FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

FDIC Insurance Cert. Number: 35095

TOWNEBANK

(Exact name of registrant as specified in its charter)

VIRGINIA	**54-1910608**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5716 High Street, Portsmouth, Virginia	**23703**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
(Do not check if a smaller reporting company)	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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

The number of shares of the Company's common stock outstanding as of July 31, 2017 was 62,611,436 shares.

TowneBank

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PART I. FINANCIAL INFORMATION
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CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	June 30, 2017	June 30, 2016	December 31, 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 land development	888,566	824,609	826,027
Real estate - multifamily	206,894	171,501	222,791
Commercial and industrial business	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			
Liabilities			
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
Shareholders' Equity			
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 interests	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

The accompanying notes are an integral part of these financial statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 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	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
Net 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 expense	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 and 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

The accompanying notes are an integral part of these financial statements.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(Dollars in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
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 net actuarial (gain) loss	39	(2)	78	2
Deferred tax benefit (expense)	(14)	1	(28)	(1)
Change in retirement plans, net of tax	146	74	(146)	172
Other comprehensive income, net of tax	1,818	1,588	1,631	4,598
Comprehensive income	$ 29,735	$ 9,467	$ 52,538	$ 31,137

The accompanying notes are an integral part of these financial statements.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED STATEMENTS OF CASH FLOW (unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2017	2016
OPERATING ACTIVITIES:		
Net income	$ 50,907	$ 26,539
Adjustments to reconcile net income to net cash from (used for) operating activities:		
Net amortization of securities	1,308	1,211
Investment securities loss	1	—
Depreciation, amortization, and other intangible amortization	12,283	8,632
Provision for loan losses	3,861	1,840
Bank-owned life insurance income	(2,896)	(2,352)
Deferred income tax expense	1,140	1,064
Share-based compensation expense	1,317	895
Originations of mortgage loans held for sale	(1,664,115)	(789,719)
Proceeds from sales of mortgage loans held for sale	1,644,068	728,229
Gain on sales of mortgage loans held for sale	(54,430)	(27,614)
(Gain) loss on sale and write-down of foreclosed assets	338	(205)
Changes in:		
Interest receivable	30	(6,867)
Other assets	(12,174)	31,396
Interest payable	(488)	508
Other liabilities	14,846	31,047
Net cash from (used for) operating activities	(4,004)	4,604
INVESTING ACTIVITIES:		
Purchase of available-for-sale securities	(402,572)	(422,569)
Sale of available-for-sale securities	306	—
Sale of FHLB stock	6,816	—
Proceeds from maturities, calls, and prepayments of available-for-sale securities	515,949	355,888
Proceeds from maturities, calls, and prepayments of held-to-maturity securities	2,450	3,213
Net increase in loans	(146,164)	(224,932)
Purchase of premises and equipment	(9,656)	(11,116)
Proceeds from sales of premises and equipment	284	380
Proceeds from sales of foreclosed assets	3,470	8,971
Investment from noncontrolling interest in consolidated joint ventures	1,029	—
Acquisition of business, net of cash acquired	(8,796)	61,930
Net cash used for investing activities	(36,884)	(228,235)
FINANCING ACTIVITIES:		
Net change in deposit accounts	560,571	210,631
Net change in borrowings	(164,260)	(3,753)
Distribution of interest in joint ventures	(2,895)	(546)
Proceeds from issuance of common stock	1,350	1,744
Cash dividends paid	(16,900)	(14,308)
Net cash from financing activities	377,866	193,768
Change in cash and cash equivalents	336,978	(29,863)
Cash and cash equivalents at beginning of year	136,548	251,837
Cash and cash equivalents at end of period	$ 473,526	$ 221,974
Supplemental cash flow information:		
Cash paid for interest	$ 19,721	$ 16,846
Cash paid for income taxes	$ 24,320	$ 7,203
Noncash financing and investing activities:		
Transfer from loans to foreclosed property	$ 2,592	$ 1,915
Sales of foreclosed assets financed by the Company	$ 3,470	$ 3,125
Net unrealized gains on available-for-sale securities, net of tax	$ 1,777	$ 4,426
Common stock issued in connection with business acquisitions	$ —	$ 222,431
Common stock issued in connection with conversion of convertible subordinated capital debentures	$ 1	$ 1

