

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

FORM 8-K

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

April 28, 2016

Date of Report (Date of earliest event reported)

TOWNE BANK

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of
incorporation)

35095

(FDIC Insurance Cert. No.)

54-1910608

(IRS Employer Identification
No.)

5716 High Street Portsmouth, Virginia

(Address of principle executive offices)

23703

(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 April 28, 2016, TowneBank issued a press release regarding its results of operations and financial condition for the first quarter ended March 31, 2016. A copy of the press release announcing the Registrant's results for the first quarter ended March 31, 2016 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 April 28, 2016.

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: April 28, 2016



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 RECORD FIRST QUARTER EARNINGS

Suffolk, Va. - Hampton Roads based TowneBank (the "Bank") (NASDAQ: TOWN) reported record earnings of \$17.82 million for the quarter ended March 31, 2016, a 22.57% increase, or \$3.28 million, over the \$14.54 million reported for the comparative period in 2015. Fully diluted earnings per share were \$0.35 per share, an increase from \$0.29 per share for the comparative period of 2015.

The Bank's common dividend was \$0.12 per share for the quarter with the common dividend totaling \$6.20 million. The current dividend represents an increase of 9.1% over the dividend paid during the same quarter of 2015.

"We delivered another quarter of outstanding performance and demonstrated our earning power by reporting a record quarter of earnings and revenue, as we continued to build on the momentum generated in 2015," said G. Robert Aston, Jr., Chairman and Chief Executive Officer. "We increased diluted earnings per share by 20.69% and revenue by 8.81%, from the first quarter of 2015 while producing a return on average assets of 1.14% and a return on average tangible equity of 11.56%."

"Our pending acquisition of Chesapeake, Virginia based Monarch Financial Holdings is proceeding as anticipated and we are looking forward to the opportunity to welcome our new members and provide them with the exquisite personal service that defines TowneBank," said Aston.

First Quarter 2016 Performance Highlights

- Record total revenues of \$78.75 million, a \$6.38 million, or 8.81%, increase from first quarter 2015
 - Taxable equivalent net interest margin was 3.37%, including accretion of 0.06%, compared to 3.52%, including accretion of 0.08%, for first quarter 2015
 - Insurance segment total revenue increased 24.17% from first quarter 2015, to \$16.08 million
- Loans held for investment increased \$456.57 million, or 11.15%, from March 31, 2015
- Total deposits were \$4.96 billion, an increase of \$449.51 million, or 9.98%, from first quarter 2015
 - Noninterest bearing deposits increased by 14.92%, to \$1.45 billion and represent 29.26% of total deposits
 - Total cost of deposits increased to 0.43% from 0.40% at March 31, 2015 reflective of an increase in higher cost time deposits
- Asset quality showed continued strength
 - Nonperforming assets were \$37.68 million, or 0.59% of total assets compared to \$58.74 million, or 1.01%, at March 31, 2015
 - Nonperforming loans declined to 0.17% of period end loans
 - Foreclosed property decreased 42.47% to \$29.74 million
- The Bank remained well-capitalized
 - Common equity tier 1 capital ratio of 12.66%
 - Tier 1 leverage capital ratio of 10.70%
 - Tier 1 risk-based capital ratio of 12.73%
 - Total risk-based capital ratio of 13.46%
 - Tangible book value increased to \$12.38

First Quarter 2016 Earnings Compared to First Quarter 2015

Net income for the first quarter was \$17.82 million, or \$0.35 per diluted share, versus \$14.54 million, or \$0.29 per diluted share, in first quarter 2015, reflecting strong growth in net interest income and growth in our Insurance segment leading to higher noninterest income.

Net Interest Income

Net interest income increased to \$46.34 million, a \$2.78 million, or 6.38%, increase from the first quarter of 2015. The primary driver was the increase in average earning assets, which increased \$524.82 million, or 9.92%, from first quarter 2015. Tax-equivalent net interest margin was 3.37% in the current quarter as compared to 3.52% in first quarter 2015. Accretion income added \$0.65 million, or 6 basis points, to margin in the current quarter as compared to \$0.78 million, or 8 basis points, in first quarter 2015.

Noninterest Income

Noninterest income, excluding gains or losses on investment securities, was \$32.41 million for the first quarter of 2016, an increase of \$3.65 million, or 12.68%, from the first quarter of 2015. The majority of the increase from the comparative period in 2015 is attributable to insurance commissions, which increased \$2.98 million, or 27.01%, primarily due to the acquisition of five insurance agencies in 2015. Additionally, real estate brokerage and property management income increased \$0.87 million, or 22.03%, from the first quarter of 2015 primarily due to the acquisition of a resort property management company in Oak Island, North Carolina in first quarter 2016 and increased revenue in our Hilton Head, South Carolina resort property management business ("Hilton Head"). This increase was partially offset by the sale of our Corolla, North Carolina-based property management business in 2015, which generated management fee revenue of \$1.80 million in first quarter 2015. Residential mortgage banking income decreased \$1.33 million, or 15.69%, from first quarter 2015 due to a reduction in pricing and slightly lower production volumes. Mortgage production was \$313.14 million in the first quarter of 2016, which was \$5.29 million less than first quarter 2015.

Noninterest Expense

Noninterest expense increased by \$1.72 million, or 3.41%, from the comparative quarter of 2015. Driving the increase were increased operating expenses of \$1.05 million related to insurance agencies acquired in 2015 and operating expenses of \$0.96 million related to the North Carolina resort property management acquisition. Excluding the additional noninterest expense from the insurance agencies acquired in 2015 and the resort property management company acquired in 2016, core expenses decreased by \$0.29 million in first quarter 2016.

First Quarter 2016 Earnings Compared to Fourth Quarter 2015

Net income for the first quarter was \$17.82 million, or \$0.35 per diluted share, versus \$12.47 million, or

\$0.24 per diluted share, in fourth quarter 2015, reflecting seasonality and growth in our Insurance and Realty segments. The seasonal increase in noninterest revenue was augmented by a decrease in noninterest expenses as personnel costs decreased from the previous quarter.

Performance Highlights

- Total revenues were \$78.75 million, a \$7.34 million, or 10.28%, increase from fourth quarter 2015
 - Taxable equivalent net interest margin was 3.37%, including accretion of 0.06%, compared to 3.36%, including accretion of 0.09%, for fourth quarter 2015
 - Noninterest income increased \$7.34 million due to seasonality and growth in our Insurance and Realty segments
- Loans held for investment increased \$32.87 million from December 31, 2015, with a strong loan pipeline heading into the second quarter
- Noninterest bearing deposits increased by \$56.40 million, or 4.05% during the quarter
- Nonperforming assets decreased 12.55% during the quarter

Net Interest Income

On a linked quarter basis, net interest income increased slightly by \$0.01 million, or 0.01%, in first quarter 2016 versus fourth quarter 2015, while tax-equivalent net interest margin was 3.37%, an increase of 1 basis point from the fourth quarter of 2015. Accretion income added \$0.65 million, or 6 basis points, to margin in the current quarter, as compared to \$1.22 million, or 9 basis points, in the linked quarter.

