

**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 27, 2017

Date of Report (Date of earliest event reported)

TOWNE BANK

(Exact name of registrant as specified in its charter)

<u>Virginia</u> (State or other jurisdiction of incorporation)	<u>35095</u> (FDIC Insurance Cert. No.)	<u>54-1910608</u> (IRS Employer Identification No.)
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<u>5716 High Street Portsmouth, Virginia</u> (Address of principle executive offices)	<u>23703</u> (Zip Code)
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(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))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

ITEM 2.02 - RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On July 27, 2017, TowneBank issued a press release regarding its results of operations and financial condition for the second quarter ended June 30, 2017. A copy of the press release announcing the Registrant's results for the second quarter ended June 30, 2017 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 27, 2017.

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 27, 2017



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 Investor Relations Officer and CSO, 757-638-6813

TOWNEBANK REPORTS RECORD SECOND QUARTER EARNINGS

Suffolk, Va. - Hampton Roads based TowneBank (the “Bank” or “Company”) (NASDAQ: TOWN) today reported record financial results for the three and six months ended June 30, 2017. Earnings for the quarter ended June 30, 2017 were \$26.21 million compared to the \$6.26 million for the same quarter in 2016. Fully diluted earnings per share were \$0.42 per share compared to \$0.12 per share in second quarter 2016. Earnings in the second quarter of 2016 included after-tax acquisition-related expenses of \$12.26 million, mostly related to the Monarch Financial Holdings, Inc. (“Monarch”) merger, as compared to \$1.09 million in the current quarter.

Excluding certain items affecting comparability, earnings for the quarter ended June 30, 2017 were \$24.77 million (non-GAAP), or \$0.40 (non-GAAP) per diluted share, compared to \$18.52 million (non-GAAP), or \$0.36 (non-GAAP) per diluted share, for the same quarter in 2016.

Earnings for the year-to-date period were \$48.18 million as compared to \$24.08 million earned in the same period of 2016. Fully diluted earnings per share were \$0.77 compared to \$0.47 for the six months ended June 30, 2016.

Excluding certain items affecting comparability, earnings for the year-to-date period were \$46.81 million (non-GAAP), or \$0.75 (non-GAAP) per diluted share, as compared to the \$36.72 million (non-GAAP), or \$0.71 (non-GAAP) per diluted share, earned in the same period of 2016.

The Bank's quarterly dividend was \$0.14 per share resulting in total common dividends of \$8.77 million. The current dividend represents an increase of 7.7% over the dividend paid during the same quarter of 2016.

"We are pleased to announce another quarter of strong earnings with solid deposit growth and continued strong growth in both net interest income and noninterest income, while producing a return on average assets of 1.29% and a return on average tangible equity of 13.67%," said G. Robert Aston, Jr., Chairman and Chief Executive Officer. "In addition, we were pleased with the overwhelming response to our \$250 million subordinated debt offering completed in July, which will result in increases to our risk-based capital ratios and a reduction in our CRE concentration ratio."

The following items affected comparability of our second quarter 2017 earnings (in thousands):

Three Months Ended June 30, 2017

	Banking	Realty	Insurance	Consolidated Totals
Purchase accounting adjustments (1)	\$ 3,889	\$ —	\$ —	\$ 3,889
Acquisition-related expenses	(699)	(87)	(495)	(1,281)
Total, before taxes	\$ 3,190	\$ (87)	\$ (495)	\$ 2,608
Income taxes	(1,331)	12	152	(1,167)
Total impact, net of taxes (2)	<u>\$ 1,859</u>	<u>\$ (75)</u>	<u>\$ (343)</u>	<u>\$ 1,441</u>

(1) Relates to the effects of non-recurring reclassification and recovery of certain purchased loans

(2) Non-GAAP measures are defined in the "Reconcilement of Non-GAAP Measures"

The following table shows the aggregate acquisition accounting impact on net interest margin for the quarter ended June 30, 2017:

Three Months Ended June 30, 2017	Net Interest Margin (1)
Net Interest Margin, as presented	3.84%
Purchase accounting adjustments (2)	0.21 %
Net interest margin, excluding one-time adjustments	3.63%
Acquisition accounting accretion, other	0.10 %
Net interest margin, excluding purchase accounting impact	3.53%

(1) Presented on a tax-equivalent basis

(2) Relates to the effects of non-recurring reclassification of purchased loans

On July 17, 2017, the Company issued \$250.0 million of fixed to variable rate subordinated notes due July 30, 2027. The Company received \$247.10 million after deducting discounts and issuance costs. The notes accrue interest at a fixed rate of 4.50% for the first five years until July 2022. After this date and for the remaining five years of the notes' term, interest will accrue at a variable rate of three-month LIBOR plus 2.550%. The Company may redeem the subordinated notes in whole or in part, on or after July 30, 2022. Subject to the speed of deployment into higher earning assets, we expect the issuance of these notes to result in a reduction of up to 12 basis points to net interest margin in third quarter 2017.

Second Quarter 2017 Performance Highlights

- Total revenues were \$119.60 million, an increase of \$35.34 million, or 41.95% from second quarter 2016
 - Taxable equivalent net interest margin was 3.84%, including accretion of 31 basis points, compared to 3.33%, including accretion of 5 basis points, for 2016
 - Excluding one-time purchase accounting adjustments of \$3.89 million, or 21 basis points, taxable equivalent net interest margin was 3.63%
 - Residential mortgage banking income increased \$9.45 million, or 77.76%
 - Insurance segment total revenue increased 10.03% to \$14.89 million
- Loans held for investment increased \$389.11 million, or 7.00% from June 30, 2016
- Total deposits were \$6.60 billion, an increase of \$409.49 million, or 6.62%, from second quarter 2016
 - Noninterest bearing deposits increased by 13.77%, to \$2.22 billion, representing 33.65% of total deposits
 - Total cost of deposits increased slightly to 0.44% from 0.42% at June 30, 2016
- Asset quality showed continued strength
 - Nonperforming assets declined to \$35.69 million, or 0.42% of total assets compared to \$36.29 million, or 0.46%, at June 30, 2016
 - Nonperforming loans were 0.16% of period end loans
 - Foreclosed property decreased to \$23.25 million

- The Bank remained well-capitalized
 - Common equity tier 1 capital ratio of 11.98%
 - Tier 1 leverage capital ratio of 10.43%
 - Tier 1 risk-based capital ratio of 12.03%
 - Total risk-based capital ratio of 12.68%
 - Tangible book value increased to \$12.81

Second Quarter 2017 Earnings Compared to Second Quarter 2016

Net income for the second quarter was \$26.21 million, or \$0.42 per diluted share, versus \$6.26 million, or \$0.12 per diluted share, in 2016, reflecting strong growth in net interest income as compared to the prior year period. Excluding after-tax acquisition-related expenses of \$12.26 million, net income for the second quarter of 2016 was \$18.52 million (non-GAAP), or \$0.36 per diluted share.

Net Interest Income

Net interest income increased to \$69.25 million, a \$21.47 million, or 44.93%, increase from the second quarter of 2016. The primary driver was the growth in average earning assets, which increased \$1.45 billion, or 24.65%, while tax-equivalent net interest margin increased to 3.84% in the current quarter from 3.33% in second quarter 2016. Accretion income added \$5.57 million, or 31 basis points, to margin in the current quarter as compared to \$0.61 million, or 5 basis points, in the second quarter of 2016. Net interest income included a cumulative one-time adjustment to accretion income of a \$3.89 million, or 21 basis points, due to the effects of a reclassification of purchased revolving credits.

Noninterest Income

Noninterest income was \$50.34 million for the second quarter of 2017, an increase of \$13.88 million, or 38.05%, from the second quarter of 2016. Residential mortgage banking income increased \$9.45 million, or 77.76%, from the second quarter of 2016 primarily due to higher production volumes resulting from the Monarch merger. Mortgage production was \$1.08 billion in second quarter 2017, which was \$486.59 million higher than second quarter 2016 production of \$591.79 million. Insurance commissions and other title fees increased \$1.28 million, or 10.97%, primarily due to organic growth in property and casualty and employee benefits lines of business. Additionally, real estate brokerage and property management income increased \$1.51 million, or 24.74%, from the second quarter of 2016 primarily due to our acquisition of a resort property management company at Deep Creek Lake, Maryland (“Deep Creek”)

in second quarter 2017.

Noninterest Expense

Noninterest expense increased by \$6.22 million, or 8.65%, from the comparative quarter of 2016. The primary driver was an increase of \$14.74 million in salaries and benefits expense due to the addition of staff related to the Monarch acquisition, incentive compensation, and organic growth. Also contributing were increases in occupancy expenses of \$1.50 million and furniture and equipment expenses of \$1.18 million, primarily related to mortgage facilities acquired in the Monarch acquisition. Partially offsetting the increase was a reduction in acquisition-related expenses of \$17.15 million.

Second Quarter 2017 Earnings Compared to First Quarter 2017

Net income for the second quarter was \$26.21 million, or \$0.42 per diluted share, versus \$21.97 million, or \$0.35 per diluted share, in first quarter 2017, reflecting the increase in net interest income and seasonal improvements in our Realty segment.

Performance Highlights

- Total revenues were \$119.60 million compared to \$105.17 million in the first quarter of 2017
 - Taxable equivalent net interest margin was 3.84%, including accretion of 31 basis points, compared to 3.45%, including accretion of 9 basis points, in the first quarter of 2017
 - Excluding one-time purchase accounting adjustments of \$3.89 million, or 21 basis points, taxable equivalent net interest margin was 3.63%
 - Noninterest income increased \$5.46 million due to seasonality in our Realty segment
- Total loans held for investment increased \$35.98 million from March 31, 2017
- Total deposits increased \$405.00 million, or 6.54%, from March 31, 2017, including an additional \$175 million of brokered certificates of deposit
 - Noninterest bearing deposits increased by \$166.81 million, or 8.13%

Net Interest Income

On a linked quarter basis, net interest income increased by \$8.97 million or 14.88%, in second quarter 2017 versus first quarter 2017, while tax-equivalent net interest margin was 3.84% versus 3.45% for the first quarter of 2017. The increase in net interest income was primarily due to the previously discussed increase

in accretion income, combined with a seasonal increase in average balances of loans held for sale and decreased borrowing costs. Accretion income added \$5.57 million, or 31 basis points, to margin in the current quarter, as compared to \$1.13 million, or 9 basis points, in the linked quarter. Net interest income included a cumulative one-time adjustment to accretion income of a \$3.89 million, or 21 basis points, due to the effects of a reclassification of purchased revolving credits.

