. Organic growth in 2015, including the effect of loan transfers to OREO, was \$208.90 million, or 11.66% on an annualized basis. Included in this growth were new originations of \$66.70 million in our Richmond market.

Deposits

| <i>(in thousands)</i> | % Change | | | | |
|----------------------------------|---------------------|---------------------|---------------------|--------------------|--------------------|
| | Q2 2015 | Q2 2014 | Q1 2015 | Q2 15 vs. Q2 14 | Q2 15 vs. Q1 15 |
| Noninterest-bearing demand | \$ 1,363,551 | \$ 1,203,040 | \$ 1,261,482 | 13.34% | 8.09 % |
| Interest-bearing: | | | | | |
| Demand and money market accounts | 1,680,038 | 1,306,595 | 1,643,534 | 28.58% | 2.22 % |
| Savings | 300,203 | 192,932 | 303,936 | 55.60% | (1.23)% |
| Certificates of deposits | 1,342,860 | 1,093,262 | 1,296,666 | 22.83% | 3.56 % |
| Total | <u>\$ 4,686,652</u> | <u>\$ 3,795,829</u> | <u>\$ 4,505,618</u> | <u>23.47%</u> | <u>4.02 %</u> |

The Bank continued to experience solid deposit growth with total deposits increasing to \$4.69 billion, up \$890.82 million, or 23.47%, from June 30, 2014. The increase was mostly due to the deposits acquired in the Franklin merger. Organic growth in total deposits was \$143.47 million, or 7.46% on an annualized basis, from December 31, 2014. The Bank saw continued growth in noninterest bearing demand deposits, which ended the quarter at \$1.36 billion, a 13.34% increase from June 30, 2014. Noninterest deposits represented 29.09% of total deposits at June 30, 2015. The slight percentage decline from June 30, 2014 was a result of the funding mix in the acquired Franklin deposits.

Capital Ratios

| | <u>Q2</u> <u>2015</u> | <u>Q2</u> <u>2014</u> | <u>Q1</u> <u>2015</u> |
|---------------------------|--------------------------|--------------------------|--------------------------|
| Common Equity Tier 1 (a) | 12.93% | N/A | 13.09% |
| Tier 1 (a) | 13.04% | 12.83% | 13.20% |
| Total (a) | 13.80% | 13.79% | 13.96% |
| Tier 1 leverage ratio (a) | 11.14% | 10.16% | 10.99% |

(a) Basel III rules became effective January 1, 2015, with transitional provisions. All prior year data is based on Basel I rules

The Bank's total equity at June 30, 2015 rose to \$802.89 million, an increase of \$198.08 million, or 32.75%, from June 30, 2014. Common equity increased 52.83%, or \$274.48 million, as the Bank issued common stock in the amount of \$238.66 million in the Franklin merger and redeemed in full its \$76.46 million of outstanding Non-Cumulative Convertible Preferred Stock, Series C issued to the U.S. Treasury under the Small Business Lending Fund during first quarter 2015. Total risk-based capital remained strong as total risk-based capital, Tier 1 capital, Tier 1 leverage ratios, and common equity Tier 1 capital ratios were 13.80%, 13.04%, 11.14%, 12.93%, respectively. All ratios exceed the current regulatory standards for well capitalized status.

Asset Quality

| <i>(in thousands)</i> | <u>6/30/2015</u> | <u>3/31/2015</u> | <u>12/31/2014</u> | <u>9/30/2014</u> | <u>6/30/2014</u> |
|------------------------------------|------------------|------------------|-------------------|------------------|------------------|
| Nonperforming loans | \$ 7,455 | \$ 7,045 | \$ 6,741 | \$ 5,853 | \$ 7,501 |
| Foreclosed property | 46,154 | 51,698 | 35,116 | 37,951 | 42,404 |
| Total nonperforming assets | \$ 53,609 | \$ 58,743 | \$ 41,857 | \$ 43,804 | \$ 49,905 |
| Quarterly net loans charged off | \$ 339 | \$ 333 | \$ 262 | \$ 602 | \$ 925 |
| Year-to-date net loans charged off | \$ 672 | \$ 333 | \$ 2,955 | \$ 2,694 | \$ 2,092 |

Continued improvements in credit quality contributed to the Bank's financial results as nonperforming loans decreased to \$7.46 million from \$7.50 million, at June 30, 2014 and increased from \$7.05 million at March 31, 2015. Net charge-offs were \$0.34 million in the second quarter of 2015 compared to \$0.92 million in the second quarter of 2014 and \$0.33 million in the linked quarter. Total nonperforming assets were \$53.61 million, or 0.89%, of Bank assets, including foreclosed property of \$10.33 million

originally acquired in the Franklin merger, at June 30, 2015, as compared to \$49.91 million, or 1.02%, at June 30, 2014, and \$58.74 million, or 1.01%, at March 31, 2015. The allowance for loan losses was \$37.29 million, increased from \$35.79 million at June 30, 2014 and \$35.91 million at March 31, 2015. A reclassification of industrial revenue bonds from investment securities to loans during second quarter 2015 was responsible for \$0.80 million of the increase, while loan growth drove the remainder of the increase. The total allowance for loan losses, including purchased loans, was 0.88% of loans held for investment at June 30, 2015, compared to 1.03% at June 30, 2014 and 0.88% at March 31, 2015. The allowance for loan losses on originated loans was 1.00% of originated loans held for investment at June 30, 2015, compared to 1.04% at June 30, 2014 and 1.00% at March 31, 2015. The allowance for loan losses was 5.0 times nonperforming loans held for investment, compared to 4.77 at June 30, 2014 and 5.10 times at March 31, 2015.