Noninterest Income

In comparison to the fourth quarter of 2015, noninterest income, excluding gains or losses on investment securities, increased \$7.34 million, or 29.25%. The increase was driven by insurance commission income due to growth from prior year agency acquisitions, combined with higher contingent commission revenue, which is mostly received during the first quarter of each year. Additionally, real estate brokerage and property management income increased due to a seasonal increase related to our resort property management business. Residential mortgage banking income decreased by \$0.14 million, or 1.89%, from the fourth quarter of 2015 as mortgage production saw a seasonally driven decrease of \$40.38 million,

which was partially offset by an increase in the value of rate lock commitments of \$0.38 million recorded as of March 31, 2016, as compared to a decrease due to the value of rate lock commitments of \$0.49 million recognized for the quarter ended December 31, 2015.

Noninterest Expense

Noninterest expense decreased by \$0.58 million, or 1.10%, from the fourth quarter of 2015. Driving the decrease were salary and benefits expenses, which decreased by \$0.64 million due to lower personnel costs related to employee profit sharing and 401(k) matching expenses.

Noninterest Income

	% Change				
	Q1	Q1	Q4	Q1 16 vs.	Q1 16 vs.
<i>(dollars in thousands)</i>	2016	2015	2015	Q1 15	Q4 15
Residential mortgage banking income, net	\$ 7,118	\$ 8,443	\$ 7,255	(15.69)%	(1.89)%
Real estate brokerage and property management, net	4,827	3,955	2,438	22.05 %	97.99 %
Insurance commissions and other title fees and income, net	14,033	11,049	8,997	27.01 %	55.97 %
Service charges on deposit accounts	2,176	2,197	2,254	(0.96)%	(3.46)%
Credit card merchant fees, net	895	432	767	107.18 %	16.69 %
Other income	3,366	2,691	3,368	25.08 %	(0.06)%
Subtotal before gain on investment securities	32,415	28,767	25,079	12.68 %	29.25 %
Net gain on investment securities	—	49	—	(100.00)%	— %
Total noninterest income	<u>\$ 32,415</u>	<u>\$ 28,816</u>	<u>\$ 25,079</u>	<u>12.49 %</u>	<u>29.25 %</u>

Noninterest Expense

	% Change				
	Q1	Q1	Q4	Q1 16 vs.	Q1 16 vs.
<i>(dollars in thousands)</i>	2016	2015	2015	Q1 15	Q4 15
Salaries and benefits	\$ 30,187	\$ 27,679	\$ 30,826	9.06 %	(2.07)%
Occupancy expense	5,017	4,930	5,156	1.76 %	(2.70)%
Furniture and equipment	2,357	2,369	2,390	(0.51)%	(1.38)%
Acquisition-related expenses	414	415	285	(0.24)%	45.26 %
Other expenses	14,186	15,047	14,086	(5.72)%	0.71 %
Total noninterest expense	<u>\$ 52,161</u>	<u>\$ 50,440</u>	<u>\$ 52,743</u>	<u>3.41 %</u>	<u>(1.10)%</u>

Segment Results

	\$ Change				
	Q1	Q1	Q4	Q1 16 vs.	Q1 16 vs.
<i>(in thousands)</i>	2016	2015	2015	Q1 15	Q4 15
<u>Segment Net Income</u>					
Banking	\$ 14,133	\$ 11,108	\$ 12,219	\$ 3,025	\$ 1,914
Realty	1,033	1,647	6	(614)	1,027
Insurance	2,653	1,783	241	870	2,412
Total net income	<u>\$ 17,819</u>	<u>\$ 14,538</u>	<u>\$ 12,466</u>	<u>\$ 3,281</u>	<u>\$ 5,353</u>

First Quarter 2016 Compared to First Quarter 2015

Banking

Net income for the three months ended March 31, 2016 for the Banking segment was \$14.13 million, increasing \$3.02 million, or 27.22%, from the comparative 2015 quarter. The increase in earnings was driven by additional net interest income of \$2.64 million caused by an increase in earning assets, as average loan balances increased \$449.79 million. Also contributing to the increase was a decrease in the loan loss provision driven by a reduction in historical loss ratios and an increase in noninterest income. The increases in income were further augmented by lower noninterest expenses related to decreases in charitable contributions and foreclosed property expenses.

Realty

For the three months ended March 31, 2016, the Realty segment had net income of \$1.03 million compared to \$1.65 million the first quarter of 2015. The current quarter results were driven by a decrease in residential mortgage banking income of \$1.20 million, or 14.14%, due to a decline in margins combined with slightly lower production volumes. The decrease was partially offset by an increase in property management fees of \$0.73 million, or 27.00%, primarily due to increased revenue from Hilton Head and our purchase of a resort property management business based in Oak Island, North Carolina ("Oak Island") on January 14, 2016.

Insurance

The Insurance segment had net income of \$2.65 million for the three months ended March 31, 2016, an increase of \$0.87 million as compared to the first quarter of 2015. Insurance agencies acquired in 2015 contributed additional revenue, net of commission expense, of \$1.78 million in first quarter 2016. Also contributing to increase was organic growth in commercial lines commissions and an increase in commissions from travel insurance. The acquired agencies resulted in additional noninterest expenses of \$1.05 million of noninterest expenses, including acquisition-related expenses.

First Quarter 2016 Compared to Fourth Quarter 2015

Banking

The increase in earnings of \$1.91 million, or 15.66% from the fourth quarter of 2015 was driven by a decrease in noninterest expenses of \$1.40 million as personnel costs decreased along with acquisition-

related expenses and advertising and marketing expenses. Also contributing was a decrease in the loan loss provision of \$1.11 million, primarily due to a reduction in historical loss ratios. Additionally, revenue increased due to a combination of higher net interest income of \$0.11 million and an increase in noninterest income of \$0.13 million.

Realty

Net income in the Realty segment increased by \$1.03 million from the linked quarter ended December 31, 2015. The increase was primarily a result of a seasonal increase in resort property management fees of \$2.63 million. Partially offsetting the increase were additional operating expenses related to Oak Island operations. Excluding Oak Island operations, expenses decreased from the linked quarter in the Realty segment.