Noninterest Income

In comparison to the first quarter of 2017, noninterest income increased \$5.46 million, or 12.16%. The increase was driven by residential mortgage banking income, which grew by \$3.96 million, or 22.47%, due to a seasonal increase in mortgage production of \$372.32 million, from \$706.06 million in first quarter 2017 to \$1.08 billion in second quarter 2017. Additionally, real estate brokerage and property management income was higher by \$2.64 million, or 52.79% due to a seasonal increase in real estate brokerage and the Deep Creek acquisition. Partially offsetting the increase from the linked quarter was a decline in insurance commissions due to lower contingent commission revenue, which is primarily received during the first quarter of each year.

Noninterest Expense

Noninterest expense increased by \$7.87 million, or 11.20%, from the first quarter of 2017. The primary drivers were increases in salaries and benefits expenses of \$4.63 million and acquisition-related expenses of \$1.29 million. Salaries and benefits expenses were higher due to the accrual of expenses related to our profit sharing plan, which requires the achievement of certain performance thresholds and a targeted level of earnings, combined with the effects of the Deep Creek acquisition.

Noninterest Income

	% Change				
	Q2	Q2	Q1	Q2 17 vs.	Q2 17 vs.
(dollars in thousands)	2017	2016	2017	Q2 16	Q1 17
Residential mortgage banking income, net	\$ 21,594	\$ 12,148	\$ 17,632	77.76%	22.47 %
Insurance commissions and other title fees and income, net	12,902	11,627	14,800	10.97%	(12.82)%
Real estate brokerage and property management, net	7,629	6,116	4,993	24.74%	52.79 %
Service charges on deposit accounts	2,644	2,284	2,472	15.76%	6.96 %
Credit card merchant fees, net	1,298	1,113	1,118	16.62%	16.10 %
Bank owned life insurance	1,421	1,181	1,474	20.32%	(3.60)%
Other income	2,856	1,999	2,397	42.87%	19.15 %
Subtotal before loss on investment securities	50,344	36,468	44,886	38.05%	12.16 %
Net loss on investment securities	(1)	—	—	N/M	N/M
Total noninterest income	<u>\$ 50,343</u>	<u>\$ 36,468</u>	<u>\$ 44,886</u>	<u>38.05%</u>	<u>12.16 %</u>

Noninterest Expense

	% Change				
	Q2	Q2	Q1	Q2 17 vs.	Q2 17 vs.
(dollars in thousands)	2017	2016	2017	Q2 16	Q1 17
Salaries and benefits	\$ 44,834	\$ 30,093	\$ 40,208	48.98 %	11.51 %
Occupancy expense	6,658	5,157	6,684	29.11 %	(0.39)%
Furniture and equipment	3,563	2,381	3,343	49.64 %	6.58 %
Acquisition-related expenses	1,281	18,435	(5)	(93.05)%	N/M
Other expenses	21,783	15,833	20,018	37.58 %	8.82 %
Total noninterest expense	<u>\$ 78,119</u>	<u>\$ 71,899</u>	<u>\$ 70,248</u>	<u>8.65 %</u>	<u>11.20 %</u>

Segment Results

	\$ Change				
(in thousands)	Q2	Q2	Q1	Q2 17 vs.	Q2 17 vs.
Segment Net Income (Loss)	2017	2016	2017	Q2 16	Q1 17
Banking	\$ 21,546	\$ 1,290	\$ 17,967	\$ 20,256	\$ 3,579
Realty	3,204	3,765	926	(561)	2,278
Insurance	1,463	1,204	3,075	259	(1,612)
Total net income	<u>\$ 26,213</u>	<u>\$ 6,259</u>	<u>\$ 21,968</u>	<u>\$ 19,954</u>	<u>\$ 4,245</u>

Second Quarter 2017 Compared to Second Quarter 2016

Banking

Net income for the three months ended June 30, 2017 for the Banking segment was \$21.55 million, increasing \$20.26 million from comparative 2016, as net interest income climbed by \$19.55 million primarily due to the increase in earning assets from the Monarch merger and increased accretion income. Also contributing to the variance was a decrease in the provision for loan losses of \$0.78 million and an

increase in noninterest income of \$1.76 million, which included increases in wealth management income, service charges and credit card merchant fees. Additionally, noninterest expenses declined by \$8.0 million, as the decrease in acquisition-related expenses of \$17.32 million was partially offset by increases in personnel costs and other expenses.

Realty

For the three months ended June 30, 2017, the Realty segment net income was \$3.20 million as compared to \$3.77 million in second quarter 2016. The variance was driven by increased noninterest expenses of \$13.56 million primarily due to an increase in mortgage operational expenses related to the merger with Monarch, including an increase in personnel costs of \$7.97 million. The decrease was mostly offset by an increase in residential mortgage banking income of \$9.24 million, or 73.98%, due to higher production volumes resulting from the Monarch merger. Additionally, net interest and other income increased by \$2.06 million as higher production volume led to higher average mortgage loans held for sale.

Insurance

The Insurance segment had net income of \$1.46 million for the three months ended June 30, 2017, an increase of \$0.26 million compared to second quarter 2016. The increase in net income was primarily driven by organic growth in property and casualty insurance and employee benefit insurance lines.

Second Quarter 2017 Compared to First Quarter 2017

Banking

Earnings increased by \$3.58 million, or 19.92% from the first quarter of 2017 as an increase in net interest income of \$7.99 million was partially offset by increases in personnel costs of \$3.18 million and acquisition-related expenses of \$0.58 million. Additionally, there was also a decrease of \$1.22 million in the provision for loan losses.

Realty

Net income in the Realty segment increased by \$2.28 million from the linked quarter ended March 31, 2017. The increase was primarily a result of a seasonal increase in residential mortgage banking income of \$3.96 million and real estate brokerage income of \$0.88 million.

Insurance

Net income decreased \$1.61 million from the first quarter of 2017 driven by a reduction in contingency and

bonus revenue of \$2.59 million. Contingent commissions are seasonal in nature and are primarily received during the first quarter of each year. Additionally, commissions from travel insurance decreased by \$0.47 million but were offset by an increases in property and casualty commissions of \$0.81 million and employee benefits commissions of \$0.31 million.

Balance Sheet

At June 30, 2017, total Bank assets reached \$8.43 billion, an increase of \$0.49 billion, or 6.12%, over June 30, 2016.

Loans

	Q2	Q2	Q1	% Change	
<i>(dollars in thousands)</i>	2017	2016	2017	Q2 17 vs. Q2 16	Q2 17 vs. Q1 17
Construction and land development	\$ 888,566	\$ 824,609	\$ 898,540	7.76%	(1.11)%
Commercial real estate - investment related properties	1,339,270	1,221,488	1,362,184	9.64%	(1.68)%
Commercial real estate - owner occupied	956,333	896,620	907,049	6.66%	5.43 %
Multifamily real estate	206,894	171,501	236,782	20.64%	(12.62)%
1-4 family residential real estate	1,227,389	1,183,818	1,215,278	3.68%	1.00 %
Commercial and industrial business loans	1,110,822	1,075,736	1,086,273	3.26%	2.26 %
Consumer loans and other	219,787	186,177	206,974	18.05%	6.19 %
Total	<u>\$ 5,949,061</u>	<u>\$ 5,559,949</u>	<u>\$ 5,913,080</u>	<u>7.00%</u>	<u>0.61 %</u>

The Bank's loan portfolio ended the period at \$5.95 billion representing an increase of 7.00%, or \$389.11 million, from the prior year, and an increase of \$35.98 million, or 0.61%, from March 31, 2017.

Deposits

	Q2	Q2	Q1	% Change	
<i>(dollars in thousands)</i>	2017	2016	2017	Q2 17 vs. Q2 16	Q2 17 vs. Q1 17
Noninterest-bearing demand	\$ 2,219,406	\$ 1,950,816	\$ 2,052,598	13.77%	8.13 %
Interest-bearing:					
Demand and money market accounts	2,292,978	2,174,154	2,270,025	5.47%	1.01 %
Savings	318,714	317,071	320,104	0.52%	(0.43)%
Certificates of deposits	1,764,671	1,744,238	1,548,045	1.17%	13.99 %
Total	<u>\$ 6,595,769</u>	<u>\$ 6,186,279</u>	<u>\$ 6,190,772</u>	<u>6.62%</u>	<u>6.54 %</u>

The Bank continued to experience solid deposit growth with total deposits increasing to \$6.60 billion, up \$0.41 billion, or 6.62%, from June 30, 2016. The Bank saw continued growth in noninterest-bearing demand deposits, which ended the quarter at \$2.22 billion, a 13.77% increase from the prior year. Noninterest-bearing deposits represented 33.65% of total deposits at June 30, 2017.

Capital Ratios

	Q2 2017	Q2 2016	Q1 2017
Common Equity Tier 1	11.98%	11.82%	11.94%
Tier 1	12.03%	11.89%	11.98%
Total	12.68%	12.50%	12.62%
Tier 1 Leverage Ratio	10.43%	12.36%	10.49%

The Bank's total equity at June 30, 2017 rose to \$1.12 billion, an increase of \$61.45 million, or 5.79%, from June 30, 2016. Total risk-based capital remained strong as common equity Tier 1, Tier 1 capital, total risk-based capital, and Tier 1 leverage capital ratios were 11.98%, 12.03%, 12.68%, 10.43%, respectively. All ratios exceed the current regulatory standards for well capitalized status.