The accompanying notes are an integral part of these financial statements.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED STATEMENT OF EQUITY

(Dollars in thousands)	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Deferred Compensation Trust	Common Stock Issued to Deferred Compensation Trust	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total
Balance, January 1, 2017	**62,492,168**	**$ 104,174**	**$ 745,411**	**$ 229,503**	**$ 11,168**	**$ (11,168)**	**$ (3,986)**	**$ 11,456**	**$ 1,086,558**
Net income	—	—	—	48,180	—	—	—	2,727	50,907
Other comprehensive loss, net of taxes	—	—	—	—	—	—	1,631	—	1,631
Cash dividends declared on common stock	—	—	—	(16,900)	—	—	—	—	(16,900)
Investment of noncontrolling interest in consolidated joint ventures	—	—	—	—	—	—	—	1,029	1,029
Director's deferred compensation	—	—	—	—	324	(324)	—	—	—
Distribution of interests in joint ventures	—	—	—	—	—	—	—	(2,895)	(2,895)
Conversion of convertible debt into common stock	69	—	1	—	—	—	—	—	1
Issuance of common stock - net contingent consideration earned on acquisitions	46,039	77	1,306	—	—	—	—	—	1,383
Issuance of common stock - stock compensation plans	80,769	135	1,149	—	—	—	—	—	1,284
Balance, June 30, 2017	**62,619,045**	**$ 104,386**	**$ 747,867**	**$ 260,783**	**$ 11,492**	**$ (11,492)**	**$ (2,355)**	**$ 12,317**	**$ 1,122,998**

The accompanying notes are an integral part of these financial statements.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of TowneBank (the "Company") have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all of the disclosures and notes necessary for a complete presentation of financial position, results of operations, and cash flow activity required in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the financial statements reflect all adjustments, which are of a normal, recurring nature that are necessary for a fair presentation for the periods presented as required by Regulation S-X, Rule 10-01 of the Securities and Exchange Commission (the "SEC"). These statements should be read in conjunction with the Company's 2016 audited Consolidated Financial Statements and the 2016 Annual Report on Form 10-K. Results of operations for the three- and six-month period ended June 30, 2017, are not necessarily indicative of the results of operations for the full year or any other interim periods.

Reclassifications and Corrections

During the second quarter of 2017, the Company determined that certain purchased loans acquired in the acquisition of Monarch Financial Holdings, Inc. ("Monarch") in 2016 had revolving credit privileges in place at the time of the transaction and were incorrectly classified as purchased impaired credits. During the quarter, the Company reclassified these loans as purchased performing loans and recorded a cumulative adjustment to interest income related to the accretion of purchased loan discounts. Additionally, certain purchased impaired loans were removed from pools and accounted for using the cost recovery method. The Company assessed the materiality of the misclassifications in accordance with SEC Staff Accounting Bulletin ("SAB") No. 99, *Materiality*, codified in Accounting Standards Codification ("ASC") 250, *Presentation of Financial Statements*, and concluded that these misstatements were not material to the current year or any prior annual or interim periods. The reclassification of these purchased loans resulted in an increase in interest income of $3.89 million for the three-month period ended June 30, 2017.

To maintain consistency and comparability, certain amounts from prior periods have been reclassified to conform to current period presentation with no effect on net income or shareholders' equity as previously reported.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The ASU will supersede most of the existing revenue recognition requirements in GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, the FASB approved amendments deferring the effective date by one year. The pronouncement is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying the pronouncement recognized at the date of initial application. Early application is permitted but not before the original public entity effective date, i.e., annual periods beginning after December 15, 2016. The amendments could potentially impact the accounting procedures and processes over the recognition of certain revenue sources, including, but not limited to, non-interest income. The Company is currently evaluating the standard and the impact of these amendments, although it does not expect the amendments to have a material impact to its Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The ASU amends the Financial Instruments topic of the ASC to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for interim and annual reporting periods beginning after December 15, 2017. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company is currently evaluating the impact the pronouncement will have on its Consolidated Financial Statements, but does not expect the adoption of this guidance to have a material impact.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU was issued in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. The ASU requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. The ASU is effective for interim and annual periods beginning after December 15, 2018, using a modified retrospective approach, and early adoption is permitted. The Company is currently evaluating the impact the pronouncement will have on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The ASU amends ASC Topic 718, *Compensation – Stock Compensation*. The ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU is effective for interim and annual periods beginning after December 15, 2016, and early adoption was permitted. The Company adopted the accounting standard during the first quarter of 2017 and recognized a $0.49 million reduction in income taxes for the excess tax benefits on stock-based compensation.