Insurance

Net income increased \$2.41 million from the fourth quarter of 2015. The improvement from the linked quarter was driven by an increase in contingency and bonus revenue of \$3.36 million. Contingent commissions are seasonal in nature and are mostly received during the first half of each year. Additionally, commissions from travel insurance increased by \$0.83 million and a full quarter of operations from agencies acquired in the third and fourth quarters of 2015 resulted in additional revenue, net of commission expense, of \$0.54 million.

Balance Sheet

At March 31, 2016, total Bank assets reached \$6.37 billion, an increase of \$0.54 billion, or 9.20%, over March 31, 2015.

Loans

	% Change				
	Q1	Q1	Q4	Q1 16 vs.	Q1 16 vs.
(dollars in thousands)	2016	2015	2015	Q1 15	Q4 15
Construction and land development	\$ 635,992	\$ 519,390	\$ 598,875	22.45 %	6.20 %
Commercial real estate - investment related properties	998,082	954,826	1,004,393	4.53 %	(0.63)%
Commercial real estate - owner occupied	764,230	770,880	780,000	(0.86)%	(2.02)%
Multifamily real estate	160,246	146,395	167,371	9.46 %	(4.26)%
1-4 family residential real estate	988,432	915,205	973,331	8.00 %	1.55 %
Commercial and industrial business loans	852,005	700,252	857,036	21.67 %	(0.59)%
Consumer loans and other	153,273	88,747	138,387	72.71 %	10.76 %
Total	<u>\$ 4,552,260</u>	<u>\$ 4,095,695</u>	<u>\$ 4,519,393</u>	<u>11.15 %</u>	<u>0.73 %</u>

The Bank's loan portfolio ended the period at \$4.55 billion representing an increase of 11.15%, or \$456.57 million, from the prior year and an increase of 0.73%, or \$32.87 million, from December 31, 2015.

Deposits

	% Change				
	Q1	Q1	Q4	Q1 16 vs.	Q1 16 vs.
(dollars in thousands)	2016	2015	2015	Q1 15	Q4 15
Noninterest-bearing demand	\$ 1,449,660	\$ 1,261,482	\$ 1,393,264	14.92 %	4.05 %
Interest-bearing:					
Demand and money market accounts	1,769,414	1,643,534	1,824,226	7.66 %	(3.00)%
Savings	302,373	303,936	300,408	(0.51)%	0.65 %
Certificates of deposits	1,433,679	1,296,666	1,396,129	10.57 %	2.69 %
Total	<u>\$ 4,955,126</u>	<u>\$ 4,505,618</u>	<u>\$ 4,914,027</u>	<u>9.98 %</u>	<u>0.84 %</u>

The Bank continued to experience solid deposit growth with total deposits increasing to \$4.96 billion, up \$449.51 million, or 9.98%, from March 31, 2015. The Bank saw continued growth in noninterest bearing demand deposits, which ended the quarter at \$1.45 billion, a 14.92% increase from March 31, 2015.

Noninterest deposits represented 29.26% of total deposits at March 31, 2016.

Capital Ratios

	Q1 2016	Q1 2015	Q4 2015
Common Equity Tier 1	12.66%	13.09%	12.59%
Tier 1	12.73%	13.20%	12.70%
Total	13.46%	13.96%	13.44%
Tier 1 leverage ratio	10.70%	10.99%	10.67%

The Bank's total equity at March 31, 2016 rose to \$836.00 million, an increase of \$44.42 million, or 5.61%, from March 31, 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 13.46%, 12.73%, 10.70%, 12.66%, respectively. All ratios exceed the current regulatory standards for well capitalized status.

Asset Quality

<i>(in thousands)</i>	3/31/2016	12/31/2015	9/30/2015	6/30/2015	3/31/2015
Nonperforming loans	\$ 7,944	\$ 8,670	\$ 8,477	\$ 7,455	\$ 7,045
Foreclosed property	29,740	34,420	39,509	46,154	51,698
Total nonperforming assets	<u>\$ 37,684</u>	<u>\$ 43,090</u>	<u>\$ 47,986</u>	<u>\$ 53,609</u>	<u>\$ 58,743</u>
Quarterly net loans charged off (recovered)	\$ 340	\$ (156)	\$ 69	\$ 339	\$ 333
Year-to-date net loans charged off	\$ 340	\$ 585	\$ 741	\$ 672	\$ 333

<i>(dollars in thousands)</i>	Change				
	Q1 2016	Q1 2015	Q4 2015	Q1 16 vs. Q1 15	Q1 16 vs. Q4 15
Total loans 90 days past due and still accruing	\$ —	\$ 3	\$ 424	\$ (3)	\$ (424)
Total loans 30-89 days past due	\$ 12,055	\$ 19,537	\$ 7,477	\$ (7,482)	\$ 4,578
Allowance for loan losses	\$ 37,760	\$ 35,907	\$ 38,359	\$ 1,853	\$ (599)
Total performing TDRs	\$ 24,955	\$ 32,896	\$ 29,114	\$ (7,941)	\$ (4,159)
Nonperforming loans to period end loans	0.17%	0.17%	0.19 %	— %	(0.02)%
Nonperforming assets to period end assets	0.59%	1.01%	0.68 %	(0.42)%	(0.09)%
Allowance for loan losses to period end loans	0.83%	0.88%	0.85 %	(0.05)%	(0.02)%
Allowance for loan losses (originated) to originated period end loans	0.92%	1.00%	0.94 %	(0.08)%	(0.02)%
Net charge-offs (recoveries) to average loans (annualized)	0.03%	0.03%	(0.01)%	— %	0.04 %
Ratio of allowance for loan losses to nonperforming loans	4.75x	5.10x	4.42x	(0.35)x	0.33x

Continued strength in credit quality contributed to the Bank's financial results as net charge-offs were \$0.34 million in the first quarter of 2016 compared to \$0.33 million in the first quarter of 2015 and net recoveries of \$0.16 million in the linked quarter. As a result of the strength in credit quality and a reduction in historical loss ratios, a negative provision for loan losses of \$0.26 million was recorded in first quarter 2016, a decrease of \$0.58 million as compared to the same quarter of 2015. Total nonperforming assets were \$37.68 million, or 0.59% of Bank assets, at March 31, 2016, as compared to \$58.74 million, or 1.01%, at March 31, 2015, and \$43.09 million, or 0.68%, at December 31, 2015. The allowance for loan losses was \$37.76 million, increased from \$35.91 million at March 31, 2015 and decreased from \$38.36 million at December 31, 2015.