Asset Quality

<i>(in thousands)</i>	6/30/2017	3/31/2017	12/31/2016	9/30/2016	6/30/2016
Nonperforming loans	\$ 9,645	\$ 11,538	\$ 13,099	\$ 11,337	\$ 10,580
Former bank premises	2,798	2,798	3,494	—	—
Foreclosed property	23,249	21,473	21,011	22,884	25,707
Total nonperforming assets	<u>\$ 35,692</u>	<u>\$ 35,809</u>	<u>\$ 37,604</u>	<u>\$ 34,221</u>	<u>\$ 36,287</u>
Quarterly net loans charged off	\$ 384	\$ 1,347	\$ 485	\$ 649	\$ 241
Year-to-date net loans charged off	\$ 1,731	\$ 1,347	\$ 1,715	\$ 1,230	\$ 581

<i>(dollars in thousands)</i>	Change				
	Q2 2017	Q2 2016	Q1 2017	Q2 17 vs. Q2 16	Q2 17 vs. Q1 17
Total loans 90 days past due and still accruing	\$ 206	\$ —	\$ 35	\$ 206	\$ 171
Total loans 30-89 days past due	\$ 4,193	\$ 5,041	\$ 11,424	\$ (848)	\$ (7,231)
Allowance for loan losses	\$ 44,131	\$ 39,618	\$ 43,195	\$ 4,513	\$ 936
Total performing TDRs	\$ 24,663	\$ 28,184	\$ 26,659	\$ (3,521)	\$ (1,996)
Nonperforming loans to period end loans	0.16%	0.19%	0.20%	(0.03)	(0.04)
Nonperforming assets to period end assets	0.42%	0.46%	0.44%	(0.04)	(0.02)
Allowance for loan losses to period end loans	0.74%	0.71%	0.73%	0.03	0.01
Allowance for loan losses (originated) to originated period end loans	0.86%	0.90%	0.86%	(0.04)	—
Net charge-offs to average loans (annualized)	0.03%	0.02%	0.09%	0.01	(0.06)
Ratio of allowance for loan losses to nonperforming loans	4.58x	3.74x	3.74x	0.84x	0.84x

Continued strength in credit quality contributed to the Bank's financial results as net charge-offs totaled \$0.38 million in the second quarter of 2017 compared to \$0.24 million in the second quarter of 2016 and \$1.35 million in the linked quarter. Total nonperforming assets were \$35.69 million, or 0.42%, of Bank assets at June 30, 2017, as compared to \$36.29 million, or 0.46%, at June 30, 2016, and \$35.81 million, or 0.44%, at March 31, 2017. The allowance for loan losses was \$44.13 million, increased from \$39.62 million at June 30, 2016 and \$43.20 million at March 31, 2017.

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 Wealth Management, Towne Insurance Agency, Towne Benefits, TowneBank Mortgage, TowneBank Commercial Mortgage, Berkshire Hathaway HomeServices Towne Realty, Towne 1031 Exchange, LLC, and Towne Vacations. 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 \$8.43 billion as of June 30, 2017, TowneBank is one of the largest banks headquartered in Virginia.

On April 27, 2017, TowneBank announced the signing of a definitive agreement to acquire Paragon Commercial Corporation (“Paragon”) and its wholly-owned bank subsidiary, Paragon Commercial Bank. Founded in Raleigh, North Carolina in 1999, Paragon Commercial Bank provides banking services through highly responsive professionals, an extensive courier service, online and mobile technologies, free worldwide ATM access and a select number of strategically placed offices in Raleigh, Cary and Charlotte, North Carolina. Pending customary regulatory and shareholder approvals, the merger is scheduled to close in January 2018. Based on financial data as of March 31, 2017, the combined company would have total assets of \$9.7 billion, gross loans of \$7.1 billion and total deposits of \$7.5 billion.

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 its 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:

Certain statements contained in this release constitute forward-looking statements within the meaning of U.S. federal securities laws. These forward-looking statements speak only as of the date of this release, are based on current expectations, and involve a number of assumptions. These include statements regarding TowneBank's future economic performance, financial condition, prospects, growth, strategies and expectations, and objectives of management, and are generally identified by the use of words such as “believe,” “expect,” “intend,” “anticipate,” “estimate,” or “project” or similar expressions. 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. You should not place undue reliance on forward-looking statements, which are subject to assumptions that are subject to change. TowneBank's ability to predict results, or the actual effect of future plans or strategies, is inherently uncertain. These forward-looking statements are subject to a number of factors and uncertainties that could cause actual results to differ from those indicated or implied in the forward-looking statements and such differences may be material. 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 System; the quality and composition of TowneBank's loan and securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in TowneBank's market area; implementation of new technologies and the ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; changes in accounting principles, policies and guidelines; TowneBank's ability to complete and successfully integrate the business of Paragon Commercial Bank in the expected timeframe, if at all, and to achieve expected revenue synergies and cost savings from the merger; 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:

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval. In connection with the merger, Paragon will file with the Securities and Exchange Commission ("SEC") a preliminary proxy statement. Paragon will deliver a definitive proxy statement/prospectus to its stockholders seeking approval of the merger and related matters. In addition, each of TowneBank and Paragon may file other relevant documents concerning the proposed merger with the FDIC and SEC.

Paragon, TowneBank and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from Paragon's stockholders in connection with the proposed merger. Information about the directors and executive officers of Paragon and TowneBank and other persons who may be deemed participants in the solicitation, including their interests in the merger, will be included in the definitive proxy statement/prospectus when it becomes available. Additional information

about Paragon’s executive officers and directors can be found in Paragon’s final prospectus filed with the SEC on June 17, 2016. Additional information regarding TowneBank’s executive officers and directors can be found in TowneBank’s definitive proxy statement in connection with its 2017 Annual Meeting of Stockholders filed with the FDIC on April 21, 2017. You may obtain free copies of each document from Paragon by directing a request by telephone or mail to Paragon Commercial Corporation, 3535 Glenwood Avenue, Raleigh, North Carolina 27612, Attention: Investor Relations (telephone: (919) 788-7770), or by accessing Paragon’s website at <https://www.paragonbank.com> under “About Us-Investor Relations.” You may obtain free copies of each document from TowneBank 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 by accessing TowneBank’s website at <https://townebank.com> under “Investor Relations.” The information on TowneBank’s and Paragon’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
Selected Financial Highlights (unaudited)
(dollars in thousands, except per share data)

Three Months Ended June 30,	2017	2016	Increase/ (Decrease)	% Increase/ (Decrease)
Results of Operations:				
Net interest income	\$ 69,253	\$ 47,784	\$ 21,469	44.93 %
Noninterest income	50,343	36,468	13,875	38.05 %
Total Revenue	119,596	84,252	35,344	41.95 %
Acquisition-related expenses	1,281	18,435	(17,154)	(93.05)%
Noninterest expenses, excluding acquisition-related expenses	76,838	53,464	23,374	43.72 %
Provision for loan losses	1,320	2,099	(779)	(37.11)%
Income before income tax and noncontrolling interest	40,157	10,254	29,903	291.62 %
Provision for income tax expense	12,240	2,375	9,865	415.37 %
Net income	27,917	7,879	20,038	254.32 %
Net income attributable to noncontrolling interest	(1,704)	(1,620)	(84)	5.19 %
Net income attributable to TowneBank	26,213	6,259	19,954	318.80 %
Net income available to common shareholders	26,213	6,259	19,954	318.80 %
Net income per common share - basic	0.42	0.12	0.30	250.00 %
Net income per common share - diluted	0.42	0.12	0.30	250.00 %
Period End Data:				
Total assets	\$ 8,427,042	\$ 7,940,741	\$ 486,301	6.12 %
Total assets - tangible	8,118,730	7,641,740	476,990	6.24 %
Earning assets	7,590,796	7,143,797	446,999	6.26 %
Loans (net of unearned income)	5,949,061	5,559,949	389,112	7.00 %
Allowance for loan losses	44,131	39,618	4,513	11.39 %
Goodwill and other intangibles	308,312	299,000	9,312	3.11 %
Nonperforming assets	35,692	36,287	(595)	(1.64)%
Noninterest bearing deposits	2,219,406	1,950,816	268,590	13.77 %
Interest bearing deposits	4,376,363	4,235,463	140,900	3.33 %
Total deposits	6,595,769	6,186,279	409,490	6.62 %
Total equity	1,122,998	1,061,548	61,450	5.79 %
Total equity - tangible	814,686	762,548	52,138	6.84 %
Common equity	1,110,681	1,050,360	60,321	5.74 %
Common equity - tangible	802,369	751,360	51,009	6.79 %
Book value per common share	17.74	16.84	0.90	5.34 %
Book value per common share - tangible	12.81	12.05	0.76	6.31 %
Daily Average Balances:				
Total assets	\$ 8,180,959	\$ 6,534,063	\$ 1,646,896	25.20 %
Total assets - tangible	7,873,036	6,339,815	1,533,221	24.18 %
Earning assets	7,318,667	5,871,197	1,447,470	24.65 %
Loans (net of unearned income), excluding nonaccrual loans	5,926,336	4,702,825	1,223,511	26.02 %
Allowance for loan losses	43,501	38,419	5,082	13.23 %
Goodwill and other intangibles	307,923	194,248	113,675	58.52 %
Noninterest bearing deposits	2,081,819	1,538,370	543,449	35.33 %
Interest bearing deposits	4,186,319	3,544,493	641,826	18.11 %
Total deposits	6,268,138	5,082,863	1,185,275	23.32 %
Total equity	1,115,008	859,938	255,070	29.66 %
Total equity - tangible	807,085	665,690	141,395	21.24 %
Common equity	1,103,813	850,393	253,420	29.80 %
Common equity - tangible	795,891	656,145	139,746	21.30 %
Key Ratios:				
Return on average assets	1.29%	0.39%	0.90 %	230.77 %
Return on average assets - tangible	1.40%	0.44%	0.96 %	218.18 %
Return on average equity	9.43%	2.93%	6.50 %	221.84 %
Return on average equity - tangible	13.67%	4.21%	9.46 %	224.70 %
Return on average common equity	9.53%	2.96%	6.57 %	221.96 %
Return on average common equity - tangible	13.87%	4.28%	9.59 %	224.07 %
Net interest margin-fully tax equivalent (1)	3.84%	3.33%	0.51 %	15.32 %
Net interest margin	3.80%	3.27%	0.53 %	16.21 %
Average earning assets/total average assets	89.46%	89.88%	(0.42)%	(0.47)%
Average loans/average deposits	94.55%	92.52%	2.03 %	2.19 %
Average noninterest deposits/total average deposits	33.21%	30.27%	2.94 %	9.71 %
Allowance for loan losses/period end loans	0.74%	0.71%	0.03 %	4.23 %
Nonperforming assets to period end assets	0.42%	0.46%	(0.04)%	(8.70)%
Period end equity/period end total assets	13.33%	13.37%	(0.04)%	(0.30)%
Efficiency ratio	65.32%	85.34%	(20.02)%	(23.46)%