| <i>(dollars in thousands)</i> | Change | | | | |
|---|--------------------|--------------------|--------------------|----------------------------|----------------------------|
| | Q2 2015 | Q2 2014 | Q1 2015 | Q2 15 vs. Q2 14 | Q2 15 vs. Q1 15 |
| Total loans 90 days past due and still accruing | \$ 277 | \$ 28 | \$ 3 | \$ 249 | \$ 274 |
| Total loans 30-89 days past due | \$ 5,283 | \$ 12,663 | \$ 10,483 | \$ (7,380) | \$ (5,200) |
| Allowance for loan losses | \$ 37,290 | \$ 35,786 | \$ 35,907 | \$ 1,504 | \$ 1,383 |
| Total performing TDRs | \$ 31,714 | \$ 40,500 | \$ 32,896 | \$ (8,786) | \$ (1,182) |
| Nonperforming loans to period end loans | 0.18% | 0.22% | 0.17% | (0.04) | 0.01 |
| Nonperforming assets to period end assets | 0.89% | 1.02% | 1.01% | (0.13) | (0.12) |
| Allowance for loan losses to period end loans | 0.88% | 1.03% | 0.88% | (0.15) | — |
| Allowance for loan losses (originated) to originated period end loans | 1.00% | 1.04% | 1.00% | (0.04) | — |
| Net charge-offs to average loans (annualized) | 0.03% | 0.11% | 0.03% | (0.08) | — |
| Ratio of allowance for loan losses to nonperforming loans | 5.00x | 4.77x | 5.10x | 0.23x | (0.10)x |

About TowneBank:

As one of the top community banks in Virginia and North Carolina, TowneBank operates 36 banking offices serving Chesapeake, Chesterfield County, Glen Allen, Hampton, James City County, Mechanicsville, Newport News, Norfolk, Portsmouth, Richmond, Suffolk, Virginia Beach, Williamsburg, and York County in Virginia, along with Moyock, Grandy, Camden County, Southern Shores, Corolla and Nags Head in North Carolina. Towne also offers a full range of financial services through its controlled divisions and subsidiaries that include Towne Investment Group, Towne Insurance Agency, TFA Benefits,

TowneBank Mortgage, TowneBank Commercial Mortgage, Berkshire Hathaway HomeServices Towne Realty, Towne 1031 Exchange, LLC, and Beach Properties of Hilton Head. Local decision-making is a hallmark of its hometown banking strategy that is delivered through the leadership of each group's President and Board of Directors. With total assets of \$6.06 billion as of June 30, 2015, TowneBank is one of the largest banks headquartered in Virginia.

Non-GAAP Financial Measures:

This press release contains financial information determined by methods other than in accordance with GAAP. The Company's management uses these non-GAAP financial measures in their analysis of the Company's performance. These measures typically adjust GAAP performance measures to exclude the effects of the amortization of intangibles and include the tax benefit associated with revenue items that are tax-exempt, as well as adjust income available to common shareholders for certain significant activities or transactions that are infrequent in nature. Since the presentation of these GAAP performance measures and their impact differ between companies, management believes presentations of these non-GAAP financial measures provide useful supplemental information that is essential to a proper understanding of the operating results of the Company's core businesses. These non-GAAP disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Reconciliations of GAAP to non-GAAP disclosures are included as tables at the end of this release.

Forward-Looking Statements:

Statements made in this release, other than those concerning historical financial information, may be considered forward-looking statements, which speak only as of the date of this release and are based on current expectations and involve a number of assumptions. TowneBank intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of these safe harbor provisions. The Company's ability to predict results, or the actual effect of future plans or strategies, is inherently uncertain. Factors which could have a material effect on the operations and future prospects of TowneBank include but are not limited to changes in interest rates, general economic and business conditions; legislative/regulatory changes; the monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve; the quality and composition of the loan and securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in the companies' respective market areas; implementation of new

technologies; ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; changes in accounting principles, policies and guidelines; mergers and acquisitions; and other risk factors detailed from time to time in filings made by TowneBank with the FDIC. TowneBank undertakes no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events or otherwise. ###

Selected Financial Highlights (unaudited)
TOWNEBANK
June 30, 2015
(dollars in thousands, except per share data)