In June 2016, the FASB issued No. ASU 2016-13*, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The ASU was issued to change the accounting for credit losses and modify the impairment model for certain debt securities. The ASU is effective for the Company for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the effect that implementation of the new standard will have on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The ASU was issued with the intent to simplify goodwill impairment testing by eliminating the second step of the analysis under which the implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. The update instead requires entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit's fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. ASU 2017-04 must be applied prospectively and is effective for the Company on January 1, 2020. Early adoption is permitted. The Company does not expect the new guidance to have a material impact on its Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*. The ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the update requires the premium to be amortized to the earliest call date. The ASU does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The ASU should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the effect that implementation of the new standard will have on its Consolidated Financial Statements.

Note 2. Earnings per Share and Shareholders' Equity

Earnings per share

Earnings per share are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share are determined by dividing net income available to common shareholders by the weighted average number of common shares outstanding, assuming all securities that could be converted to common stock have been converted or exercised.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes basic and diluted earnings per share calculations for the periods indicated (dollars in thousands, except per share data):

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Basic				
Net income available to common shareholders	$ 26,213	$ 6,259	$ 48,180	$ 24,078
Weighted-average common shares outstanding	62,145,045	51,994,473	62,111,384	51,598,609
Basic earnings per common share	$ 0.42	$ 0.12	$ 0.78	$ 0.47
Diluted				
Net income available to common shareholders, for diluted EPS	$ 26,213	$ 6,259	$ 48,180	$ 24,078
Weighted-average common shares outstanding	62,145,045	51,994,473	62,111,384	51,598,609
Effect of dilutive securities:				
Stock compensation plans, net of tax benefit (1)	219,215	122,299	239,831	112,863
Weighted-average diluted shares outstanding	62,364,260	52,116,772	62,351,215	51,711,472
Diluted earnings per common share	$ 0.42	$ 0.12	$ 0.77	$ 0.47

(1) Stock options and restricted stock shares totaling 6,507 and 137,756 were excluded from the computation of diluted earnings per share during the second quarter of 2017 and 2016, respectively, and 25,991 and 157,000 were excluded from the computation of diluted earnings per share during the six months ended June 30, 2017 and 2016, respectively, because their inclusion would be anti-dilutive.

Note 3. Investment Securities

Available-for-sale securities

The following table indicates amortized cost and fair values of available-for-sale securities for the periods indicated (in thousands):

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency securities	$ 258,374	$ 112	$ (966)	$ 257,520
U.S. Treasury notes	201,979	—	(2)	201,977
Municipal securities	15,333	196	(20)	15,509
Trust preferred and other corporate securities	3,490	668	—	4,158
Mortgage-backed securities issued by GSE	223,228	504	(2,542)	221,190
Total available-for-sale securities	$ 702,404	$ 1,480	$ (3,530)	$ 700,354

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency securities	$ 293,663	$ 102	$ (1,295)	$ 292,470
U.S. Treasury notes	251,994	9	(2)	252,001
Municipal securities	23,502	184	(134)	23,552
Trust preferred and other corporate securities	3,493	555	—	4,048
Mortgage-backed securities issued by GSE	245,106	352	(4,555)	240,903
Total available-for-sale securities	$ 817,758	$ 1,202	$ (5,986)	$ 812,974

Held-to-maturity securities

The following table indicates amortized cost and fair values of held-to-maturity investment securities for the periods indicated (in thousands):

June 30, 2017	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Trust preferred corporate securities	$ 500	$ 243	$ —	$ 743
Municipal securities	40,871	2,315	—	43,186
Mortgage-backed securities issued by GSE	22,566	130	(236)	22,460
Total held-to-maturity securities	$ 63,937	$ 2,688	$ (236)	$ 66,389