(1) Presented on a tax-equivalent basis

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

Six Months Ended June 30,	2017	2016	Increase/ (Decrease)	% Increase/ (Decrease)
Results of Operations:				
Net interest income	\$ 129,533	\$ 94,120	\$ 35,413	37.63 %
Noninterest income	95,228	68,882	26,346	38.25 %
Total Revenue	224,761	163,002	61,759	37.89 %
Acquisition-related expenses	1,276	18,849	(17,573)	(93.23)%
Noninterest expenses, excluding acquisition-related expenses	147,091	105,211	41,880	39.81 %
Provision for loan losses	3,861	1,840	2,021	109.84 %
Income before income tax and noncontrolling interest	72,533	37,102	35,431	95.50 %
Provision for income tax expense	21,626	10,563	11,063	104.73 %
Net income	50,907	26,539	24,368	91.82 %
Net income attributable to noncontrolling interest	(2,727)	(2,461)	(266)	10.81 %
Net income attributable to TowneBank	48,180	24,078	24,102	100.10 %
Net income available to common shareholders	48,180	24,078	24,102	100.10 %
Net income per common share - basic	0.78	0.47	0.31	65.96 %
Net income per common share - diluted	0.77	0.47	0.30	63.83 %
Period End Data:				
Total assets	\$ 8,427,042	\$ 7,940,741	\$ 486,301	6.12 %
Total assets - tangible	8,118,730	7,641,740	476,990	6.24 %
Earning assets	7,590,796	7,143,797	446,999	6.26 %
Loans (net of unearned income)	5,949,061	5,559,949	389,112	7.00 %
Allowance for loan losses	44,131	39,618	4,513	11.39 %
Goodwill and other intangibles	308,312	299,000	9,312	3.11 %
Nonperforming assets	35,692	36,287	(595)	(1.64)%
Noninterest bearing deposits	2,219,406	1,950,816	268,590	13.77 %
Interest bearing deposits	4,376,363	4,235,463	140,900	3.33 %
Total deposits	6,595,769	6,186,279	409,490	6.62 %
Total equity	1,122,998	1,061,548	61,450	5.79 %
Total equity - tangible	814,686	762,548	52,138	6.84 %
Common equity	1,110,681	1,050,360	60,321	5.74 %
Common equity - tangible	802,369	751,360	51,009	6.79 %
Book value per common share	17.74	16.84	0.90	5.34 %
Book value per common share - tangible	12.81	12.05	0.76	6.31 %
Daily Average Balances:				
Total assets	\$ 8,091,161	\$ 6,423,650	\$1,667,511	25.96 %
Total assets - tangible	7,786,156	6,233,169	1,552,987	24.91 %
Earning assets	7,248,947	5,767,829	1,481,118	25.68 %
Loans (net of unearned income), excluding nonaccrual loans	5,894,743	4,609,551	1,285,192	27.88 %
Allowance for loan losses	43,058	38,487	4,571	11.88 %
Goodwill and other intangibles	305,006	190,481	114,525	60.12 %
Noninterest bearing deposits	2,020,195	1,477,081	543,114	36.77 %
Interest bearing deposits	4,144,447	3,522,050	622,397	17.67 %
Total deposits	6,164,642	4,999,131	1,165,511	23.31 %
Total equity	1,104,308	845,058	259,250	30.68 %
Total equity - tangible	799,303	654,577	144,726	22.11 %
Common equity	1,093,128	835,830	257,298	30.78 %
Common equity - tangible	788,122	645,349	142,773	22.12 %
Key Ratios:				
Return on average assets	1.20%	0.75%	0.45 %	60.00 %
Return on average assets - tangible	1.31%	0.82%	0.49 %	59.76 %
Return on average equity	8.80%	5.73%	3.07 %	53.58 %
Return on average equity - tangible	12.79%	7.84%	4.95 %	63.14 %
Return on average common equity	8.89%	5.79%	3.10 %	53.54 %
Return on average common equity - tangible	12.97%	7.95%	5.02 %	63.14 %
Net interest margin-fully tax equivalent (1)	3.64%	3.33%	0.31 %	9.31 %
Net interest margin	3.60%	3.28%	0.32 %	9.76 %
Average earning assets/total average assets	89.59%	89.79%	(0.20)%	(0.22)%
Average loans/average deposits	95.62%	92.21%	3.41 %	3.70 %
Average noninterest deposits/total average deposits	32.77%	29.55%	3.22 %	10.90 %
Allowance for loan losses/period end loans	0.74%	0.71%	0.03 %	4.23 %
Nonperforming assets to period end assets	0.42%	0.46%	(0.04)%	(8.70)%
Period end equity/period end total assets	13.33%	13.37%	(0.04)%	(0.30)%
Efficiency ratio	66.01%	76.11%	(10.10)%	(13.27)%

(1) Presented on a tax-equivalent basis

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

	June 30,	March 31,	Increase/	% Increase/
Three Months Ended	2017	2017	(Decrease)	(Decrease)
Results of Operations:				
Net interest income	\$ 69,253	\$ 60,281	\$ 8,972	14.88 %
Noninterest income	50,343	44,886	5,457	12.16 %
Total Revenue	119,596	105,167	14,429	13.72 %
Acquisition-related expenses	1,281	(5)	1,286	N/M
Noninterest expenses, excluding acquisition-related expenses	76,838	70,253	6,585	9.37 %
Provision for loan losses	1,320	2,541	(1,221)	(48.05)%
Income before income tax and noncontrolling interest	40,157	32,378	7,779	24.03 %
Provision for income tax expense	12,240	9,386	2,854	30.41 %
Net income	27,917	22,992	4,925	21.42 %
Net income attributable to noncontrolling interest	(1,704)	(1,024)	(680)	66.41 %
Net income attributable to TowneBank	26,213	21,968	4,245	19.32 %
Net income available to common shareholders	26,213	21,968	4,245	19.32 %
Net income per common share - basic	0.42	0.35	0.07	20.00 %
Net income per common share - diluted	0.42	0.35	0.07	20.00 %
Period End Data:				
Total assets	\$ 8,427,042	\$ 8,174,786	\$ 252,256	3.09 %
Total assets - tangible	8,118,730	7,872,823	245,907	3.12 %
Earning assets	7,590,796	7,362,550	228,246	3.10 %
Loans (net of unearned income)	5,949,061	5,913,080	35,981	0.61 %
Allowance for loan losses	44,131	43,195	936	2.17 %
Goodwill and other intangibles	308,312	301,962	6,350	2.10 %
Nonperforming assets	35,692	35,809	(117)	(0.33)%
Noninterest bearing deposits	2,219,406	2,052,598	166,808	8.13 %
Interest bearing deposits	4,376,363	4,138,174	238,189	5.76 %
Total deposits	6,595,769	6,190,772	404,997	6.54 %
Total equity	1,122,998	1,101,245	21,753	1.98 %
Total equity - tangible	814,686	799,283	15,403	1.93 %
Common equity	1,110,681	1,089,760	20,921	1.92 %
Common equity - tangible	802,369	787,798	14,571	1.85 %
Book value per common share	17.74	17.42	0.32	1.84 %
Book value per common share - tangible	12.81	12.59	0.22	1.75 %
Daily Average Balances:				
Total assets	\$ 8,180,959	\$ 8,000,366	\$ 180,593	2.26 %
Total assets - tangible	7,873,036	7,698,310	174,726	2.27 %
Earning assets	7,318,667	7,177,697	140,970	1.96 %
Loans (net of unearned income), excluding nonaccrual loans	5,926,336	5,862,799	63,537	1.08 %
Allowance for loan losses	43,501	42,610	891	2.09 %
Goodwill and other intangibles	307,923	302,056	5,867	1.94 %
Noninterest bearing deposits	2,081,819	1,957,887	123,932	6.33 %
Interest bearing deposits	4,186,319	4,102,109	84,210	2.05 %
Total deposits	6,268,138	6,059,996	208,142	3.43 %
Total equity	1,115,008	1,093,490	21,518	1.97 %
Total equity - tangible	807,085	791,433	15,652	1.98 %
Common equity	1,103,813	1,082,324	21,489	1.99 %
Common equity - tangible	795,891	780,268	15,623	2.00 %
Key Ratios:				
Return on average assets	1.29%	1.11%	0.18 %	16.22 %
Return on average assets - tangible	1.40%	1.22%	0.18 %	14.75 %
Return on average equity	9.43%	8.15%	1.28 %	15.71 %
Return on average equity - tangible	13.67%	11.88%	1.79 %	15.07 %
Return on average common equity	9.53%	8.23%	1.30 %	15.80 %
Return on average common equity - tangible	13.87%	12.05%	1.82 %	15.10 %
Net interest margin-fully tax equivalent (1)	3.84%	3.45%	0.39 %	11.30 %
Net interest margin	3.80%	3.41%	0.39 %	11.44 %
Average earning assets/total average assets	89.46%	89.72%	(0.26)%	(0.29)%
Average loans/average deposits	94.55%	96.75%	(2.20)%	(2.27)%
Average noninterest deposits/total average deposits	33.21%	32.31%	0.90 %	2.79 %
Allowance for loan losses/period end loans	0.74%	0.73%	0.01 %	1.37 %
Nonperforming assets to period end assets	0.42%	0.44%	(0.02)%	(4.55)%
Period end equity/period end total assets	13.33%	13.47%	(0.14)%	(1.04)%
Efficiency ratio	65.32%	66.80%	(1.48)%	(2.22)%