About TowneBank:

As one of the top community banks in Virginia and North Carolina, TowneBank operates 37 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 \$6.37 billion as of March 31, 2016, 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. These include statements as to the anticipated benefits of the merger with Monarch, including future financial and operating results, cost savings and enhanced revenues that may be realized from the merger as well as other statements of expectations regarding the merger and any other statements regarding future results or expectations. 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. TowneBank'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, and the resulting company after the merger with Monarch, include but are not limited to: the businesses of TowneBank and Monarch may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; expected

revenue synergies and cost savings from the merger or other pending or recently completed acquisitions may not be fully realized or realized within the expected timeframe; revenues following the merger may be lower than expected; customer and employee relationships and business operations may be disrupted by the merger; the ability to obtain required regulatory and stockholder approvals, and the ability to complete the merger on the expected timeframe may be more difficult, time-consuming or costly than expected; 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 TowneBank's market areas; TowneBank's implementation of new technologies and the ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; and changes in accounting principles, policies and guidelines; and other risk factors detailed from time to time in filings made by TowneBank with the Federal Deposit Insurance Corporation (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.

Additional Information About the Merger and Where to Find It:

In connection with the proposed merger, TowneBank has filed with the FDIC a preliminary proxy statement/prospectus and Monarch has filed with the Securities and Exchange Commission (the "SEC") a preliminary proxy statement. TowneBank and Monarch will each deliver a definitive joint proxy statement/prospectus to their respective stockholders seeking approval of the merger and related matters. In addition, each of TowneBank and Monarch may file other relevant documents concerning the proposed merger with the FDIC and SEC.

Investors and stockholders of both companies are urged to read the definitive joint proxy statement/prospectus when it becomes available and any other relevant documents to be filed with the FDIC and SEC in connection with the proposed merger because they will contain important information about TowneBank, Monarch and the proposed transaction. Investors and stockholders may obtain free copies of certain of these documents through the website maintained by the SEC at <http://www.sec.gov>. Free copies of the definitive joint proxy statement/prospectus, when available, also may be obtained by directing a request by telephone or mail to TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23425, Attention: Investor Relations (telephone: (757) 638-6794), or Monarch Financial Holdings, Inc., 1435 Crossways Boulevard, Suite 301, Chesapeake, Virginia 23320, Attention: Investor Relations (telephone: (757) 389-5112), or by accessing TowneBank's website at <https://townebank.com> under "Investor

Relations” or Monarch’s website at <https://www.monarchbank.com> under “Investor Relations.” The information on TowneBank’s and Monarch’s websites is not, and shall not be deemed to be, a part of this release or incorporated into other filings either company makes with the FDIC or SEC.

TowneBank and Monarch, and their respective directors and executive officers, may be deemed to be participants in the solicitation of proxies from the stockholders of TowneBank and/or Monarch in connection with the merger. Information about the directors and executive officers of TowneBank is set forth in the proxy statement for TowneBank’s 2016 annual meeting of stockholders filed with the FDIC on April 15, 2016. Information about the directors and executive officers of Monarch is set forth in the proxy statement for Monarch’s 2015 annual meeting of stockholders filed with the SEC on April 2, 2015. Additional information regarding the interests of these participants and other persons who may be deemed participants in the merger may be obtained by reading the definitive joint proxy statement/prospectus regarding the merger when it becomes available.

This release does not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any offer, solicitation or sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

###

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

Three months ended March 31,	2016	2015	Increase/ (Decrease)	% Increase/ (Decrease)
Results of Operations:				
Net interest income	\$ 46,336	\$ 43,556	\$ 2,780	6.38 %
Noninterest income (1)	32,415	28,767	3,648	12.68 %
Gain (loss) on investment securities	—	49	(49)	(100.00)%
Total Revenue	78,751	72,372	6,379	8.81 %
Noninterest expenses	52,161	50,440	1,721	3.41 %
Provision for loan losses	(259)	323	(582)	(180.19)%
Income before income tax and noncontrolling interest	26,849	21,609	5,240	24.25 %
Provision for income tax expense	8,188	6,385	1,803	28.24 %
Net income	18,661	15,224	3,437	22.58 %
Net income attributable to noncontrolling interest	(842)	(686)	(156)	22.74 %
Net income attributable to TowneBank	17,819	14,538	3,281	22.57 %
Preferred stock dividends and accretion	—	13	(13)	(100.00)%
Net income available to common shareholders	17,819	14,525	3,294	22.68 %
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	\$ 6,365,169	\$ 5,828,703	\$ 536,466	9.20 %
Total assets - tangible	6,178,224	5,649,097	529,127	9.37 %
Earning assets (2)	5,896,763	5,355,376	541,387	10.11 %
Loans (net of unearned income)	4,552,260	4,095,695	456,565	11.15 %
Allowance for loan losses	37,760	35,907	1,853	5.16 %
Goodwill and other intangibles	186,945	179,607	7,338	4.09 %
Nonperforming assets	37,684	58,743	(21,059)	(35.85)%
Noninterest bearing deposits	1,449,660	1,261,482	188,178	14.92 %
Interest bearing deposits	3,505,466	3,244,136	261,330	8.06 %
Total deposits	4,955,126	4,505,618	449,508	9.98 %
Total equity	836,003	791,580	44,423	5.61 %
Total equity - tangible	649,058	611,974	37,084	6.06 %
Common equity	826,875	783,157	43,718	5.58 %
Common equity - tangible	639,930	603,550	36,380	6.03 %
Book value per common share	16.00	15.22	0.78	5.12 %
Book value per common share - tangible	12.38	11.73	0.65	5.54 %
Daily Average Balances:				
Total assets	\$ 6,313,238	\$ 5,829,533	\$ 483,705	8.30 %
Total assets - tangible	6,126,524	5,642,883	483,641	8.57 %
Earning assets (2)	5,815,383	5,290,562	524,821	9.92 %
Loans (net of unearned income), excluding nonaccrual loans	4,516,277	4,066,484	449,793	11.06 %
Allowance for loan losses	38,555	36,048	2,507	6.95 %
Goodwill and other intangibles	186,714	186,650	64	0.03 %
Noninterest bearing deposits	1,415,793	1,256,023	159,770	12.72 %
Interest bearing deposits	3,499,607	3,248,834	250,773	7.72 %
Total deposits	4,915,400	4,504,857	410,543	9.11 %
Total equity	830,178	781,833	48,345	6.18 %
Total equity - tangible	643,464	595,183	48,281	8.11 %
Common equity	821,268	767,980	53,288	6.94 %
Common equity - tangible	634,554	581,330	53,224	9.16 %
Key Ratios:				
Return on average assets	1.14%	1.01%	0.13 %	12.87 %
Return on average assets - tangible	1.21%	1.08%	0.13 %	12.04 %
Return on average equity	8.63%	7.54%	1.09 %	14.46 %
Return on average equity - tangible	11.56%	10.27%	1.29 %	12.56 %
Return on average common equity	8.73%	7.67%	1.06 %	13.82 %
Return on average common equity - tangible	11.72%	10.51%	1.21 %	11.51 %
Net interest margin-fully tax equivalent (2)(3)	3.37%	3.52%	(0.15)%	(4.26)%
Net interest margin (2)	3.29%	3.43%	(0.14)%	(4.08)%
Average earning assets/total average assets	92.11%	90.75%	1.36 %	1.50 %
Average loans/average deposits	91.88%	90.27%	1.61 %	1.78 %
Average noninterest deposits/total average deposits	28.80%	27.88%	0.92 %	3.30 %
Allowance for loan losses/period end loans	0.83%	0.88%	(0.05)%	(5.68)%
Nonperforming assets to period end assets	0.59%	1.01%	(0.42)%	(41.58)%
Period end equity/period end total assets	13.13%	13.58%	(0.45)%	(3.31)%
Efficiency ratio (1)	66.24%	69.74%	(3.50)%	(5.02)%