December 31, 2016	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Trust preferred corporate securities	$ 500	$ 204	$ —	$ 704
Municipal securities	40,922	1,824	—	42,746
Mortgage-backed securities issued by GSE	25,068	122	(444)	24,746
Total held-to-maturity securities	$ 66,490	$ 2,150	$ (444)	$ 68,196

Maturities of investment securities

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The amortized cost and estimated fair value of investment securities are shown by contractual maturity (including mortgage-backed securities) as of June 30, 2017, and December 31, 2016, in the following table (in thousands):

June 30, 2017	**Available for Sale**		**Held to Maturity**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 226,355	$ 226,323	$ —	$ —
Due after one year through five years	250,307	249,535	5,729	5,779
Due after five years through 10 years	23,499	23,595	38,518	39,186
Due after 10 years	200,732	199,390	19,690	21,424
	700,893	698,843	63,937	66,389
Other equity securities	1,511	1,511	—	—
	$ 702,404	$ 700,354	$ 63,937	$ 66,389

December 31, 2016	**Available for Sale**		**Held to Maturity**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 311,908	$ 311,895	$ —	$ —
Due after one year through five years	251,962	250,690	2,881	2,967
Due after five years through 10 years	30,467	30,306	43,638	43,877
Due after 10 years	221,906	218,568	19,971	21,352
	816,243	811,459	66,490	68,196
Other equity securities	1,515	1,515	—	—
	$ 817,758	$ 812,974	$ 66,490	$ 68,196

Unrealized losses

The following table shows the Company's gross unrealized losses and fair values of available-for-sale and held-to-maturity securities, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2017, and December 31, 2016 (in thousands):

June 30, 2017	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations and direct obligations of U.S. government agencies	$ 222,883	$ (940)	$ 20,968	$ (28)	$ 243,851	$ (968)
Municipal securities	4,514	(20)	—	—	4,514	(20)
Mortgage-backed securities issued by GSE	191,256	(2,731)	5,359	(47)	196,615	(2,778)
Total temporarily impaired securities	$ 418,653	$ (3,691)	$ 26,327	$ (75)	$ 444,980	$ (3,766)

December 31, 2016	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations and direct obligations of U.S. government agencies	$ 241,582	$ (1,297)	$ —	$ —	$ 241,582	$ (1,297)
Municipal securities	12,176	(134)	—	—	12,176	(134)
Mortgage-backed securities issued by GSE	230,504	(4,897)	5,122	(102)	235,626	(4,999)
Total temporarily impaired securities	$ 484,262	$ (6,328)	$ 5,122	$ (102)	$ 489,384	$ (6,430)

U.S. Treasury obligations and direct obligations of U.S. government agencies

The Company's unrealized losses on obligations of U.S. government agencies were caused by interest rate fluctuations. At June 30, 2017, 24 securities had an aggregate unrealized loss of $0.97 million. The severity and duration of these unrealized losses will fluctuate with interest rates in the economy. Based on credit quality of the issuers, and because it is the Company's intent to hold these securities until a market price recovery or maturity, and it is more likely than not that the Company will not be required to sell the securities before their anticipated recovery, the Company does not consider these investments other than temporarily impaired.

Municipal securities

The Company's unrealized losses on investments in municipal securities were caused by interest rate fluctuations. At June 30, 2017, seven securities had an aggregate unrealized loss of $0.02 million. The severity and duration of these unrealized losses will fluctuate with interest rates in the economy. Based on credit quality of the issuers, and because it is the Company's intent to hold these securities until a market price recovery or maturity, and it is more likely than not that the Company will not be required to sell the securities before their anticipated recovery, the Company does not consider these investments other than temporarily impaired.

Government-Sponsored Enterprises ("GSE") mortgage-backed securities

The Company's unrealized losses on investments in federal agency mortgage-backed securities were caused by interest rate fluctuations. At June 30, 2017, 27 securities had an aggregate unrealized loss of $2.78 million. The severity and duration of the unrealized loss will fluctuate with interest rates in the economy. Because our mortgage-related securities are backed by FNMA and FHLMC, which are GSEs, or are collateralized by securities backed by these agencies, and because it is the Company's intent to hold these securities until a market price recovery or maturity, and it is more likely than not that the Company will not be required to sell the securities before their anticipated recovery, the Company does not consider this investment other than temporarily impaired.