(1) Presented on a tax-equivalent basis

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

	Three Months Ended June 30, 2017			Three Months Ended March 31, 2017			Three Months Ended June 30, 2016		
	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	\$5,926,336	\$ 72,167	4.88%	\$5,862,799	\$ 64,979	4.49%	\$4,702,825	\$ 52,232	4.47%
Taxable investment securities	597,231	2,801	1.88%	627,338	2,843	1.81%	671,791	2,734	1.63%
Tax-exempt investment securities	48,560	370	3.05%	50,485	375	2.97%	52,398	405	3.09%
Interest-bearing deposits	455,489	1,188	1.05%	450,076	887	0.80%	289,699	364	0.51%
Loans held for sale	291,051	2,879	3.96%	186,999	1,727	3.69%	154,484	1,294	3.31%
Total earning assets	7,318,667	79,405	4.35%	7,177,697	70,811	4.00%	5,871,197	57,029	3.91%
Less: allowance for loan losses	(43,501)			(42,610)			(38,419)		
Total nonearning assets	905,793			865,279			701,285		
Total assets	<u>\$8,180,959</u>			<u>\$8,000,366</u>			<u>\$6,534,063</u>		
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	\$2,235,869	\$ 1,957	0.35%	\$2,272,911	\$ 1,865	0.33%	\$1,813,502	\$ 1,298	0.29%
Savings	318,323	815	1.03%	320,319	757	0.96%	301,542	709	0.95%
Certificates of deposit	1,632,127	4,105	1.01%	1,508,879	3,381	0.91%	1,429,449	3,260	0.92%
Total interest-bearing deposits	4,186,319	6,877	0.66%	4,102,109	6,003	0.59%	3,544,493	5,267	0.60%
Borrowings	641,748	2,551	1.57%	723,506	3,803	2.10%	471,392	3,190	2.69%
Total interest-bearing liabilities	4,828,067	9,428	0.78%	4,825,615	9,806	0.82%	4,015,885	8,457	0.85%
Demand deposits	2,081,819			1,957,887			1,538,370		
Other noninterest-bearing liabilities	156,065			123,374			119,870		
Total liabilities	7,065,951			6,906,876			5,674,125		
Shareholders' equity	<u>1,115,008</u>			<u>1,093,490</u>			<u>859,938</u>		
Total liabilities and equity	<u>\$8,180,959</u>			<u>\$8,000,366</u>			<u>\$6,534,063</u>		
Net interest income (tax-equivalent basis)		\$ 69,977			\$ 61,005			\$ 48,572	
Reconciliation of Non-GAAP Financial Measures									
Tax-equivalent basis adjustment		(724)			(724)			(788)	
Net interest income (GAAP)		<u>\$ 69,253</u>			<u>\$ 60,281</u>			<u>\$ 47,784</u>	
Interest rate spread (1)			3.57%			3.18%			3.06%
Interest expense as a percent of average earning assets			0.52%			0.55%			0.58%
Net interest margin (tax equivalent basis) (2)			3.84%			3.45%			3.33%
Total cost of deposits			0.44%			0.40%			0.42%

(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, 2017			Six Months Ended June 30, 2016			Six Months Ended June 30, 2017 Compared with June 30, 2016		
	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	\$5,894,743	\$ 137,146	4.69%	\$4,609,551	\$ 103,013	4.49%	\$ 34,133	\$ 4,650	\$ 29,483
Taxable investment securities	612,196	5,644	1.84%	713,152	5,790	1.62%	(146)	730	(876)
Tax-exempt investment securities	49,522	746	3.01%	52,689	814	3.09%	(68)	(20)	(48)
Interest-bearing deposits	453,174	2,074	0.92%	277,477	694	0.50%	1,380	785	595
Loans held for sale	239,312	4,606	3.85%	114,960	1,987	3.46%	2,619	249	2,370
Total earning assets	7,248,947	150,216	4.18%	5,767,829	112,298	3.92%	37,918	6,394	31,524
Less: allowance for loan losses	(43,058)			(38,487)					
Total nonearning assets	\$ 885,272			\$ 694,308					
Total assets	<u>\$8,091,161</u>			<u>\$6,423,650</u>					
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	\$2,254,288	\$ 3,822	0.34%	\$1,798,205	\$ 2,626	0.29%	\$ 1,196	\$ 470	\$ 726
Savings	319,315	1,573	0.99%	300,806	1,409	0.94%	164	77	87
Certificates of deposit	1,570,844	7,485	0.96%	1,423,039	6,445	0.91%	1,040	360	680
Total interest-bearing deposits	4,144,447	12,880	0.63%	3,522,050	10,480	0.60%	2,400	907	1,493
Borrowings	682,401	6,354	1.85%	470,497	6,375	2.69%	(22)	(2,348)	2,326
Total interest-bearing liabilities	4,826,848	19,234	0.80%	3,992,547	16,855	0.85%	2,378	(1,441)	3,819
Demand deposits	2,020,195			1,477,081					
Other noninterest-bearing liabilities	139,810			108,964					
Total liabilities	6,986,853			5,578,592					
Shareholders' equity	1,104,308			845,058					
Total liabilities and equity	<u>\$8,091,161</u>			<u>\$6,423,650</u>					
Net interest income (tax-equivalent basis)		\$ 130,982			\$ 95,442		\$ 35,540	\$ 7,835	\$ 27,705
Reconciliation of Non-GAAP Financial Measures									
Tax-equivalent basis adjustment		(1,449)			(1,322)		(127)		
Net interest income (GAAP)		<u>\$ 129,533</u>			<u>\$ 94,120</u>		<u>\$ 35,413</u>		
Interest rate spread (1)			3.38%			3.07%			
Interest expense as a percent of average earning assets			0.54%			0.59%			
Net interest margin (tax equivalent basis) (2)			3.64%			3.33%			
Total cost of deposits			0.42%			0.42%			

(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)

	June 30,		December 31,
	2017	2016	2016
	(unaudited)	(unaudited)	(audited)
ASSETS			
Cash and due from banks	\$ 468,455	\$ 188,183	\$ 130,967
Interest-bearing deposits in financial institutions	5,071	33,777	5,581
Federal funds sold	—	14	—
Total Cash and Cash Equivalents	473,526	221,974	136,548
Securities available for sale, at fair value	700,354	812,375	812,974
Securities held to maturity, at amortized cost	63,937	65,728	66,490
Federal Home Loan Bank stock, at amortized cost	29,586	28,008	35,937
Total Securities	793,877	906,111	915,401
Mortgage loans held for sale	388,523	473,147	314,046
Loans, net of unearned income and deferred costs:			
Real estate-residential 1-4 family	1,227,389	1,183,818	1,215,823
Real estate-commercial	2,295,603	2,118,108	2,251,312
Real estate-construction and development	888,566	824,609	826,027
Real estate-multi-family	206,894	171,501	222,791
Commercial	1,110,822	1,075,736	1,089,539
Consumer and other loans	219,787	186,177	201,729
Loans, net of unearned income and deferred costs	5,949,061	5,559,949	5,807,221
Less: allowance for loan losses	(44,131)	(39,618)	(42,001)
Net Loans	5,904,930	5,520,331	5,765,220
Premises and equipment, net	199,926	202,333	198,568
Goodwill	268,246	257,485	264,910
Other intangible assets, net	40,066	41,515	37,856
Bank-owned life insurance policies	192,339	164,933	189,499
Other assets	165,609	152,912	151,867
TOTAL ASSETS	\$ 8,427,042	\$ 7,940,741	\$ 7,973,915
LIABILITIES AND EQUITY			
Deposits:			
Noninterest-bearing demand	\$ 2,219,406	\$ 1,950,816	\$ 1,947,312
Interest-bearing:			
Demand and money market accounts	2,292,978	2,174,154	2,263,894
Savings	318,714	317,071	319,611
Certificates of deposit	1,764,671	1,744,238	1,504,380
Total Deposits	6,595,769	6,186,279	6,035,197
Advances from the Federal Home Loan Bank	527,219	500,798	687,511
Repurchase agreements and other borrowings	28,571	44,008	32,540
Total Borrowings	555,790	544,806	720,051
Other liabilities	152,485	148,108	132,109
TOTAL LIABILITIES	7,304,044	6,879,193	6,887,357
Preferred stock			
Authorized and unissued shares - 2,000,000	—	—	—
Common stock, \$1.667 par: 90,000,000 shares authorized			
62,619,045; 62,365,197; and 62,492,168 shares issued at			
June 30, 2017 and 2016 and December 31, 2016, respectively	104,386	103,963	104,174
Capital surplus	747,867	742,228	745,411
Retained earnings	260,783	202,565	229,503
Common stock issued to deferred compensation trust, at cost			
697,606; 674,899; and 692,431 shares at			
June 30, 2017 and 2016 and December 31, 2016, respectively	(11,492)	(10,785)	(11,168)
Deferred compensation trust	11,492	10,785	11,168
Accumulated other comprehensive income (loss)	(2,355)	1,604	(3,986)
TOTAL SHAREHOLDERS' EQUITY	1,110,681	1,050,360	1,075,102
Noncontrolling interest	12,317	11,188	11,456
TOTAL EQUITY	1,122,998	1,061,548	1,086,558
TOTAL LIABILITIES AND EQUITY	\$ 8,427,042	\$ 7,940,741	\$ 7,973,915