| Three months ended June 30, | 2015 | 2014 | Increase/ (Decrease) | % Increase/ (Decrease) |
|--|--------------|--------------|-------------------------|---------------------------|
| Results of Operations: | | | | |
| Net interest income | \$ 44,884 | \$ 36,538 | \$ 8,346 | 22.84 % |
| Noninterest income (1) | 32,966 | 25,346 | 7,620 | 30.06 % |
| Gain (loss) on investment securities | 119 | (62) | 181 | N/M |
| Total Revenue | 77,969 | 61,822 | 16,147 | 26.12 % |
| Noninterest expenses | 49,067 | 44,668 | 4,399 | 9.85 % |
| Provision for loan losses | 1,723 | (833) | 2,556 | N/M |
| Income before income tax and noncontrolling interest | 27,179 | 17,987 | 9,192 | 51.10 % |
| Provision for income tax expense | 8,201 | 5,432 | 2,769 | 50.98 % |
| Net income | 18,978 | 12,555 | 6,423 | 51.16 % |
| Net income attributable to noncontrolling interest | (1,166) | (878) | (288) | 32.80 % |
| Net income attributable to TowneBank | 17,812 | 11,677 | 6,135 | 52.54 % |
| Preferred stock dividends and accretion | — | 191 | (191) | (100.00)% |
| Net income available to common shareholders | 17,812 | 11,486 | 6,326 | 55.08 % |
| Net income per common share - basic | 0.35 | 0.33 | 0.02 | 6.06 % |
| Net income per common share - diluted | 0.35 | 0.33 | 0.02 | 6.06 % |
| Period End Data: | | | | |
| Total assets | \$ 6,055,181 | \$ 4,909,843 | \$ 1,145,338 | 23.33 % |
| Total assets - tangible | 5,879,975 | 4,779,709 | 1,100,266 | 23.02 % |
| Earning assets (2) | 5,576,243 | 4,536,817 | 1,039,426 | 22.91 % |
| Loans (net of unearned income) | 4,228,127 | 3,469,198 | 758,929 | 21.88 % |
| Allowance for loan losses | 37,290 | 35,786 | 1,504 | 4.20 % |
| Goodwill and other intangibles | 175,207 | 130,134 | 45,073 | 34.64 % |
| Nonperforming assets | 53,609 | 49,905 | 3,704 | 7.42 % |
| Noninterest bearing deposits | 1,363,551 | 1,203,040 | 160,511 | 13.34 % |
| Interest bearing deposits | 3,323,101 | 2,592,789 | 730,312 | 28.17 % |
| Total deposits | 4,686,652 | 3,795,829 | 890,823 | 23.47 % |
| Total equity | 802,891 | 604,812 | 198,079 | 32.75 % |
| Total equity - tangible | 627,685 | 474,678 | 153,007 | 32.23 % |
| Common equity | 794,018 | 519,536 | 274,482 | 52.83 % |
| Common equity - tangible | 618,812 | 389,402 | 229,410 | 58.91 % |
| Book value per common share | 15.40 | 14.63 | 0.77 | 5.26 % |
| Book value per common share - tangible | 12.00 | 10.96 | 1.04 | 9.49 % |
| Daily Average Balances: | | | | |
| Total assets | \$ 5,900,816 | \$ 4,810,582 | \$ 1,090,234 | 22.66 % |
| Total assets - tangible | 5,724,957 | 4,683,697 | 1,041,260 | 22.23 % |
| Earning assets (2) | 5,407,516 | 4,413,137 | 994,379 | 22.53 % |
| Loans (net of unearned income), excluding nonaccrual loans | 4,161,304 | 3,433,425 | 727,879 | 21.20 % |
| Allowance for loan losses | 36,854 | 37,458 | (604) | (1.61)% |
| Goodwill and other intangibles | 175,858 | 126,885 | 48,973 | 38.60 % |
| Noninterest bearing deposits | 1,307,075 | 1,118,051 | 189,024 | 16.91 % |
| Interest bearing deposits | 3,241,276 | 2,587,137 | 654,139 | 25.28 % |
| Total deposits | 4,548,351 | 3,705,188 | 843,163 | 22.76 % |
| Total equity | 800,369 | 601,203 | 199,166 | 33.13 % |
| Total equity - tangible | 624,511 | 474,319 | 150,192 | 31.66 % |
| Common equity | 791,915 | 516,102 | 275,813 | 53.44 % |
| Common equity - tangible | 616,057 | 389,217 | 226,840 | 58.28 % |
| Key Ratios: | | | | |
| Return on average assets | 1.21% | 0.97% | 0.24 % | 24.74 % |
| Return on average assets - tangible | 1.28% | 1.03% | 0.25 % | 24.27 % |
| Return on average equity | 8.93% | 7.79% | 1.14 % | 14.63 % |
| Return on average equity - tangible | 11.77% | 10.20% | 1.57 % | 15.39 % |
| Return on average common equity | 9.02% | 8.93% | 0.09 % | 1.01 % |
| Return on average common equity - tangible | 11.93% | 12.24% | (0.31)% | (2.53)% |
| Net interest margin-fully tax equivalent (2)(3) | 3.52% | 3.43% | 0.09 % | 2.62 % |
| Net interest margin (2) | 3.43% | 3.36% | 0.07 % | 2.08 % |
| Average earning assets/total average assets | 91.64% | 91.74% | (0.10)% | (0.11)% |
| Average loans/average deposits | 91.49% | 92.67% | (1.18)% | (1.27)% |
| Average noninterest deposits/total average deposits | 28.74% | 30.18% | (1.44)% | (4.77)% |
| Allowance for loan losses/period end loans | 0.88% | 1.03% | (0.15)% | (14.56)% |
| Nonperforming assets to period end assets | 0.89% | 1.02% | (0.13)% | (12.75)% |
| Period end equity/period end total assets | 13.26% | 12.32% | 0.94 % | 7.63 % |
| Efficiency ratio (1) | 63.03% | 72.18% | (9.15)% | (12.68)% |

(1) Excludes gain (loss) on investment securities

(2) Includes bank-owned life insurance

(3) Presented on a tax-equivalent basis

Selected Financial Highlights (unaudited)
TOWNEBANK
June 30, 2015
(dollars in thousands)

