

**FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C. 20429**

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OF
THE SECURITIES EXCHANGE ACT OF 1934**

July 24, 2015

Date of Report (Date of earliest event reported)

TOWNE BANK

(Exact name of registrant as specified in its charter)

<u>Virginia</u>	<u>35095</u>	<u>54-1910608</u>
(State or other jurisdiction of incorporation)	(FDIC Insurance Cert. No.)	(IRS Employer Identification No.)

<u>5716 High Street Portsmouth, Virginia</u>	<u>23703</u>
(Address of principle executive offices)	(Zip Code)

(757) 638-7500
(Registrant's telephone number, including area code)

No Change
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

	% Change				
	Q2	Q2	Q1	Q2 15 vs.	Q2 15 vs.
(in millions)	2015	2014	2015	Q2 14	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

	\$ Change				
	Q2	Q2	Q1	Q2 15 vs.	Q2 15 vs.
(in millions)	2015	2014	2015	Q2 14	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.

<u>Reclassification of Industrial Revenue Bonds</u>			
June 30, 2015	<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	(36,486)	(804)	(37,290)
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

	% Change				
	Q2	Q2	Q1	Q2 15 vs.	Q2 15 vs.
(in thousands)	2015	2014	2015	Q2 14	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

	% Change				
	Q2	Q2	Q1	Q2 15 vs.	Q2 15 vs.
(in thousands)	2015	2014	2015	Q2 14	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

	Q2 2015	Q2 2014	Q1 2015
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>	6/30/2015	3/31/2015	12/31/2014	9/30/2014	6/30/2014
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, 2015	June 30, 2014	December 31, 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