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
INTEREST INCOME:				
Loans, including fees	\$ 71,443	\$ 51,444	\$ 135,698	\$ 101,690
Investment securities	3,171	3,139	6,389	6,604
Interest-bearing deposits in financial institutions and federal funds sold	1,188	364	2,074	694
Mortgage loans held for sale	2,879	1,294	4,606	1,987
Total interest income	78,681	56,241	148,767	110,975
INTEREST EXPENSE:				
Deposits	6,877	5,267	12,879	10,480
Advances from the Federal Home Loan Bank	2,521	3,158	6,294	6,321
Repurchase agreements and other borrowings, net of capitalized interest	30	32	61	54
Total interest expense	9,428	8,457	19,234	16,855
Net interest income	69,253	47,784	129,533	94,120
PROVISION FOR LOAN LOSSES	1,320	2,099	3,861	1,840
Net interest income after provision for loan losses	67,933	45,685	125,672	92,280
NONINTEREST INCOME:				
Residential mortgage banking income, net	21,594	12,148	39,226	19,266
Insurance commissions and other title fees and income, net	12,902	11,627	27,702	25,660
Real estate brokerage and property management income, net	7,629	6,116	12,623	10,943
Service charges on deposit accounts	2,644	2,284	5,115	4,460
Credit card merchant fees, net	1,298	1,113	2,416	2,008
Bank owned life insurance	1,421	1,181	2,896	2,352
Other income	2,856	1,999	5,251	4,193
Loss on investment securities	(1)	—	(1)	—
Total noninterest income	50,343	36,468	95,228	68,882
NONINTEREST EXPENSE:				
Salaries and employee benefits	44,834	30,093	85,042	60,279
Occupancy	6,658	5,157	13,342	10,174
Furniture and equipment	3,563	2,381	6,906	4,739
Other expenses	23,064	34,268	43,077	48,868
Total noninterest expense	78,119	71,899	148,367	124,060
Income before income tax expense & noncontrolling interest	40,157	10,254	72,533	37,102
Provision for income tax expense	12,240	2,375	21,626	10,563
Net income	\$ 27,917	\$ 7,879	\$ 50,907	\$ 26,539
Net income attributable to noncontrolling interest	(1,704)	(1,620)	(2,727)	(2,461)
Net income attributable to TowneBank	\$ 26,213	\$ 6,259	\$ 48,180	\$ 24,078
Net income available to common shareholders	\$ 26,213	\$ 6,259	\$ 48,180	\$ 24,078
Per common share information				
Basic earnings	\$ 0.42	\$ 0.12	\$ 0.78	\$ 0.47
Diluted earnings	\$ 0.42	\$ 0.12	\$ 0.77	\$ 0.47
Cash dividends declared	\$ 0.14	\$ 0.13	\$ 0.27	\$ 0.25

TOWNEBANK
Consolidated Statements of Comprehensive Income
(dollars in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income	\$ 27,917	\$ 7,879	\$ 50,907	\$ 26,539
Other comprehensive income (loss)				
Unrealized gains on securities				
Unrealized holding gains arising during the period	2,571	2,329	2,733	6,809
Deferred tax expense	(900)	(815)	(957)	(2,383)
Realized losses reclassified into earnings	1	—	1	—
Net unrealized gains	1,672	1,514	1,777	4,426
Pension and postretirement benefit plans				
Actuarial gain (loss)	143	—	(395)	109
Deferred tax benefit (expense)	(49)	—	139	(38)
Amortization of prior service costs	41	115	92	153
Deferred tax expense	(14)	(40)	(32)	(53)
Amortization of actuarial loss (gain)	39	(2)	78	2
Deferred tax expense	(14)	1	(28)	(1)
Change in retirement plans, net of tax	146	74	(146)	172
Other comprehensive income (loss), net of tax	1,818	1,588	1,631	4,598
Comprehensive income	<u>\$ 29,735</u>	<u>\$ 9,467</u>	<u>\$ 52,538</u>	<u>\$ 31,137</u>

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

	June 30, 2017 (unaudited)	March 31, 2017 (unaudited)	December 31, 2016 (audited)	September 30, 2016 (unaudited)	June 30, 2016 (unaudited)
ASSETS					
Cash and due from banks	\$ 468,455	\$ 420,192	\$ 130,967	\$ 147,887	\$ 188,183
Interest-bearing deposits in financial institutions	5,071	5,335	5,581	6,891	33,777
Federal funds sold	—	—	—	—	14
Total Cash and Cash Equivalents	473,526	425,527	136,548	154,778	221,974
Securities available for sale, at fair value	700,354	720,667	812,974	704,418	812,375
Securities held to maturity, at amortized cost	63,937	65,117	66,490	70,304	65,728
Federal Home Loan Bank stock, at amortized cost	29,586	36,402	35,937	24,888	28,008
Total Securities	793,877	822,186	915,401	799,610	906,111
Mortgage loans held for sale	388,523	214,047	314,046	439,451	473,147
Loans, net of unearned income and deferred costs:	5,949,061	5,913,080	5,807,221	5,651,642	5,559,949
Less: allowance for loan losses	(44,131)	(43,195)	(42,001)	(40,655)	(39,618)
Net Loans	5,904,930	5,869,885	5,765,220	5,610,987	5,520,331
Premises and equipment, net	199,926	198,664	198,568	202,955	202,333
Goodwill	268,246	264,910	264,910	264,578	257,485
Other intangible assets, net	40,066	37,052	37,856	39,747	41,515
Bank-owned life insurance policies	192,339	190,917	189,499	163,385	164,933
Other assets	165,609	151,598	151,867	154,651	152,912
TOTAL ASSETS	\$ 8,427,042	\$ 8,174,786	\$ 7,973,915	\$ 7,830,142	\$ 7,940,741
LIABILITIES AND EQUITY					
Deposits:					
Noninterest-bearing demand	\$ 2,219,406	\$ 2,052,598	\$ 1,947,312	\$ 1,974,395	\$ 1,950,816
Interest-bearing:					
Demand and money market accounts	2,292,978	2,270,025	2,263,894	2,207,962	2,174,154
Savings	318,714	320,104	319,611	315,477	317,071
Certificates of deposit	1,764,671	1,548,045	1,504,380	1,649,113	1,744,238
Total Deposits	6,595,769	6,190,772	6,035,197	6,146,947	6,186,279
Advances from the Federal Home Loan Bank	527,219	687,366	687,511	427,655	500,798
Repurchase agreements and other borrowings	28,571	35,318	32,540	31,927	44,008
Total Borrowings	555,790	722,684	720,051	459,582	544,806
Other liabilities	152,485	160,085	132,109	144,735	148,108
TOTAL LIABILITIES	7,304,044	7,073,541	6,887,357	6,751,264	6,879,193
Preferred stock					
Authorized shares - 2,000,000	—	—	—	—	—
Common stock, \$1.667 par value	104,386	104,307	104,174	104,000	103,963
Capital surplus	747,867	746,289	745,411	743,223	742,228
Retained earnings	260,783	243,337	229,503	218,631	202,565
Common stock issued to deferred compensation trust, at cost	(11,492)	(11,294)	(11,168)	(10,969)	(10,785)
Deferred compensation trust	11,492	11,294	11,168	10,969	10,785
Accumulated other comprehensive income (loss)	(2,355)	(4,173)	(3,986)	1,339	1,604
TOTAL SHAREHOLDERS' EQUITY	1,110,681	1,089,760	1,075,102	1,067,193	1,050,360
Noncontrolling interest	12,317	11,485	11,456	11,685	11,188
TOTAL EQUITY	1,122,998	1,101,245	1,086,558	1,078,878	1,061,548
TOTAL LIABILITIES AND EQUITY	\$ 8,427,042	\$ 8,174,786	\$ 7,973,915	\$ 7,830,142	\$ 7,940,741

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

	Three Months Ended				
	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
INTEREST INCOME:					
Loans, including fees	\$ 71,443	\$ 64,255	\$ 65,151	\$ 64,623	\$ 51,444
Investment securities	3,171	3,218	3,152	3,099	3,139
Interest-bearing deposits in financial institutions and federal funds sold	1,188	887	487	(36)	364
Mortgage loans held for sale	2,879	1,727	3,028	4,137	1,294
Total Interest Income	78,681	70,087	71,818	71,823	56,241
INTEREST EXPENSE:					
Deposits	6,877	6,003	5,928	5,909	5,267
Advances from the Federal Home Loan Bank	2,521	3,772	3,546	3,276	3,158
Repurchase agreements and other borrowings	30	31	193	33	32
Total Interest Expense	9,428	9,806	9,667	9,218	8,457
Net Interest Income	69,253	60,281	62,151	62,605	47,784
PROVISION FOR LOAN LOSSES	1,320	2,541	1,831	1,686	2,099
Net Interest Income after Provision for Loan Losses	67,933	57,740	60,320	60,919	45,685
NONINTEREST INCOME:					
Residential mortgage banking income, net	21,594	17,632	18,096	21,430	12,148
Insurance commissions and other title fees and income, net	12,902	14,800	9,823	11,258	11,627
Real estate brokerage and property management income, net	7,629	4,993	2,925	6,647	6,116
Service charges on deposit accounts	2,644	2,472	2,535	2,552	2,284
Credit card merchant fees, net	1,298	1,118	1,135	1,365	1,113
Bank owned life insurance	1,421	1,474	2,377	1,264	1,181
Other income	2,856	2,397	2,621	2,305	1,999
Net gain (loss) on investment securities	(1)	—	6	—	—
Total Noninterest Income	50,343	44,886	39,518	46,821	36,468
NONINTEREST EXPENSE:					
Salaries and employee benefits	44,834	40,208	43,071	40,497	30,093
Occupancy expense	6,658	6,684	6,885	6,656	5,157
Furniture and equipment	3,563	3,343	3,378	3,199	2,381
Other expenses	23,064	20,013	19,500	20,581	34,268
Total Noninterest Expense	78,119	70,248	72,834	70,933	71,899
Income before income tax expense and noncontrolling interest	40,157	32,378	27,004	36,807	10,254
Provision for income tax expense	12,240	9,386	7,160	10,974	2,375
Net income	27,917	22,992	19,844	25,833	7,879
Net income attributable to noncontrolling interest	(1,704)	(1,024)	(848)	(1,657)	(1,620)
Net income attributable to TowneBank	\$ 26,213	\$ 21,968	\$ 18,996	\$ 24,176	\$ 6,259
Net income available to common shareholders	\$ 26,213	\$ 21,968	\$ 18,996	\$ 24,176	\$ 6,259
Per common share information					
Basic earnings	\$ 0.42	\$ 0.35	\$ 0.31	\$ 0.39	\$ 0.12
Diluted earnings	\$ 0.42	\$ 0.35	\$ 0.31	\$ 0.39	\$ 0.12
Basic weighted average shares outstanding	62,145,045	62,075,983	61,963,948	61,908,316	51,994,473
Diluted weighted average shares outstanding	62,364,260	62,262,789	62,175,705	62,067,832	52,116,772
Cash dividends declared	\$ 0.14	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13