| Six Months Ended June 30, 2015 | 2015 | 2014 | Increase/ (Decrease) | % Increase/ (Decrease) |
|--|--------------|--------------|-------------------------|---------------------------|
| Results of Operations: | | | | |
| Net interest income | \$ 88,440 | \$ 71,730 | \$ 16,710 | 23.30 % |
| Noninterest income (1) | 61,732 | 48,073 | 13,659 | 28.41 % |
| Gain (loss) on investment securities | 169 | (60) | 229 | N/M |
| Total Revenue | 150,341 | 119,743 | 30,598 | 25.55 % |
| Noninterest expenses | 99,507 | 85,749 | 13,758 | 16.04 % |
| Provision for loan losses | 2,045 | (503) | 2,548 | N/M |
| Income before income tax and noncontrolling interest | 48,789 | 34,497 | 14,292 | 41.43 % |
| Provision for income tax expense | 14,586 | 10,337 | 4,249 | 41.10 % |
| Net income | 34,203 | 24,160 | 10,043 | 41.57 % |
| Net income attributable to noncontrolling interest | (1,853) | (1,352) | (501) | 37.06 % |
| Net income attributable to TowneBank | 32,350 | 22,808 | 9,542 | 41.84 % |
| Preferred stock dividends | 13 | 382 | (369) | (96.60)% |
| Net income available to common shareholders | 32,337 | 22,426 | 9,911 | 44.19 % |
| Net income per common share - basic | 0.64 | 0.64 | — | — % |
| Net income per common share - diluted | 0.63 | 0.64 | (0.01) | (1.56)% |
| Period End Data: | | | | |
| Total assets | \$ 6,055,181 | \$ 4,909,843 | \$ 1,145,338 | 23.33 % |
| Total assets - tangible | 5,879,975 | 4,779,709 | 1,100,266 | 23.02 % |
| Earning assets (2) | 5,576,243 | 4,536,817 | 1,039,426 | 22.91 % |
| Loans (net of unearned income) | 4,228,127 | 3,469,198 | 758,929 | 21.88 % |
| Allowance for loan losses | 37,290 | 35,786 | 1,504 | 4.20 % |
| Goodwill and other intangibles | 175,207 | 130,134 | 45,073 | 34.64 % |
| Nonperforming assets | 53,609 | 49,905 | 3,704 | 7.42 % |
| Noninterest bearing deposits | 1,363,551 | 1,203,040 | 160,511 | 13.34 % |
| Interest bearing deposits | 3,323,101 | 2,592,789 | 730,312 | 28.17 % |
| Total deposits | 4,686,652 | 3,795,829 | 890,823 | 23.47 % |
| Total equity | 802,891 | 604,812 | 198,079 | 32.75 % |
| Total equity - tangible | 627,685 | 474,678 | 153,007 | 32.23 % |
| Common equity | 794,018 | 519,536 | 274,482 | 52.83 % |
| Common equity - tangible | 618,812 | 389,402 | 229,410 | 58.91 % |
| Book value per common share | 15.40 | 14.63 | 0.77 | 5.26 % |
| Book value per common share - tangible | 12.00 | 10.96 | 1.04 | 9.49 % |
| Daily Average Balances: | | | | |
| Total assets | \$ 5,865,372 | \$ 4,748,079 | \$ 1,117,293 | 23.53 % |
| Total assets - tangible | 5,684,147 | 4,624,679 | 1,059,468 | 22.91 % |
| Earning assets (2) | 5,349,362 | 4,357,786 | 991,576 | 22.75 % |
| Loans (net of unearned income), excluding | 4,114,156 | 3,401,627 | 712,529 | 20.95 % |
| Allowance for loan losses | 36,453 | 38,024 | (1,571) | (4.13)% |
| Goodwill and other intangibles | 181,224 | 123,400 | 57,824 | 46.86 % |
| Noninterest bearing deposits | 1,281,690 | 1,078,200 | 203,490 | 18.87 % |
| Interest bearing deposits | 3,245,034 | 2,566,436 | 678,598 | 26.44 % |
| Total deposits | 4,526,724 | 3,644,637 | 882,087 | 24.20 % |
| Total equity | 791,152 | 596,472 | 194,680 | 32.64 % |
| Total equity - tangible | 609,928 | 473,072 | 136,856 | 28.93 % |
| Common equity | 780,014 | 511,295 | 268,719 | 52.56 % |
| Common equity - tangible | 598,790 | 387,895 | 210,895 | 54.37 % |
| Key Ratios: | | | | |
| Return on average assets | 1.11% | 0.97% | 0.14 % | 14.43 % |
| Return on average assets - tangible | 1.19% | 1.03% | 0.16 % | 15.53 % |
| Return on average equity | 8.25% | 7.71% | 0.54 % | 7.00 % |
| Return on average equity - tangible | 11.04% | 10.03% | 1.01 % | 10.07 % |
| Return on average common equity | 8.36% | 8.85% | (0.49)% | (5.54)% |
| Return on average common equity - tangible | 11.24% | 12.04% | (0.80)% | (6.64)% |
| Net interest margin-fully tax equivalent (2)(3) | 3.52% | 3.43% | 0.09 % | 2.62 % |
| Net interest margin (2) | 3.43% | 3.36% | 0.07 % | 2.08 % |
| Average earning assets/total average assets | 91.20% | 91.78% | (0.58)% | (0.63)% |
| Average loans/average deposits | 90.89% | 93.33% | (2.44)% | (2.61)% |
| Average noninterest deposits/total average deposits | 28.31% | 29.58% | (1.27)% | (4.29)% |
| Allowance for loan losses/period end loans | 0.88% | 1.03% | (0.15)% | (14.56)% |
| Nonperforming assets to period end assets | 0.89% | 1.02% | (0.13)% | (12.75)% |
| Period end equity/period end total assets | 13.26% | 12.32% | 0.94 % | 7.63 % |
| Efficiency ratio (1) | 66.26% | 71.57% | (5.31)% | (7.42)% |

(1) Excludes gain on investment securities

(2) Includes bank-owned life insurance

(3) Presented on a tax-equivalent basis

Selected Financial Highlights (unaudited)
TOWNEBANK
June 30, 2015
(dollars in thousands, except per share data)