Trust preferred and other corporate securities

The Company had no unrealized losses on corporate securities at June 30, 2017.

Other investments, including common stock

The Company had no unrealized losses in other investments or common stocks at June 30, 2017.

Federal Home Loan Bank of Atlanta ("FHLB") stock

The Company is required to maintain an investment in the capital stock of the FHLB. The FHLB stock is stated at cost, since this is a restricted security without a readily determinable fair value. The Company had $29.59 million and $35.94 million of FHLB stock at June 30, 2017, and December 31, 2016, respectively. Based on the Company's review of the credit quality of the institution, the institution's ability to repurchase shares, and the Company's carrying value in the shares, the Company does not consider this investment other than temporarily impaired.

Note 4. Loans and Allowance for Loan Losses

The Company grants commercial, real estate, and consumer loans to customers throughout our lending area. Although the Company has a diversified loan portfolio, a substantial portion of the Company's debtors' abilities to honor their contracts is dependent upon the economic environment of the lending area.

Allowance for loan losses

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. While portions of the allowance are attributed to specific portfolio segments, the entire allowance is available to absorb credit losses inherent in the total loan portfolio. The Company considers the allowance for loan losses of $44.13 million adequate to cover estimated loan losses inherent in the loan portfolio at June 30, 2017.

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The following table presents, by portfolio segment, the changes in the allowance for loan losses for the three- and six-month periods ended June 30, 2017 and 2016 (in thousands):

Three Months Ended June 30, 2017	Construction and Land Development	Commercial Real Estate	Multi-Family Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial Business	Consumer Loans and Other	Total
Allowance for loan losses:							
Balance, beginning of period	$ 5,215	$ 16,381	$ 1,313	$ 8,942	$ 6,591	$ 4,753	$ 43,195
Provision for loan losses	238	361	(123)	586	31	227	1,320
Losses charged off	—	—	—	(432)	(116)	(103)	(651)
Recoveries	5	97	1	—	65	99	267
Balance, end of period	$ 5,458	$ 16,839	$ 1,191	$ 9,096	$ 6,571	$ 4,976	$ 44,131

Six Months Ended June 30, 2017	Construction and Land Development	Commercial Real Estate	Multi-Family Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial Business	Consumer Loans and Other	Total
Allowance for loan losses:							
Balance, beginning of period	$ 4,280	$ 16,248	$ 1,370	$ 9,050	$ 6,410	$ 4,643	$ 42,001
Provision charged to expense	1,162	551	(180)	1,665	248	415	3,861
Losses charged off	—	(67)	—	(1,720)	(152)	(331)	(2,270)
Recoveries	16	107	1	101	65	249	539
Balance, end of period	$ 5,458	$ 16,839	$ 1,191	$ 9,096	$ 6,571	$ 4,976	$ 44,131

Three Months Ended June 30, 2016	Construction and Land Development	Commercial Real Estate	Multi-Family Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial Business	Consumer Loans and Other	Total
Allowance for loan losses:							
Balance, beginning of period	$ 5,015	$ 14,833	$ 922	$ 8,212	$ 5,390	$ 3,388	$ 37,760
Provision charged to expense	(476)	741	(53)	988	409	490	2,099
Losses charged off	(4)	—	—	(575)	—	(12)	(591)
Recoveries	95	22	1	150	47	35	350
Balance, end of period	$ 4,630	$ 15,596	$ 870	$ 8,775	$ 5,846	$ 3,901	$ 39,618

Six Months Ended June 30, 2016	Construction and Land Development	Commercial Real Estate	Multi-Family Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial Business	Consumer Loans and Other	Total
Allowance for loan losses:							
Balance, beginning of period	$ 4,984	$ 14,687	$ 945	$ 8,990	$ 5,774	$ 2,979	$ 38,359
Provision charged to expense	(389)	937	(76)	417	67	884	1,840
Losses charged off	(66)	(66)	—	(895)	(72)	(24)	(1,123)
Recoveries	101	38	1	263	77	62	542
Balance, end of period	$ 4,630	$ 15,596	$ 870	$ 8,775	$ 5,846	$ 3,901	$ 39,618