(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
(dollars in thousands, except per share data)

Three Months Ended	March 31, 2016	December 31, 2015	Increase/ (Decrease)	% Increase/ (Decrease)
Results of Operations:				
Net interest income	\$ 46,336	\$ 46,331	\$ 5	0.01 %
Noninterest income (1)	32,415	25,079	7,336	29.25 %
Gain (loss) on investment securities	—	—	—	— %
Total Revenue	78,751	71,410	7,341	10.28 %
Noninterest expenses	52,161	52,743	(582)	(1.10)%
Provision for loan losses	(259)	852	(1,111)	(130.40)%
Income before income tax and noncontrolling interest	26,849	17,815	9,034	50.71 %
Provision for income tax expense	8,188	4,846	3,342	68.96 %
Net income	18,661	12,969	5,692	43.89 %
Net income attributable to noncontrolling interest	(842)	(503)	(339)	67.40 %
Net income attributable to TowneBank	17,819	12,466	5,353	42.94 %
Preferred stock dividends and accretion	—	—	—	— %
Net income available to common shareholders	17,819	12,466	5,353	42.94 %
Net income per common share - basic	0.35	0.24	0.11	45.83 %
Net income per common share - diluted	0.35	0.24	0.11	45.83 %
Period End Data:				
Total assets	\$ 6,365,169	\$ 6,296,574	\$ 68,595	1.09 %
Total assets - tangible	6,178,224	6,115,579	62,645	1.02 %
Earning assets (2)	5,896,763	5,827,888	68,875	1.18 %
Loans (net of unearned income)	4,552,260	4,519,393	32,867	0.73 %
Allowance for loan losses	37,760	38,359	(599)	(1.56)%
Goodwill and other intangibles	186,945	180,995	5,950	3.29 %
Nonperforming assets	37,684	43,091	(5,407)	(12.55)%
Noninterest bearing deposits	1,449,660	1,393,264	56,396	4.05 %
Interest bearing deposits	3,505,466	3,520,763	(15,297)	(0.43)%
Total deposits	4,955,126	4,914,027	41,099	0.84 %
Total equity	836,003	820,194	15,809	1.93 %
Total equity - tangible	649,058	639,199	9,859	1.54 %
Common equity	826,875	810,921	15,954	1.97 %
Common equity - tangible	639,930	629,925	10,005	1.59 %
Book value per common share	16.00	15.71	0.29	1.85 %
Book value per common share - tangible	12.38	12.21	0.17	1.39 %
Daily Average Balances:				
Total assets	\$ 6,313,238	\$ 6,305,571	\$ 7,667	0.12 %
Total assets - tangible	6,126,524	6,120,799	5,725	0.09 %
Earning assets (2)	5,815,383	5,800,907	14,476	0.25 %
Loans (net of unearned income), excluding nonaccrual loans	4,516,277	4,426,387	89,890	2.03 %
Allowance for loan losses	38,555	37,918	637	1.68 %
Goodwill and other intangibles	186,714	184,773	1,941	1.05 %
Noninterest bearing deposits	1,415,793	1,420,047	(4,254)	(0.30)%
Interest bearing deposits	3,499,607	3,458,597	41,010	1.19 %
Total deposits	4,915,400	4,878,644	36,756	0.75 %
Total equity	830,178	823,627	6,551	0.80 %
Total equity - tangible	643,464	638,855	4,609	0.72 %
Common equity	821,268	814,894	6,374	0.78 %
Common equity - tangible	634,554	630,121	4,433	0.70 %
Key Ratios:				
Return on average assets	1.14%	0.78%	0.36 %	46.15 %
Return on average assets - tangible	1.21%	0.85%	0.36 %	42.35 %
Return on average equity	8.63%	6.00%	2.63 %	43.83 %
Return on average equity - tangible	11.56%	8.11%	3.45 %	42.54 %
Return on average common equity	8.73%	6.07%	2.66 %	43.82 %
Return on average common equity - tangible	11.72%	8.22%	3.50 %	42.58 %
Net interest margin-fully tax equivalent (2)(3)	3.37%	3.36%	0.01 %	0.30 %
Net interest margin (2)	3.29%	3.27%	0.02 %	0.61 %
Average earning assets/total average assets	92.11%	92.00%	0.11 %	0.12 %
Average loans/average deposits	91.88%	90.73%	1.15 %	1.27 %
Average noninterest deposits/total average deposits	28.80%	29.11%	(0.31)%	(1.06)%
Allowance for loan losses/period end loans	0.83%	0.85%	(0.02)%	(2.35)%
Nonperforming assets to period end assets	0.59%	0.68%	(0.09)%	(13.24)%
Period end equity/period end total assets	13.13%	13.03%	0.10 %	0.77 %
Efficiency ratio (1)	66.24%	73.86%	(7.62)%	(10.32)%