| Three Months Ended | June 30. 2015 | March 31. 2015 | Increase/ (Decrease) | % Increase/ (Decrease) |
|--|------------------|-------------------|-------------------------|---------------------------|
| Results of Operations: | | | | |
| Net interest income | \$ 44,884 | \$ 43,556 | \$ 1,328 | 3.05 % |
| Noninterest income (1) | 32,966 | 28,767 | 4,199 | 14.60 % |
| Gain (loss) on investment securities | 119 | 49 | 70 | 142.86 % |
| Total Revenue | 77,969 | 72,372 | 5,597 | 7.73 % |
| Noninterest expenses | 49,067 | 50,440 | (1,373) | (2.72)% |
| Provision for loan losses | 1,723 | 323 | 1,400 | 433.44 % |
| Income before income tax and noncontrolling interest | 27,179 | 21,610 | 5,569 | 25.77 % |
| Provision for income tax expense | 8,201 | 6,385 | 1,816 | 28.44 % |
| Net income | 18,978 | 15,224 | 3,754 | 24.66 % |
| Net income attributable to noncontrolling interest | (1,166) | (686) | (480) | 69.97 % |
| Net income attributable to TowneBank | 17,812 | 14,538 | 3,274 | 22.52 % |
| Preferred stock dividends and accretion | — | 13 | (13) | (100.00)% |
| Net income available to common shareholders | 17,812 | 14,525 | 3,287 | 22.63 % |
| Net income per common share - basic | 0.35 | 0.29 | 0.06 | 20.69 % |
| Net income per common share - diluted | 0.35 | 0.29 | 0.06 | 20.69 % |
| Period End Data: | | | | |
| Total assets | \$ 6,055,181 | \$ 5,828,703 | \$ 226,478 | 3.89 % |
| Total assets - tangible | 5,879,975 | 5,649,097 | 230,878 | 4.09 % |
| Earning assets (2) | 5,576,243 | 5,355,376 | 220,867 | 4.12 % |
| Loans (net of unearned income) | 4,228,127 | 4,095,695 | 132,432 | 3.23 % |
| Allowance for loan losses | 37,290 | 35,907 | 1,383 | 3.85 % |
| Goodwill and other intangibles | 175,207 | 179,607 | (4,400) | (2.45)% |
| Nonperforming assets | 53,609 | 58,743 | (5,134) | (8.74)% |
| Noninterest bearing deposits | 1,363,551 | 1,261,482 | 102,069 | 8.09 % |
| Interest bearing deposits | 3,323,101 | 3,244,136 | 78,965 | 2.43 % |
| Total deposits | 4,686,652 | 4,505,618 | 181,034 | 4.02 % |
| Total equity | 802,891 | 791,581 | 11,310 | 1.43 % |
| Total equity - tangible | 627,685 | 611,974 | 15,711 | 2.57 % |
| Common equity | 794,018 | 783,157 | 10,861 | 1.39 % |
| Common equity - tangible | 618,812 | 603,550 | 15,262 | 2.53 % |
| Book value per common share | 15.40 | 15.22 | 0.18 | 1.18 % |
| Book value per common share - tangible | 12.00 | 11.73 | 0.27 | 2.30 % |
| Daily Average Balances: | | | | |
| Total assets | \$ 5,900,816 | \$ 5,829,533 | \$ 71,283 | 1.22 % |
| Total assets - tangible | 5,724,957 | 5,642,883 | 82,074 | 1.45 % |
| Earning assets (2) | 5,407,516 | 5,290,562 | 116,954 | 2.21 % |
| Loans (net of unearned income), excluding nonaccrual loans | 4,161,304 | 4,066,484 | 94,820 | 2.33 % |
| Allowance for loan losses | 36,854 | 36,048 | 806 | 2.24 % |
| Goodwill and other intangibles | 175,858 | 186,650 | (10,792) | (5.78)% |
| Noninterest bearing deposits | 1,307,075 | 1,256,023 | 51,052 | 4.06 % |
| Interest bearing deposits | 3,241,276 | 3,248,834 | (7,558) | (0.23)% |
| Total deposits | 4,548,351 | 4,504,857 | 43,494 | 0.97 % |
| Total equity | 800,369 | 781,833 | 18,536 | 2.37 % |
| Total equity - tangible | 624,511 | 595,183 | 29,328 | 4.93 % |
| Common equity | 791,915 | 767,980 | 23,935 | 3.12 % |
| Common equity - tangible | 616,057 | 581,330 | 34,727 | 5.97 % |
| Key Ratios: | | | | |
| Return on average assets | 1.21% | 1.01% | 0.20 % | 19.80 % |
| Return on average assets - tangible | 1.28% | 1.08% | 0.20 % | 18.52 % |
| Return on average equity | 8.93% | 7.54% | 1.39 % | 18.44 % |
| Return on average equity - tangible | 11.77% | 10.27% | 1.50 % | 14.61 % |
| Return on average common equity | 9.02% | 7.67% | 1.35 % | 17.60 % |
| Return on average common equity - tangible | 11.93% | 10.51% | 1.42 % | 13.51 % |
| Net interest margin-fully tax equivalent (2)(3) | 3.52% | 3.52% | — % | — % |
| Net interest margin (2) | 3.43% | 3.43% | — % | — % |
| Average earning assets/total average assets | 91.64% | 90.75% | 0.89 % | 0.98 % |
| Average loans/average deposits | 91.49% | 90.27% | 1.22 % | 1.35 % |
| Average noninterest deposits/total average deposits | 28.74% | 27.88% | 0.86 % | 3.08 % |
| Allowance for loan losses/period end loans | 0.88% | 0.88% | — % | — % |
| Nonperforming assets to period end assets | 0.89% | 1.01% | (0.12)% | (11.88)% |
| Period end equity/period end total assets | 13.26% | 13.58% | (0.32)% | (2.36)% |
| Efficiency ratio (1) | 63.03% | 69.74% | (6.71)% | (9.62)% |

(1) Excludes gain (loss) on investment securities

(2) Includes bank-owned life insurance

(3) Presented on a tax-equivalent basis

TOWNEBANK
Average Balances, Yields and Rate Paid (unaudited)
(dollars in thousands)