The following table presents, by portfolio segment, the allocation of the allowance for loan losses at June 30, 2017, and December 31, 2016 (in thousands):

June 30, 2017	Construction and Land Development	Commercial Real Estate	Multi-Family Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial Business	Consumer Loans and Other	Total
Period-end balance allocated to:							
Loans individually evaluated for impairment	$ 51	$ 960	$ 13	$ 1,085	$ 67	$ 10	$ 2,186
Loans collectively evaluated for impairment	5,369	15,879	1,178	8,005	6,504	4,966	41,901
Loans acquired with deteriorated credit quality	38	—	—	6	—	—	44
Balance, end of period	$ 5,458	$ 16,839	$ 1,191	$ 9,096	$ 6,571	$ 4,976	$ 44,131
December 31, 2016							
Period-end balance allocated to:							
Loans individually evaluated for impairment	$ 61	$ 1,078	$ 13	$ 1,384	$ 71	$ 14	$ 2,621
Loans collectively evaluated for impairment	4,179	15,102	1,357	7,473	6,339	4,629	39,079
Loans acquired with deteriorated credit quality	40	68	—	193	—	—	301
Balance, end of year	$ 4,280	$ 16,248	$ 1,370	$ 9,050	$ 6,410	$ 4,643	$ 42,001

The following table presents, by portfolio segment, the Company's investment in loans at June 30, 2017, and December 31, 2016 (in thousands):

June 30, 2017	Construction and Land Development	Commercial Real Estate	Multi-Family Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial Business	Consumer Loans and Other	Total
Ending balance: individually evaluated for impairment	$ 4,771	$ 25,604	$ 1,177	$ 16,238	$ 3,140	$ 387	$ 51,317
Ending balance: collectively evaluated for impairment	872,407	2,238,775	190,215	1,182,616	1,107,585	219,400	5,810,998
Ending balance: loans acquired with deteriorated credit quality	11,388	31,224	15,502	28,535	97	—	86,746
Ending Balance	$ 888,566	$2,295,603	$ 206,894	$1,227,389	$ 1,110,822	$ 219,787	$5,949,061

December 31, 2016	Construction and Land Development	Commercial Real Estate	Multi-Family Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial Business	Consumer Loans and Other	Total
Ending balance: individually evaluated for impairment	$ 18,923	$ 31,586	$ 1,507	$ 21,128	$ 3,247	$ 348	$ 76,739
Ending balance: collectively evaluated for impairment	797,575	2,186,027	205,551	1,163,958	1,084,620	201,381	5,639,112
Ending balance: loans acquired with deteriorated credit quality	9,529	33,699	15,733	30,737	1,672	—	91,370
Ending Balance	$ 826,027	$2,251,312	$ 222,791	$1,215,823	$ 1,089,539	$ 201,729	$5,807,221

Loans acquired in a transfer, including business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments, are accounted for as purchased impaired loans. Purchased impaired loans are initially recorded at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, the historical allowance for credit losses related to these loans is not carried over.

Accounting for purchased impaired loans involves estimating fair value, at acquisition, using the principal and interest cash flows expected to be collected, discounted at the prevailing market rate of interest. The excess of cash flows expected to be collected over the estimated fair value at acquisition date is referred to as the accretable yield and is recognized in interest income using an effective yield method over the remaining life of the loans. The difference between contractually required payments and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference. Any decreases in cash flows expected to be collected (other than due to decreases in interest rate indices and changes in prepayment assumptions) will be charged to the provision for loan losses, resulting in an increase to the allowance for loan losses.

The following table presents the changes in the accretable yield for purchased impaired loans for the six months ended June 30, 2017 and 2016 (in thousands):

	June 30, 2017	June 30, 2016
Balance at beginning of period	$ 40,467	$ 43,959
Additions	—	2,036
Accretion	(5,534)	(3,126)
Reclassifications from nonaccretable balance, net	3,293	2,080
Other changes, net	1,622	(1,993)
Balance at end of period	$ 39,848	$ 42,956

Portfolio quality indicators

The Company's portfolio grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on numerous factors, including management's experiences with similarly graded loans. Credit risk grades are refreshed each quarter as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance.