(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 March 31, 2016			Three Months Ended December 31, 2015			Three Months Ended March 31, 2015		
	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	\$ 4,516,277	\$ 50,781	4.52%	\$ 4,426,387	\$ 50,850	4.56%	\$ 4,066,484	\$ 47,890	4.78%
Taxable investment securities	754,514	3,055	1.62%	782,998	2,987	1.53%	749,414	2,801	1.49%
Tax-exempt investment securities	52,979	410	3.09%	54,974	428	3.11%	66,812	536	3.20%
Interest-bearing deposits	265,256	330	0.50%	292,085	211	0.29%	202,852	125	0.25%
Loans held for sale	76,503	693	3.62%	95,932	865	3.61%	64,512	565	3.50%
Bank-owned life insurance	149,854	1,802	4.84%	148,531	2,311	6.17%	140,488	1,753	5.06%
Total earning assets	5,815,383	57,071	3.95%	5,800,907	57,652	3.94%	5,290,562	53,670	4.11%
Less: allowance for loan losses	(38,555)			(37,918)			(36,048)		
Total nonearning assets	536,410			542,582			575,019		
Total assets	<u>\$ 6,313,238</u>			<u>\$ 6,305,571</u>			<u>\$ 5,829,533</u>		
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	\$ 1,782,908	\$ 1,328	0.30%	\$ 1,780,151	\$ 1,265	0.28%	\$ 1,635,454	\$ 1,111	0.28%
Savings	300,070	700	0.94%	299,503	684	0.91%	305,016	683	0.91%
Certificates of deposit	1,416,629	3,185	0.90%	1,378,943	3,170	0.91%	1,308,364	2,630	0.82%
Total interest-bearing deposits	3,499,607	5,213	0.60%	3,458,597	5,119	0.59%	3,248,834	4,424	0.55%
Borrowings	468,798	3,185	2.69%	471,929	3,360	2.79%	447,198	3,388	3.03%
Total interest-bearing liabilities	3,968,405	8,398	0.85%	3,930,526	8,479	0.86%	3,696,032	7,812	0.86%
Demand deposits	1,415,793			1,420,047			1,256,025		
Other noninterest-bearing liabilities	98,862			131,371			95,643		
Total liabilities	5,483,060			5,481,944			5,047,700		
Shareholders' equity	830,178			823,627			781,833		
Total liabilities and equity	<u>\$ 6,313,238</u>			<u>\$ 6,305,571</u>			<u>\$ 5,829,533</u>		
Net interest income (tax-equivalent basis)		\$ 48,673			\$ 49,173			\$ 45,858	
Reconciliation of Non-GAAP Financial Measures									
Bank-owned life insurance		(1,802)			(2,311)			(1,753)	
Tax-equivalent basis adjustment		(535)			(531)			(549)	
Net interest income (GAAP)		<u>\$ 46,336</u>			<u>\$ 46,331</u>			<u>\$ 43,556</u>	
Interest rate spread (1)			3.10%			3.09%			3.26%
Interest expense as a percent of average earning assets			0.58%			0.58%			0.60%
Net interest margin (tax equivalent basis) (2)			3.37%			3.36%			3.52%
Total cost of deposits			0.43%			0.42%			0.40%

(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 Balance Sheets
(dollars in thousands, except share data)

	March 31,		December 31,
	2016	2015	2015
	(unaudited)		(audited)
ASSETS			
Cash and due from banks	\$ 195,161	\$ 144,215	\$ 250,836
Interest-bearing deposits in financial institutions	1,006	1,000	1,001
Total Cash and Cash Equivalents	196,167	145,215	251,837
Securities available for sale, at fair value	821,551	771,208	723,489
Securities held to maturity, at amortized cost	66,921	83,752	69,045
Federal Home Loan Bank stock, at amortized cost	23,903	22,366	23,691
Total Securities	912,375	877,326	816,225
Mortgage loans held for sale	97,491	102,850	102,346
Loans, net of unearned income and deferred costs:			
Real estate - residential 1-4 family	988,432	915,205	973,331
Real estate - commercial	1,762,312	1,725,706	1,784,393
Real estate - construction and land development	635,992	519,390	598,875
Real estate - multifamily	160,246	146,395	167,371
Commercial and industrial business	852,005	700,252	857,036
Consumer and other loans	153,273	88,747	138,387
Loans, net of unearned income and deferred costs	4,552,260	4,095,695	4,519,393
Less: Allowance for loan losses	(37,760)	(35,907)	(38,359)
Net Loans	4,514,500	4,059,788	4,481,034
Premises and equipment, net	178,154	166,164	173,695
Goodwill	157,659	156,516	154,842
Other intangible assets, net	29,286	23,090	26,153
Bank-owned life insurance policies	150,623	145,401	149,452
Other assets	128,914	152,353	140,990
TOTAL ASSETS	\$ 6,365,169	\$ 5,828,703	\$ 6,296,574
LIABILITIES AND EQUITY			
Liabilities			
Deposits:			
Noninterest-bearing demand	\$ 1,449,660	\$ 1,261,482	\$ 1,393,264
Interest-bearing:			
Demand and money market accounts	1,769,414	1,643,534	1,824,226
Savings	302,373	303,936	300,408
Certificates of deposit	1,433,679	1,296,666	1,396,129
Total Deposits	4,955,126	4,505,618	4,914,027
Advances from the Federal Home Loan Bank	428,940	397,884	429,080
Repurchase agreements and other borrowings	39,442	37,202	37,434
Total Borrowings	468,382	435,086	466,514
Other liabilities	105,658	96,419	95,839
TOTAL LIABILITIES	5,529,166	5,037,123	5,476,380
Shareholders' Equity			
Preferred stock:			
Authorized and unissued shares - 2,000,000	—	—	—
Common stock, \$1.667 par: 90,000,000 shares authorized			
51,680,059; 51,466,606; and 51,605,521 shares issued at			
March 31, 2016 and 2015 and December 31, 2015, respectively	86,151	85,795	86,026
Capital surplus	536,294	531,483	535,094
Retained earnings	204,413	163,519	192,795
Common stock issued to deferred compensation trust, at cost			
651,379; 637,935; and 648,350 shares at			
March 31, 2016 and 2015 and December 31, 2015, respectively	(10,288)	(9,816)	(10,172)
Deferred compensation trust	10,288	9,816	10,172
Accumulated other comprehensive income (loss)	17	2,359	(2,994)
TOTAL SHAREHOLDERS' EQUITY	826,875	783,156	810,921
Noncontrolling interests	9,128	8,424	9,273
TOTAL EQUITY	836,003	791,580	820,194
TOTAL LIABILITIES AND EQUITY	\$ 6,365,169	\$ 5,828,703	\$ 6,296,574

TOWNEBANK
Consolidated Statements of Income (unaudited)
(dollars in thousands, except per share data)