| | Three Months Ended June 30, 2015 | | | Three Months Ended March 31, 2015 | | | Three Months Ended June 30, 2014 | | |
|---|-------------------------------------|--------------------------------|---------------------------|--------------------------------------|--------------------------------|---------------------------|-------------------------------------|--------------------------------|---------------------------|
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate |
| Assets: | | | | | | | | | |
| Loans (net of unearned income and deferred costs), excluding nonaccrual loans | \$ 4,161,304 | \$ 48,730 | 4.70% | \$ 4,066,484 | \$ 47,890 | 4.78% | \$ 3,433,425 | \$ 40,449 | 4.73% |
| Taxable investment securities | 818,000 | 2,825 | 1.38% | 749,414 | 2,801 | 1.49% | 602,375 | 1,843 | 1.22% |
| Tax-exempt investment securities | 63,255 | 496 | 3.14% | 66,812 | 536 | 3.20% | 70,842 | 554 | 3.13% |
| Interest-bearing deposits | 87,709 | 56 | 0.25% | 202,852 | 125 | 0.25% | 177,045 | 111 | 0.25% |
| Loans held for sale | 131,305 | 1,161 | 3.54% | 64,512 | 565 | 3.50% | 71,883 | 719 | 4.00% |
| Bank-owned life insurance | 145,943 | 2,044 | 5.62% | 140,488 | 1,753 | 5.06% | 57,567 | 667 | 4.65% |
| Total earning assets | 5,407,516 | 55,312 | 4.10% | 5,290,562 | 53,670 | 4.11% | 4,413,137 | 44,343 | 4.03% |
| Less: allowance for loan losses | (36,854) | | | (36,048) | | | (37,458) | | |
| Total nonearning assets | 530,154 | | | 575,019 | | | 434,903 | | |
| Total assets | <u>\$ 5,900,816</u> | | | <u>\$ 5,829,533</u> | | | <u>\$ 4,810,582</u> | | |
| Liabilities and Equity: | | | | | | | | | |
| Interest-bearing deposits | | | | | | | | | |
| Demand and money market | \$ 1,646,075 | \$ 1,144 | 0.28% | \$ 1,635,454 | \$ 1,111 | 0.28% | \$ 1,305,681 | \$ 807 | 0.25% |
| Savings | 301,020 | 692 | 0.92% | 305,016 | 683 | 0.91% | 311,732 | 723 | 0.93% |
| Certificates of deposit | 1,294,181 | 2,606 | 0.81% | 1,308,364 | 2,630 | 0.82% | 969,724 | 1,765 | 0.73% |
| Total interest-bearing deposits | 3,241,276 | 4,442 | 0.55% | 3,248,834 | 4,424 | 0.55% | 2,587,137 | 3,295 | 0.51% |
| Borrowings | 460,993 | 3,382 | 2.90% | 447,198 | 3,388 | 3.03% | 426,424 | 3,333 | 3.09% |
| Total interest-bearing liabilities | 3,702,269 | 7,824 | 0.85% | 3,696,032 | 7,812 | 0.86% | 3,013,561 | 6,628 | 0.88% |
| Demand deposits | 1,307,075 | | | 1,256,023 | | | 1,118,051 | | |
| Other noninterest-bearing liabilities | 91,103 | | | 95,645 | | | 77,767 | | |
| Total liabilities | 5,100,447 | | | 5,047,700 | | | 4,209,379 | | |
| Shareholders' equity | 800,369 | | | 781,833 | | | 601,203 | | |
| Total liabilities and equity | <u>\$ 5,900,816</u> | | | <u>\$ 5,829,533</u> | | | <u>\$ 4,810,582</u> | | |
| Net interest income (tax-equivalent basis) | | \$ 47,488 | | | \$ 45,858 | | | \$ 37,715 | |
| Reconciliation of Non-GAAP Financial Measures | | | | | | | | | |
| Bank-owned life insurance | | (2,044) | | | (1,753) | | | (667) | |
| Tax-equivalent basis adjustment | | (560) | | | (549) | | | (510) | |
| Net interest income (GAAP) | | <u>\$ 44,884</u> | | | <u>\$ 43,556</u> | | | <u>\$ 36,538</u> | |
| Interest rate spread (1) | | | 3.26% | | | 3.26% | | | 3.15% |
| Interest expense as a percent of average earning assets | | | 0.58% | | | 0.60% | | | 0.60% |
| Net interest margin (tax equivalent basis) (2) | | | 3.52% | | | 3.52% | | | 3.43% |
| Total cost of deposits | | | 0.39% | | | 0.40% | | | 0.36% |

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

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

TOWNEBANK
Average Balances, Yields and Rate Paid (unaudited)
(dollars in thousands)

| | Six Months Ended June 30, 2015 | | | Six Months Ended June 30, 2014 | | | Six Months Ended June 30, 2015 Compared with June 30, 2014 | | |
|---|-----------------------------------|--------------------------------|---------------------------|-----------------------------------|--------------------------------|---------------------------|---|---------------|-----------|
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Increase (Decrease) | Change due to | |
| | | | | | | | | Rate | Volume |
| Assets: | | | | | | | | | |
| Loans (net of unearned income and deferred costs), excluding nonaccrual loans | \$ 4,114,156 | \$ 96,619 | 4.74% | \$ 3,401,627 | \$ 80,169 | 4.75% | \$ 16,450 | \$ (284) | \$ 16,734 |
| Taxable investment securities | 783,896 | 5,626 | 1.44% | 514,888 | 3,332 | 1.29% | 2,294 | 396 | 1,898 |
| Tax-exempt investment securities | 65,024 | 1,032 | 3.17% | 71,126 | 1,053 | 2.96% | (21) | 73 | (94) |
| Interest-bearing deposits | 144,962 | 181 | 0.25% | 255,157 | 319 | 0.25% | (138) | — | (138) |
| Loans held for sale | 98,093 | 1,726 | 3.52% | 57,447 | 1,147 | 3.99% | 579 | (150) | 729 |
| Bank-owned life insurance | 143,231 | 3,797 | 5.35% | 57,541 | 1,416 | 4.96% | 2,381 | 117 | 2,264 |
| Total earning assets | 5,349,362 | 108,981 | 4.11% | 4,357,786 | 87,436 | 4.05% | 21,545 | 152 | 21,393 |
| Less: allowance for loan losses | (36,453) | | | (38,024) | | | | | |
| Total nonearning assets | \$ 552,463 | | | \$ 428,317 | | | | | |
| Total assets | \$ 5,865,372 | | | \$ 4,748,079 | | | | | |
| Liabilities and Equity: | | | | | | | | | |
| Interest-bearing deposits | | | | | | | | | |
| Demand and money market | \$ 1,640,794 | \$ 2,255 | 0.28% | \$ 1,282,139 | \$ 1,547 | 0.24% | \$ 708 | \$ 235 | \$ 473 |
| Savings | 303,007 | 1,375 | 0.92% | 315,476 | 1,448 | 0.93% | (73) | (16) | (57) |
| Certificates of deposit | 1,301,233 | 5,236 | 0.81% | 968,821 | 3,643 | 0.76% | 1,593 | 270 | 1,323 |
| Total interest-bearing deposits | 3,245,034 | 8,866 | 0.55% | 2,566,436 | 6,638 | 0.52% | 2,228 | 489 | 1,739 |
| Borrowings | 454,134 | 6,770 | 2.96% | 430,966 | 6,633 | 3.06% | 137 | (213) | 350 |
| Subordinated debentures | | | —% | | | —% | — | — | — |
| Total interest-bearing liabilities | 3,699,168 | 15,636 | 0.85% | 2,997,402 | 13,271 | 0.89% | 2,365 | 276 | 2,089 |
| Demand deposits | 1,281,690 | | | 1,078,200 | | | | | |
| Other noninterest-bearing liabilities | 93,362 | | | 76,005 | | | | | |
| Total liabilities | 5,074,220 | | | 4,151,607 | | | | | |
| Shareholders' equity | 791,152 | | | 596,472 | | | | | |
| Total liabilities and equity | \$ 5,865,372 | | | \$ 4,748,079 | | | | | |
| Net interest income (tax-equivalent basis) | | \$ 93,345 | | | \$ 74,165 | | \$ 19,180 | \$ (124) | \$ 19,304 |
| Reconciliation of Non-GAAP Financial Measures | | | | | | | | | |
| Bank-owned life insurance | | (3,797) | | | (1,416) | | (2,381) | | |
| Tax-equivalent basis adjustment | | (1,108) | | | (1,019) | | \$ (89) | | |
| Net interest income (GAAP) | | \$ 88,440 | | | \$ 71,730 | | \$ 16,710 | | |
| Interest rate spread (1) | | | 3.26% | | | 3.15% | | | |
| Interest expense as a percent of average earning assets | | | 0.59% | | | 0.61% | | | |
| Net interest margin (tax equivalent basis) (2) | | | 3.52% | | | 3.43% | | | |
| Total cost of deposits | | | 0.39% | | | 0.37% | | | |