The Company's internally assigned grades are as follows:

- Pass – Several pass credit grades comprise loans in this category, which are assigned based on varying levels of risk, ranging from credits that are secured by cash or marketable securities, to management attention credits, which have all the characteristics of an acceptable credit risk but warrant more than the normal level of monitoring.

- Special Mention – Loans in this category are considered to have potential weaknesses that deserve management's attention. The borrower's ability to repay from the primary (intended) sources is currently adequate, but threatened by potential weaknesses which may, if not corrected, result in the deterioration of repayment prospects for the asset or in the Company's credit position loss at some future date.

- Substandard – Loans in this category are considered to have increased credit risk and servicing needs and generally require that the Company follow their performance very closely. The borrower's ability to repay is threatened by a clearly defined weakness that jeopardizes ultimate repayment of the loan.

- Doubtful – Loans in this category are considered to be doubtful or a loss to the Company in terms of principal and interest repayment. The borrower's ability to repay in full, on the basis of currently existing facts, conditions, and values, is generally highly questionable and improbable.

The following table represents credit exposures by internally assigned grades as of June 30, 2017, and December 31, 2016 (in thousands):

June 30, 2017	Construction and Land Development	Commercial Real Estate	Multi-Family Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial Business	Consumer Loans and Other	Total
Pass	$ 879,679	$ 2,256,494	$ 205,717	$ 1,208,544	$ 1,103,680	$ 219,400	$ 5,873,514
Special Mention	5,631	15,995	—	2,922	2,935	—	27,483
Substandard	3,256	23,114	1,177	15,923	4,207	387	48,064
Doubtful	—	—	—	—	—	—	—
Total	$ 888,566	$ 2,295,603	$ 206,894	$ 1,227,389	$ 1,110,822	$ 219,787	$ 5,949,061

December 31, 2016	Construction and Land Development	Commercial Real Estate	Multi-Family Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial Business	Consumer Loans and Other	Total
Pass	$ 802,941	$ 2,204,051	$ 221,284	$ 1,191,410	$ 1,083,798	$ 201,406	$ 5,704,890
Special Mention	5,327	16,944	—	2,405	1,866	—	26,542
Substandard	17,759	30,317	1,507	22,008	3,795	323	75,709
Doubtful	—	—	—	—	80	—	80
Total	$ 826,027	$ 2,251,312	$ 222,791	$ 1,215,823	$ 1,089,539	$ 201,729	$ 5,807,221

Age analysis of past-due financing receivables by class

The following table includes an aging analysis of the recorded investment of past-due financing receivables as of June 30, 2017, and December 31, 2016. Also included are loans that are 90 days or more past due as to interest and principal and still accruing, because they are (1) well-secured and in the process of collection, or (2) real estate loans or loans exempt under regulatory rules from being classified as nonaccrual. Purchased impaired loans are included in the aging schedule, but are excluded from the disclosure of accruing loans more than 90 days past due because they are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments (in thousands):

June 30, 2017	Loans 30 - 59 Days Past Due	Loans 60 - 89 Days Past Due	Loans 90 or More Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccruing	Current Loans	Total Loans Receivable	Accruing Loans More Than 90 Days Past Due
Construction and land development	$ 253	$ 81	$ —	$ 296	$ 630	$ 887,936	$ 888,566	$ —
Commercial real estate	391	—	—	4,208	4,599	2,291,004	2,295,603	—
Multifamily real estate	—	—	—	652	652	206,242	206,894	—
1-4 family residential real estate	1,291	734	273	3,584	5,882	1,221,507	1,227,389	110
Commercial and industrial business loans	496	2	91	740	1,329	1,109,493	1,110,822	—
Consumer loans and other	633	312	96	165	1,206	218,581	219,787	96
Total	$ 3,064	$ 1,129	$ 460	$ 9,645	$ 14,298	$5,934,763	$ 5,949,061	$ 206