	Three Months Ended	
	March 31,	
	2016	2015
INTEREST INCOME:		
Loans, including fees	\$ 50,247	\$ 47,341
Investment securities	3,464	3,337
Interest-bearing deposits in financial institutions and federal funds sold	330	125
Mortgage loans held for sale	693	565
Total Interest Income	54,734	51,368
INTEREST EXPENSE:		
Deposits	5,213	4,424
Advances from the Federal Home Loan Bank	3,163	3,374
Repurchase agreements and other borrowings	22	14
Total Interest Expense	8,398	7,812
Net Interest Income	46,336	43,556
PROVISION FOR LOAN LOSSES	(259)	323
Net Interest Income after Provision for Loan Losses	46,595	43,233
NONINTEREST INCOME:		
Residential mortgage banking income, net	7,118	8,443
Real estate brokerage and property management income, net	4,827	3,955
Insurance commissions and other title fees and income, net	14,033	11,049
Service charges on deposit accounts	2,176	2,197
Credit card merchant fees, net	895	432
Other income	3,366	2,691
Net gain on investment securities	—	49
Total Noninterest Income	32,415	28,816
NONINTEREST EXPENSE:		
Salaries and employee benefits	30,187	27,679
Occupancy expense	5,017	4,930
Furniture and equipment	2,357	2,369
Other expenses	14,600	15,462
Total Noninterest Expense	52,161	50,440
Income before income tax expense and noncontrolling interest	26,849	21,609
Provision for income tax expense	8,188	6,385
Net income	18,661	15,224
Net income attributable to noncontrolling interest	(842)	(686)
Net income attributable to TowneBank	\$ 17,819	\$ 14,538
Preferred stock dividends	—	13
Net income available to common shareholders	\$ 17,819	\$ 14,525
Per common share information		
Basic earnings	\$ 0.35	\$ 0.29
Diluted earnings	\$ 0.35	\$ 0.29
Cash dividends declared	\$ 0.12	\$ 0.11

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

	Three Months Ended	
	March 31,	
	2016	2015
Net income	\$ 18,661	\$ 15,224
Other comprehensive income		
Unrealized gains on securities		
Unrealized holding gains arising during the period	4,480	2,914
Deferred tax expense	(1,568)	(1,020)
Realized gains reclassified into earnings	—	(49)
Deferred tax benefit	—	17
Net unrealized gains	2,912	1,862
Pension and postretirement benefit plans		
Actuarial gains	109	—
Deferred tax expense	(38)	—
Amortization of prior service costs	38	—
Deferred tax expense	(13)	—
Amortization of net actuarial loss	5	60
Deferred tax expense	(2)	(21)
Change in defined benefit retirement plan, net of tax	99	39
Other comprehensive income, net of tax	3,011	1,901
Comprehensive income	\$ 21,672	\$ 17,125

TOWNEBANK
Consolidated Balance Sheets - Five Quarter Trend
(dollars in thousands, except share data)

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)
ASSETS					
Cash and due from banks	\$ 195,161	\$ 250,836	\$ 284,625	\$ 184,099	\$ 144,215
Interest-bearing deposits in financial institutions	1,006	1,001	1,000	1,011	1,000
Total Cash and Cash Equivalents	196,167	251,837	285,625	185,110	145,215
Securities available for sale, at fair value	821,551	723,489	542,634	759,425	771,208
Securities held to maturity, at amortized cost	66,921	69,045	75,154	80,195	83,752
Federal Home Loan Bank stock, at amortized cost	23,903	23,691	24,058	24,058	22,366
Total Securities	912,375	816,225	641,846	863,678	877,326
Mortgage loans held for sale	97,491	102,346	99,330	165,994	102,850
Loans, net of unearned income and deferred costs:	4,552,260	4,519,393	4,367,039	4,228,127	4,095,695
Less: allowance for loan losses	(37,760)	(38,359)	(37,351)	(37,290)	(35,907)
Net Loans	4,514,500	4,481,034	4,329,688	4,190,837	4,059,788
Premises and equipment, net	178,154	173,695	172,940	172,492	166,164
Goodwill	157,659	154,842	152,438	153,191	156,516
Other intangible assets, net	29,286	26,153	23,080	22,016	23,090
Bank-owned life insurance policies	150,623	149,452	147,949	146,729	145,401
Other assets	128,914	140,990	320,995	155,134	152,353
TOTAL ASSETS	\$ 6,365,169	\$ 6,296,574	\$ 6,173,891	\$ 6,055,181	\$ 5,828,703
LIABILITIES AND EQUITY					
Deposits:					
Noninterest-bearing demand	\$ 1,449,660	\$ 1,393,264	\$ 1,445,978	\$ 1,363,551	\$ 1,261,482
Interest-bearing:					
Demand and money market accounts	1,769,414	1,824,226	1,676,623	1,680,038	1,643,534
Savings	302,373	300,408	295,952	300,203	303,936
Certificates of deposit	1,433,679	1,396,129	1,369,325	1,342,860	1,296,666
Total Deposits	4,955,126	4,914,027	4,787,878	4,686,652	4,505,618
Advances from the Federal Home Loan Bank	428,940	429,080	437,282	437,584	397,884
Repurchase agreements and other borrowings	39,442	37,434	33,784	35,737	37,202
Total Borrowings	468,382	466,514	471,066	473,321	435,086
Other liabilities	105,658	95,839	98,878	92,317	96,419
TOTAL LIABILITIES	5,529,166	5,476,380	5,357,822	5,252,290	5,037,123
Preferred stock					
Authorized and unissued shares - 2,000,000	—	—	—	—	—
Common stock, \$1.667 par value	86,151	86,026	85,985	85,936	85,795
Capital surplus	536,294	535,094	533,609	532,646	531,483
Retained earnings	204,413	192,795	186,522	175,145	163,519
Common stock issued to deferred compensation trust, at cost	(10,288)	(10,172)	(10,151)	(10,110)	(9,816)
Deferred compensation trust	10,288	10,172	10,151	10,110	9,816
Accumulated other comprehensive income (loss)	17	(2,994)	1,036	291	2,359
TOTAL SHAREHOLDERS' EQUITY	826,875	810,921	807,152	794,018	783,156
Noncontrolling interest	9,128	9,273	8,917	8,873	8,424
TOTAL EQUITY	836,003	820,194	816,069	802,891	791,580
TOTAL LIABILITIES AND EQUITY	\$ 6,365,169	\$ 6,296,574	\$ 6,173,891	\$ 6,055,181	\$ 5,828,703

TOWNEBANK
Consolidated Statements of Income - Five Quarter Trend (unaudited)
(dollars in thousands, except per share data)