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

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

TOWNEBANK
Consolidated Statements of Income (unaudited)
(dollars in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| INTEREST INCOME: | | | | |
| Loans, including fees | \$ 48,170 | \$ 39,939 | \$ 95,511 | \$ 79,150 |
| Investment securities | 3,321 | 2,396 | 6,658 | 4,385 |
| Interest-bearing deposits in financial institutions and federal funds sold | 56 | 111 | 181 | 319 |
| Mortgage loans held for sale | 1,161 | 719 | 1,726 | 1,147 |
| Total Interest Income | 52,708 | 43,165 | 104,076 | 85,001 |
| INTEREST EXPENSE: | | | | |
| Deposits | 4,442 | 3,295 | 8,866 | 6,638 |
| Advances from the Federal Home Loan Bank | 3,365 | 3,320 | 6,739 | 6,606 |
| Repurchase agreements and other borrowings | 17 | 12 | 31 | 27 |
| Total Interest Expense | 7,824 | 6,627 | 15,636 | 13,271 |
| Net Interest Income | 44,884 | 36,537 | 88,440 | 71,730 |
| PROVISION FOR LOAN LOSSES | 1,723 | (833) | 2,045 | (503) |
| Net Interest Income after Provision for Loan Losses | 43,161 | 37,370 | 86,395 | 72,233 |
| NONINTEREST INCOME: | | | | |
| Residential mortgage banking income, net | 10,251 | 7,735 | 18,694 | 12,798 |
| Real estate brokerage and property management income, net | 4,584 | 3,248 | 8,539 | 6,539 |
| Insurance commissions and other title fees and income, net | 9,885 | 8,893 | 20,934 | 17,954 |
| Service charges on deposit accounts | 2,326 | 2,366 | 4,523 | 4,498 |
| Credit card merchant fees, net | 566 | 965 | 998 | 1,738 |
| Other income | 5,354 | 2,139 | 8,044 | 4,546 |
| Net gain (loss) on investment securities | 119 | (62) | 169 | (60) |
| Total Noninterest Income | 33,085 | 25,284 | 61,901 | 48,013 |
| NONINTEREST EXPENSE: | | | | |
| Salaries and employee benefits | 26,544 | 25,325 | 54,223 | 48,721 |
| Occupancy expense | 4,856 | 4,393 | 9,786 | 8,569 |
| Furniture and equipment | 2,369 | 2,040 | 4,738 | 4,040 |
| Other expenses | 15,298 | 12,910 | 30,760 | 24,419 |
| Total Noninterest Expense | 49,067 | 44,668 | 99,507 | 85,749 |
| Income before income tax expense and noncontrolling interest | 27,179 | 17,986 | 48,789 | 34,497 |
| Provision for income tax expense | 8,201 | 5,432 | 14,586 | 10,337 |
| Net income | 18,978 | 12,554 | 34,203 | 24,160 |
| Net income attributable to noncontrolling interest | (1,166) | (878) | (1,853) | (1,352) |
| Net income attributable to TowneBank | \$ 17,812 | \$ 11,676 | \$ 32,350 | \$ 22,808 |
| Preferred stock dividends | — | 191 | 13 | 382 |
| Net income available to common shareholders | \$ 17,812 | \$ 11,485 | \$ 32,337 | \$ 22,426 |
| Per common share information | | | | |
| Basic earnings | \$ 0.35 | \$ 0.33 | \$ 0.64 | \$ 0.64 |
| Diluted earnings | \$ 0.35 | \$ 0.33 | \$ 0.63 | \$ 0.64 |
| Cash dividends declared | \$ 0.12 | \$ 0.11 | \$ 0.23 | \$ 0.21 |

TOWNEBANK
Consolidated Statements of Comprehensive Income (unaudited)
(dollars in thousands)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$ 18,978 | \$ 12,555 | \$ 34,203 | \$ 24,160 |
| Other comprehensive income (loss) | | | | |
| Unrealized gains (losses) on securities | | | | |
| Unrealized holding gains (losses) arising during the period | (3,200) | 1,445 | (286) | 1,804 |
| Deferred tax expense | 1,120 | (506) | 100 | (632) |
| Realized gains reclassified into earnings | — | 62 | (49) | 60 |
| Deferred tax benefit | — | (22) | 17 | (21) |
| Net unrealized gains (losses) | (2,080) | 979 | (218) | 1,211 |
| Defined benefit retirement plan | | | | |
| Amortization | 18 | — | 78 | — |
| Deferred tax expense | (6) | — | (27) | — |
| Change in defined benefit retirement plan, net of tax | 12 | — | 51 | — |
| Other comprehensive income (loss), net of tax | (2,068) | 979 | (167) | 1,211 |
| Comprehensive income | \$ 16,910 | \$ 13,534 | \$ 34,036 | \$ 25,371 |