TOWNEBANK
Banking Segment Financial Information
(dollars in thousands)

	Three Months Ended			Increase/(Decrease)			
				June 30, 2017		June 30, 2017	
	June 30,		March 31, 2017	June 30, 2016		March 31, 2017	
	2017	2016		Amount	Percent	Amount	Percent
Revenue							
Net interest income	\$ 66,434	\$ 46,888	\$ 58,444	\$ 19,546	41.69 %	\$ 7,990	13.67 %
Service charges on deposit accounts	2,644	2,284	2,472	360	15.76 %	172	6.96 %
Credit card merchant fees	1,297	1,113	1,118	184	16.53 %	179	16.01 %
Other income	3,362	2,148	3,106	1,214	56.52 %	256	8.24 %
Total noninterest income	7,303	5,545	6,696	1,758	31.70 %	607	9.07 %
Total revenue	73,737	52,433	65,140	21,304	40.63 %	8,597	13.20 %
Provision for loan losses	1,320	2,099	2,541	(779)	(37.11)%	(1,221)	(48.05)%
Expenses							
Salaries and employee benefits	23,519	17,119	20,341	6,400	37.39 %	3,178	15.62 %
Occupancy expense	3,828	3,588	4,128	240	6.69 %	(300)	(7.27)%
Furniture and equipment	2,372	1,847	2,274	525	28.42 %	98	4.31 %
Advertising and marketing	1,207	933	1,041	274	29.37 %	166	15.95 %
Charitable contributions	1,647	1,295	1,313	352	27.18 %	334	25.44 %
Outside processing	1,112	842	1,154	270	32.07 %	(42)	(3.64)%
Foreclosed property expenses	135	454	130	(319)	(70.26)%	5	3.85 %
FDIC and other insurance	1,131	1,122	987	9	0.80 %	144	14.59 %
Professional fees	748	885	1,280	(137)	(15.48)%	(532)	(41.56)%
Telephone and postage	963	715	904	248	34.69 %	59	6.53 %
Other expenses	5,311	21,177	4,797	(15,866)	(74.92)%	514	10.72 %
Total expenses	41,973	49,977	38,349	(8,004)	(16.02)%	3,624	9.45 %
Income before income tax, corporate allocation and noncontrolling interest	30,444	357	24,250	30,087	8,427.73 %	6,194	25.54 %
Corporate allocation	410	255	484	155	60.78 %	(74)	(15.29)%
Income before income tax provision and noncontrolling interest	30,854	612	24,734	30,242	4,941.50 %	6,120	24.74 %
Provision for income tax expense	9,307	(678)	6,765	9,985	(1,472.71)%	2,542	37.58 %
Net income	21,547	1,290	17,969	20,257	1,570.31 %	3,578	19.91 %
Noncontrolling interest	(1)	—	(2)	(1)	N/M	1	(50.00)%
Net income attributable to TowneBank	\$ 21,546	\$ 1,290	\$ 17,967	\$ 20,256	1,570.23 %	\$ 3,579	19.92 %
Efficiency ratio	56.92%	95.32%	58.87%	(38.40)%	(40.29)%	(1.95)%	(3.31)%

TOWNEBANK
Banking Segment Financial Information
(dollars in thousands)

	Six Months Ended June 30,		Increase/(Decrease) 2017 over 2016	
	2017	2016	Amount	Percent
Net interest income	\$ 124,878	\$ 92,711	\$ 32,167	34.70 %
Service charges on deposit accounts	5,115	4,460	655	14.69 %
Credit card merchant fees	2,416	2,008	408	20.32 %
Other income	6,468	4,676	1,792	38.32 %
Total noninterest income	13,999	11,144	2,855	25.62 %
Total revenue	138,877	103,855	35,022	33.72 %
Provision for loan losses	3,861	1,840	2,021	109.84 %
Salaries and employee benefits	43,860	34,631	9,229	26.65 %
Occupancy expense	7,955	7,063	892	12.63 %
Furniture and equipment	4,646	3,712	934	25.16 %
Advertising and marketing	2,249	1,807	442	24.46 %
Charitable contributions	2,960	2,262	698	30.86 %
Outside processing	2,266	1,772	494	27.88 %
Foreclosed property expenses	253	566	(313)	(55.30)%
FDIC and other insurance	2,118	2,172	(54)	(2.49)%
Professional fees	2,028	1,934	94	4.86 %
Telephone and postage	1,868	1,460	408	27.95 %
Other expenses	10,120	24,778	(14,658)	(59.16)%
Total expenses	80,323	82,157	(1,834)	(2.23)%
Income before income tax and corporate allocation	54,693	19,858	34,835	175.42 %
Corporate allocation	895	614	281	45.77 %
Income before income tax provision	55,588	20,472	35,116	171.53 %
Provision for income tax expense	16,072	5,051	11,021	218.19 %
Net income	\$ 39,516	\$ 15,421	24,095	156.25 %
Noncontrolling interest	\$ (3)	\$ —	(3)	N/M
Net income attributable to TowneBank	\$ 39,513	\$ 15,421	24,092	156.23 %
Efficiency ratio	57.84%	79.11%	(21.27)%	(26.89)%

TOWNEBANK
Realty Segment Financial Information
(dollars in thousands)

	Three Months Ended			Increase/(Decrease)			
	June 30,		March 31,	June 30, 2017		June 30, 2017	
	June 30,		March 31,	June 30, 2016		March 31, 2017	
	2017	2016	2017	Amount	Percent	Amount	Percent
Revenue							
Residential mortgage brokerage income, net	\$ 21,730	\$ 12,490	\$ 17,775	\$ 9,240	73.98 %	\$ 3,955	22.25 %
Real estate brokerage income, net	2,337	2,393	1,460	(56)	(2.34)%	877	60.07 %
Title insurance and settlement fees	582	550	355	32	5.82 %	227	63.94 %
Property management fees, net	5,293	3,723	3,533	1,570	42.17 %	1,760	49.82 %
Income from unconsolidated subsidiary	250	216	124	34	15.74 %	126	101.61 %
Net interest and other income	3,229	1,167	2,203	2,062	176.69 %	1,026	46.57 %
Total revenue	33,421	20,539	25,450	12,882	62.72 %	7,971	31.32 %
Expenses							
Salaries and employee benefits	15,220	7,250	13,708	7,970	109.93 %	1,512	11.03 %
Occupancy expense	2,269	1,053	1,964	1,216	115.48 %	305	15.53 %
Furniture and equipment	999	275	869	724	263.27 %	130	14.96 %
Amortization of intangible assets	718	353	559	365	103.40 %	159	28.44 %
Other expenses	7,495	4,214	5,978	3,281	77.86 %	1,517	25.38 %
Total expenses	26,701	13,145	23,078	13,556	103.13 %	3,623	15.70 %
Income before income tax, corporate allocation and noncontrolling interest	6,720	7,394	2,372	(674)	(9.12)%	4,348	183.31 %
Corporate allocation	(266)	(123)	(307)	(143)	116.26 %	41	(13.36)%
Income before income tax provision and noncontrolling interest	6,454	7,271	2,065	(817)	(11.24)%	4,389	212.54 %
Provision for income tax expense	1,889	2,249	627	(360)	(16.01)%	1,262	201.28 %
Net income	4,565	5,022	1,438	(457)	(9.10)%	3,127	217.45 %
Noncontrolling interest	(1,361)	(1,257)	(512)	(104)	8.27 %	(849)	165.82 %
Net income attributable to TowneBank	\$ 3,204	\$ 3,765	\$ 926	\$ (561)	(14.90)%	\$ 2,278	246.00 %
Efficiency ratio	79.89%	64.00%	90.68%	15.89%	24.83 %	(10.79)%	(11.90)%

TOWNEBANK
Realty Segment Financial Information
(dollars in thousands)

	Six Months Ended		Increase/(Decrease)	
	June 30,		2017 over 2016	
	2017	2016	Amount	Percent
Residential mortgage banking income, net	\$ 39,505	\$ 19,800	\$ 19,705	99.52 %
Real estate brokerage income, net	3,797	3,805	(8)	(0.21)%
Title insurance and settlement fees	936	899	37	4.12 %
Property management fees, net	8,826	7,138	1,688	23.65 %
Income from unconsolidated subsidiary	374	380	(6)	(1.58)%
Net interest and other income	5,431	1,930	3,501	181.40 %
Total revenue	58,869	33,952	24,917	73.39 %
Salaries and employee benefits	28,928	13,957	14,971	107.27 %
Occupancy expense	4,233	2,066	2,167	104.89 %
Furniture and equipment	1,868	544	1,324	243.38 %
Amortization of intangible assets	1,277	705	572	81.13 %
Other expenses	13,472	7,058	6,414	90.88 %
Total expenses	49,778	24,330	25,448	104.60 %
Income before income tax, corporate allocation and noncontrolling interest	9,091	9,622	(531)	(5.52)%
Corporate allocation	(574)	(292)	(282)	96.58 %
Income before income tax provision and noncontrolling interest	8,517	9,330	(813)	(8.71)%
Provision for income tax	2,516	2,908	(392)	(13.48)%
Net income	6,001	6,422	(421)	(6.56)%
Noncontrolling interest	(1,872)	(1,625)	(247)	15.20 %
Net income attributable to TowneBank	\$ 4,129	\$ 4,797	\$ (668)	(13.93)%
Efficiency ratio	84.56%	71.66%	12.90%	18.00 %