	Three Months Ended				
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
INTEREST INCOME:					
Loans, including fees	\$ 50,247	\$ 50,319	\$ 48,906	\$ 48,170	\$ 47,341
Investment securities	3,464	3,415	3,728	3,321	3,337
Interest-bearing deposits in financial institutions and federal funds sold	330	212	107	56	125
Mortgage loans held for sale	693	865	1,246	1,161	565
Total Interest Income	54,734	54,811	53,987	52,708	51,368
INTEREST EXPENSE:					
Deposits	5,213	5,119	4,881	4,442	4,424
Advances from the Federal Home Loan Bank	3,163	3,326	3,422	3,365	3,374
Repurchase agreements and other borrowings	22	35	14	17	14
Total Interest Expense	8,398	8,480	8,317	7,824	7,812
Net Interest Income	46,336	46,331	45,670	44,884	43,556
PROVISION FOR LOAN LOSSES	(259)	852	130	1,723	323
Net Interest Income after Provision for Loan Losses	46,595	45,479	45,540	43,161	43,233
NONINTEREST INCOME:					
Residential mortgage banking income, net	7,118	7,255	8,262	10,251	8,443
Real estate brokerage and property management income, net	4,827	2,438	5,349	4,584	3,955
Insurance commissions and other title fees and income, net	14,033	8,997	9,710	9,885	11,049
Service charges on deposit accounts	2,176	2,254	2,388	2,326	2,197
Credit card merchant fees, net	895	767	823	566	432
Other income	3,366	3,368	3,036	5,354	2,691
Net gain on investment securities	—	—	736	119	49
Total Noninterest Income	32,415	25,079	30,304	33,085	28,816
NONINTEREST EXPENSE:					
Salaries and employee benefits	30,187	30,826	28,910	26,544	27,679
Occupancy expense	5,017	5,156	4,703	4,856	4,930
Furniture and equipment	2,357	2,390	2,211	2,369	2,369
Other expenses	14,600	14,371	14,082	15,298	15,462
Total Noninterest Expense	52,161	52,743	49,906	49,067	50,440
Income before income tax expense and noncontrolling interest	26,849	17,815	25,938	27,179	21,609
Provision for income tax expense	8,188	4,846	7,444	8,201	6,385
Net income	18,661	12,969	18,494	18,978	15,224
Net income attributable to noncontrolling interest	(842)	(503)	(928)	(1,166)	(686)
Net income attributable to TowneBank	\$ 17,819	\$ 12,466	\$ 17,566	\$ 17,812	\$ 14,538
Preferred stock dividends	—	—	—	—	13
Net income available to common shareholders	\$ 17,819	\$ 12,466	\$ 17,566	\$ 17,812	\$ 14,525
Per common share information					
Basic earnings	\$ 0.35	\$ 0.24	\$ 0.34	\$ 0.35	\$ 0.29
Diluted earnings	\$ 0.35	\$ 0.24	\$ 0.34	\$ 0.35	\$ 0.29
Basic weighted average shares outstanding	51,290,010	51,267,447	51,153,205	51,089,051	50,652,963
Diluted weighted average shares outstanding	51,392,857	51,440,440	51,263,382	51,151,512	50,724,588
Cash dividends declared	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.11

TOWNEBANK
Insurance Segment Financial Information
(dollars in thousands)

	Three Months Ended			Increase/(Decrease)			
	March 31,		December 31,	March 31, 2016		March 31, 2016	
	March 31,		December 31,	March 31, 2015		December 31, 2015	
	2016	2015	2015	Amount	Percent	Amount	Percent
Commission and fee income							
Property and casualty	\$ 8,263	\$ 6,446	\$ 7,371	\$ 1,817	28.19 %	\$ 892	12.10 %
Employee benefits	2,721	2,670	2,588	51	1.91 %	133	5.14 %
Travel insurance	1,456	1,131	630	325	28.74 %	826	131.11 %
Specialized benefit services	153	133	144	20	15.04 %	9	6.25 %
Total commissions and fees	12,593	10,380	10,733	2,213	21.32 %	1,860	17.33 %
Contingency and bonus revenue	3,411	2,523	53	888	35.20 %	3,358	N/M
Other income	77	48	58	29	60.42 %	19	32.76 %
Total revenue	\$ 16,081	\$ 12,951	\$ 10,844	\$ 3,130	24.17 %	\$ 5,237	48.29 %
Employee commission expense	2,168	2,022	2,008	146	7.22 %	160	7.97 %
Revenue, net of commission expense	\$ 13,913	\$ 10,929	\$ 8,836	\$ 2,984	27.30 %	\$ 5,077	57.46 %
Salaries and employee benefits	5,968	4,794	5,863	1,174	24.49 %	105	1.79 %
Occupancy expense	529	456	537	73	16.01 %	(8)	(1.49)%
Furniture and equipment	224	242	235	(18)	(7.44)%	(11)	(4.68)%
Amortization of intangible assets	685	526	676	159	30.23 %	9	1.33 %
Other expenses	1,390	1,242	892	148	11.92 %	498	55.83 %
Total operating expenses	8,796	7,260	8,203	1,536	21.16 %	593	7.23 %
Income before income tax provision and noncontrolling interest	\$ 5,117	\$ 3,669	\$ 633	\$ 1,448	39.47 %	\$ 4,484	708.37 %
Plus: Acquisition related expenses	76	180	(334)	(104)	(57.78)%	410	(122.75)%
Plus: Amortization of intangible assets	685	526	676	159	30.23 %	9	1.33 %
Operating earnings before income taxes (non-GAAP)	\$ 5,878	\$ 4,375	\$ 975	\$ 1,503	34.35 %	\$ 4,903	502.87 %

TOWNEBANK

March 31, 2016

Reconciliation of Non-GAAP Financial Measures:

(dollars in thousands)

	Three Months Ended		
	March 31, 2016	March 31, 2015	December 31, 2015
Return on average assets (GAAP basis)	1.14%	1.01%	0.78%
Impact of excluding average goodwill and other intangibles and amortization	0.07%	0.07%	0.07%
Return on average tangible assets (Non-GAAP)	1.21%	1.08%	0.85%
Return on average equity (GAAP basis)	8.63%	7.54%	6.00%
Impact of excluding average goodwill and other intangibles and amortization	2.93%	2.73%	2.11%
Return on average tangible equity (Non-GAAP)	11.56%	10.27%	8.11%
Return on average common equity (GAAP basis)	8.73%	7.67%	6.07%
Impact of excluding average goodwill and other intangibles and amortization	2.99%	2.84%	2.15%
Return on average tangible common equity (Non-GAAP)	11.72%	10.51%	8.22%
Book value (GAAP basis)	\$ 16.00	15.22	\$ 15.71
Impact of excluding average goodwill and other intangibles and amortization	(3.62)	(3.49)	(3.50)
Tangible book value	\$ 12.38	\$ 11.73	\$ 12.21