TOWNEBANK
Consolidated Balance Sheets
(dollars in thousands)

| | June 30, | | December 31, |
|--|---------------------|---------------------|---------------------|
| | 2015 | 2014 | 2014 |
| | (unaudited) | | (1) |
| ASSETS | | | |
| Cash and due from banks | \$ 184,099 | \$ 268,012 | \$ 212,994 |
| Interest-bearing deposits in financial institutions | 1,011 | 1,011 | 1,011 |
| Total Cash and Cash Equivalents | 185,110 | 269,023 | 214,005 |
| Securities available for sale, at fair value | 759,425 | 549,177 | 603,908 |
| Securities held to maturity, at amortized cost | 80,195 | 88,148 | 85,247 |
| Federal Home Loan Bank stock, at amortized cost | 24,058 | 21,987 | 22,157 |
| Total Securities | 863,678 | 659,312 | 711,312 |
| Mortgage loans held for sale | 165,994 | 91,763 | 71,390 |
| Loans, net of unearned income and deferred costs: | | | |
| Real estate - residential 1-4 family | 948,138 | 828,832 | 837,370 |
| Real estate - commercial | 1,748,567 | 1,387,048 | 1,447,078 |
| Real estate - construction and land development | 554,053 | 487,613 | 452,481 |
| Real estate - multifamily | 137,378 | 55,620 | 51,472 |
| Commercial and industrial business | 732,936 | 658,839 | 700,623 |
| Consumer and other loans | 107,055 | 51,246 | 75,365 |
| Loans, net of unearned income and deferred costs | 4,228,127 | 3,469,198 | 3,564,389 |
| Less: Allowance for loan losses | (37,290) | (35,786) | (35,917) |
| Net Loans | 4,190,837 | 3,433,412 | 3,528,472 |
| Premises and equipment, net | 172,492 | 152,646 | 155,774 |
| Goodwill | 153,191 | 111,761 | 113,159 |
| Other intangible assets, net | 22,016 | 18,373 | 22,509 |
| Bank-owned life insurance policies | 146,729 | 57,779 | 58,716 |
| Other assets | 155,134 | 115,774 | 107,148 |
| TOTAL ASSETS | \$ 6,055,181 | \$ 4,909,843 | \$ 4,982,485 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Deposits: | | | |
| Noninterest-bearing demand | \$ 1,363,551 | \$ 1,203,040 | \$ 1,224,466 |
| Interest-bearing: | | | |
| Demand and money market accounts | 1,680,038 | 1,306,595 | 1,365,183 |
| Savings | 300,203 | 192,932 | 301,033 |
| Certificates of deposit | 1,342,860 | 1,093,262 | 955,920 |
| Total Deposits | 4,686,652 | 3,795,829 | 3,846,602 |
| Advances from the Federal Home Loan Bank | 437,584 | 394,620 | 398,181 |
| Repurchase agreements and other borrowings | 35,737 | 27,525 | 31,893 |
| Total Borrowings | 473,321 | 422,145 | 430,074 |
| Other liabilities | 92,317 | 87,057 | 87,533 |
| TOTAL LIABILITIES | 5,252,290 | 4,305,031 | 4,364,209 |
| Shareholders' Equity | | | |
| Preferred stock: 2,000,000 shares authorized | | | |
| 0 shares issued at June 30, 2015 and 76,458 shares issued at June 30, 2014 and December 31, 2014 | — | 76,458 | 76,458 |
| Common stock, \$1.667 par: 90,000,000 shares authorized | | | |
| 51,551,312; 35,516,140; and 35,785,679 shares issued at June 30, 2015 and 2014 and December 31, 2014, respectively | 85,936 | 59,205 | 59,655 |
| Capital surplus | 532,646 | 315,946 | 317,718 |
| Retained earnings | 175,145 | 143,519 | 154,655 |
| Common stock issued to deferred compensation trust, at cost | | | |
| 651,738; 617,886; and 627,730 shares at June 30, 2015 and 2014 and December 31, 2014, respectively | (10,110) | (9,508) | (9,674) |
| Deferred compensation trust | 10,110 | 9,508 | 9,674 |
| Accumulated other comprehensive income | 291 | 867 | 458 |
| TOTAL SHAREHOLDERS' EQUITY | 794,018 | 595,995 | 608,944 |
| Noncontrolling interests | 8,873 | 8,817 | 9,332 |
| TOTAL EQUITY | 802,891 | 604,812 | 618,276 |
| TOTAL LIABILITIES AND EQUITY | \$ 6,055,181 | \$ 4,909,843 | \$ 4,982,485 |

(1) As derived from the audited consolidated financial statements for December 31, 2014.

TOWNEBANK

June 30, 2015

Reconciliation of Non-GAAP Financial Measures:

(dollars in thousands)

| | Three Months Ended | | |
|---|--------------------|----------|--------------|
| | June 30, | June 30, | December 31, |
| | 2015 | 2014 | 2014 |
| Return on average assets (GAAP basis) | 1.21% | 0.97% | 0.57% |
| Impact of excluding average goodwill and other intangibles and amortization | 0.07% | 0.02% | 0.06% |
| Return on average tangible assets (Non-GAAP) | 1.28% | 0.99% | 0.63% |
| Return on average equity (GAAP basis) | 8.93% | 7.79% | 4.62% |
| Impact of excluding average goodwill and other intangibles and amortization | 2.84% | 2.41% | 1.73% |
| Return on average tangible equity (Non-GAAP) | 11.77% | 10.2% | 6.35% |
| Return on average common equity (GAAP basis) | 9.02% | 8.93% | 5.21% |
| Impact of excluding average goodwill and other intangibles and amortization | 2.91% | 3.31% | 2.31% |
| Return on average tangible common equity (Non-GAAP) | 11.93% | 12.24% | 7.52% |
| Book value (GAAP basis) | \$ 15.4 | \$ 14.63 | \$ 14.88 |
| Impact of excluding average goodwill and other intangibles and amortization | (3.40) | (3.63) | (3.79) |
| Tangible book value | \$ 12.00 | \$ 10.96 | \$ 11.09 |