TOWNEBANK
Insurance Segment Financial Information
(dollars in thousands)

	Three Months Ended			Increase/(Decrease)			
	June 30,		March 31,	June 30, 2017		June 30, 2017	
	June 30,		March 31,	June 30, 2016		March 31, 2017	
	2017	2016	2017	Amount	Percent	Amount	Percent
Commission and fee income							
Property and casualty	\$ 9,271	\$ 8,793	\$ 8,457	\$ 478	5.44 %	\$ 814	9.63 %
Employee benefits	3,280	2,907	2,974	373	12.83 %	306	10.29 %
Travel insurance	1,159	1,163	1,627	(4)	(0.34)%	(468)	(28.76)%
Specialized benefit services	158	152	165	6	3.95 %	(7)	(4.24)%
Total commissions and fees	13,868	13,015	13,223	853	6.55 %	645	4.88 %
Contingency and bonus revenue	948	467	3,539	481	103.00 %	(2,591)	(73.21)%
Other income	76	52	88	24	46.15 %	(12)	(13.64)%
Total revenue	14,892	13,534	16,850	1,358	10.03 %	(1,958)	(11.62)%
Employee commission expense	2,454	2,254	2,273	200	8.87 %	181	7.96 %
Revenue, net of commission expense	12,438	11,280	14,577	1,158	10.27 %	(2,139)	(14.67)%
Salaries and employee benefits	6,095	5,723	6,159	372	6.50 %	(64)	(1.04)%
Occupancy expense	562	517	592	45	8.70 %	(30)	(5.07)%
Furniture and equipment	192	259	200	(67)	(25.87)%	(8)	(4.00)%
Amortization of intangible assets	704	692	697	12	1.73 %	7	1.00 %
Other expenses	1,892	1,586	1,173	306	19.29 %	719	61.30 %
Total operating expenses	9,445	8,777	8,821	668	7.61 %	624	7.07 %
Income before income tax, corporate allocation and noncontrolling interest	2,993	2,503	5,756	490	19.58 %	(2,763)	(48.00)%
Corporate allocation	(144)	(132)	(177)	(12)	9.09 %	33	(18.64)%
Income before income tax provision and noncontrolling interest	2,849	2,371	5,579	478	20.16 %	(2,730)	(48.93)%
Provision for income tax expense	1,044	804	1,994	240	29.85 %	(950)	(47.64)%
Net income	1,805	1,567	3,585	238	15.19 %	(1,780)	(49.65)%
Noncontrolling interest	(342)	(363)	(510)	21	(5.79)%	168	(32.94)%
Net income attributable to TowneBank	\$ 1,463	\$ 1,204	\$ 3,075	\$ 259	21.51 %	\$ (1,612)	(52.42)%
Efficiency ratio	75.94%	77.81%	60.51%	(1.87)%	(2.40)%	15.43%	25.50 %

TOWNEBANK
Insurance Segment Financial Information
(dollars in thousands)

	Six Months Ended		Increase/(Decrease)	
	June 30,		2017 over 2016	
	2017	2016	Amount	Percent
Net commission and fee income				
Property and casualty	\$ 17,728	\$ 16,878	\$ 850	5.04 %
Employee benefits	6,254	5,806	448	7.72 %
Travel insurance	2,786	2,619	167	6.38 %
Specialized benefit services	323	305	18	5.90 %
Total net commissions and fees	27,091	25,608	1,483	5.79 %
Contingency and bonus revenue	4,488	3,879	609	15.70 %
Other income	162	129	33	25.58 %
Total revenues	31,741	29,616	2,125	7.18 %
Employee commission expense	4,726	4,421	305	6.90 %
Revenue, net of commission expense	27,015	25,195	1,820	7.22 %
Salaries and employee benefits	12,255	11,692	563	4.82 %
Occupancy expense	1,154	1,045	109	10.43 %
Furniture and equipment	392	483	(91)	(18.84)%
Amortization of intangible assets	1,401	1,377	24	1.74 %
Other expenses	3,064	2,976	88	2.96 %
Total operating expenses	18,266	17,573	693	3.94 %
Income before income tax, corporate allocation and noncontrolling interest	8,749	7,622	1,127	14.79 %
Corporate allocation	(321)	(322)	1	(0.31)%
Income before income tax provision and noncontrolling interest	8,428	7,300	1,128	15.45 %
Provision for income tax	3,038	2,604	434	16.67 %
Net income	5,390	4,696	694	14.78 %
Noncontrolling interest	(852)	(836)	(16)	1.91 %
Net income attributable to TowneBank	\$ 4,538	\$ 3,860	\$ 678	17.56 %
Efficiency ratio	67.61%	69.75%	(2.14)%	(3.07)%

TOWNEBANK
Reconcilement of Non-GAAP Financial Measures

	Three Months Ended			Six Months Ended	
	June 30, 2017	June 30, 2016	March 31, 2017	June 30, 2017	June 30, 2016
Return on average assets (GAAP)	1.29%	0.39%	1.11%	1.20%	0.75%
Impact of excluding average goodwill and other intangibles and amortization	0.11%	0.05%	0.11%	0.11%	0.07%
Return on average tangible assets (non-GAAP)	1.40%	0.44%	1.22%	1.31%	0.82%
Return on average equity (GAAP)	9.43%	2.93%	8.15%	8.80%	5.73%
Impact of excluding average goodwill and other intangibles and amortization	4.24%	1.28%	3.73%	3.99%	2.11%
Return on average tangible equity (non-GAAP)	13.67%	4.21%	11.88%	12.79%	7.84%
Return on average common equity (GAAP)	9.53%	2.96%	8.23%	8.89%	5.79%
Impact of excluding average goodwill and other intangibles and amortization	4.34%	1.32%	3.82%	4.08%	2.16%
Return on average tangible common equity (non-GAAP)	13.87%	4.28%	12.05%	12.97%	7.95%
Book value (GAAP)	\$ 17.74	\$ 16.84	\$ 17.42	\$ 17.74	\$ 16.84
Impact of excluding average goodwill and other intangibles and amortization	(4.93)	(4.79)	(4.83)	(4.93)	(4.79)
Tangible book value (non-GAAP)	\$ 12.81	\$ 12.05	\$ 12.59	\$ 12.81	\$ 12.05

TOWNEBANK
Reconciliation of Non-GAAP Financial Measures
(dollars in thousands, except per share data)

Reconciliation of GAAP Earnings to Operating Earnings Excluding Certain Items Affecting Comparability

	Three Months Ended				
	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Net income (GAAP)	\$ 26,213	\$ 21,968	\$ 18,996	\$ 24,176	\$ 6,259
Purchase accounting corrections	(3,889)	—	—	—	—
Acquisition-related expenses	1,281	(5)	(707)	969	18,435
Total charges	(2,608)	(5)	(707)	969	18,435
Income tax expense (benefit)	1,167	75	264	(267)	(6,177)
Total charges, net of taxes	(1,441)	70	(443)	702	12,258
Operating earnings, excluding certain items affecting comparability (non-GAAP)	\$ 24,772	\$ 22,038	\$ 18,553	\$ 24,878	\$ 18,517
Weighted average diluted shares	62,364,260	62,262,789	62,175,705	62,067,832	52,116,772
Diluted EPS (GAAP)	\$ 0.42	\$ 0.35	\$ 0.31	\$ 0.39	\$ 0.12
Diluted EPS, excluding certain items affecting comparability (non-GAAP)	\$ 0.40	\$ 0.35	\$ 0.30	\$ 0.40	\$ 0.36
Average assets	\$ 8,180,959	\$ 8,000,366	\$ 7,965,438	\$ 7,991,213	\$ 6,534,063
Average tangible equity	\$ 807,085	\$ 791,433	\$ 783,789	\$ 772,932	\$ 665,690
Return on average assets, excluding certain items affecting comparability (non-GAAP)	1.21%	1.12%	0.93%	1.24%	1.14%
Return on average tangible equity, excluding certain items affecting comparability (non-GAAP)	12.96%	11.91%	10.04%	13.45%	11.62%
Efficiency ratio, excluding certain items affecting comparability (Non-GAAP)	66.41%	66.80%	72.34%	63.94%	63.46%

TOWNEBANK
Reconciliation of Non-GAAP Financial Measures
(dollars in thousands, except per share data)

Reconciliation of GAAP Earnings to Operating Earnings Excluding Certain Items Affecting Comparability

	Six Months Ended	
	June 30, 2017	June 30, 2016
Net income (GAAP)	\$ 48,180	\$ 24,078
Purchase accounting adjustments	(3,889)	—
Acquisition-related expenses	1,276	18,849
Total charges	(2,613)	18,849
Income tax expense (benefit)	1,242	(6,210)
Total charges, net of taxes	(1,371)	12,639
Operating earnings, excluding certain items affecting comparability (non-GAAP)	\$ 46,809	\$ 36,717
Weighted average diluted shares	62,351,215	51,711,472
Diluted EPS (GAAP)	\$ 0.77	\$ 0.47
Diluted EPS, excluding certain items affecting comparability (non-GAAP)	\$ 0.75	\$ 0.71
Average assets	\$ 8,091,161	\$ 6,423,650
Average tangible equity	\$ 799,303	\$ 654,577
Return on average assets, excluding certain items affecting comparability (non-GAAP)	1.16%	1.15%
Return on average tangible equity, excluding certain items affecting comparability (non-GAAP)	12.44%	11.72%
Efficiency ratio, excluding certain items affecting comparability (non-GAAP)	66.60%	64.55%