December 31, 2016	Loans 30 - 59 Days Past Due	Loans 60 - 89 Days Past Due	Loans 90 or More Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccruing	Current Loans	Total Loans Receivable	Accruing Loans More Than 90 Days Past Due
Construction and land development	$ 67	$ —	$ 396	$ 696	$ 1,159	$ 824,868	$ 826,027	$ —
Commercial real estate	2,133	1,354	19	5,110	8,616	2,242,696	2,251,312	—
Multifamily real estate	—	—	—	690	690	222,101	222,791	—
1-4 family residential real estate	5,170	77	1,157	6,113	12,517	1,203,306	1,215,823	—
Commercial and industrial business loans	792	75	4	362	1,233	1,088,306	1,089,539	—
Consumer loans and other	678	113	76	128	995	200,734	201,729	76
Total	$ 8,840	$ 1,619	$ 1,652	$ 13,099	$ 25,210	$5,782,011	$ 5,807,221	$ 76

The following table includes an aging analysis of the recorded investment of purchased impaired loans as of June 30, 2017, and December 31, 2016, included in the table above (in thousands):

	Loans 30 - 59 Days Past Due	Loans 60 - 89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due	Current Loans	Total Loans Receivable
June 30, 2017						
Construction and land development	$ —	$ —	$ —	$ —	$ 11,388	$ 11,388
Commercial real estate	—	—	—	—	31,224	31,224
Multifamily real estate	—	—	—	—	15,502	15,502
1-4 family residential real estate	69	49	163	281	28,254	28,535
Commercial and industrial business loans	—	—	91	91	6	97
Consumer loans and other	—	—	—	—	—	—
Total	$ 69	$ 49	$ 254	$ 372	$ 86,374	$ 86,746

	Loans 30 - 59 Days Past Due	Loans 60 - 89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due	Current Loans	Total Loans Receivable
December 31, 2016						
Construction and land development	$ —	$ —	$ 396	$ 396	$ 9,133	$ 9,529
Commercial real estate	—	346	19	365	33,334	33,699
Multifamily real estate	—	—	—	—	15,733	15,733
1-4 family residential real estate	902	—	1,158	2,060	28,678	30,738
Commercial and industrial business loans	205	75	4	284	1,387	1,671
Consumer loans and other	—	—	—	—	—	—
Total	$ 1,107	$ 421	$ 1,577	$ 3,105	$ 88,265	$ 91,370

Impaired loans

Management considers a loan to be impaired when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized as a specific component to be provided for in the allowance for loan losses, or the impaired balance on collateral-dependent loans is charged off if it is determined that such amount represents a confirmed loss. Smaller balance loans (under $500,000) are generally not individually assessed for impairment, but are evaluated collectively.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost-recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Unearned loan income was $4.40 million in excess of deferred loan costs at June 30, 2017, $3.22 million at June 30, 2016, and $4.02 million at December 31, 2016. There were $9.65 million, $10.58 million, and $13.10 million in nonaccrual loans at June 30, 2017, June 30, 2016, and December 31, 2016, respectively. The Company would have earned $14,000 in second quarter 2017 if interest on the loans had been accrued.

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The following tables include the recorded investment and unpaid principal balances for impaired financing receivables, excluding purchased impaired loans, with the associated allowance amount, if applicable, as of June 30, 2017, and December 31, 2016 (in thousands):

June 30, 2017	Unpaid Principal Balance	Recorded Balance	Specific Allowance	Average Recorded Investment	YTD Interest Income Recognized
Loans without a specific valuation allowance					
Construction and land development	$ 2,195	$ 2,163	$ —	$ 2,237	$ 72
Commercial real estate	16,365	16,119	—	16,461	437
Multifamily real estate	525	525	—	537	20
1-4 family residential real estate	4,047	3,787	—	4,397	105
Commercial and industrial business loans	1,887	1,711	—	1,891	50
Consumer loans and other	—	—	—	—	—
Total	$ 25,019	$ 24,305	$ —	$ 25,523	$ 684
Loans with a specific valuation allowance					
Construction and land development	$ 2,970	$ 2,608	$ 51	$ 2,996	$ 65
Commercial real estate	9,544	9,485	960	9,627	232
Multifamily real estate	727	652	13	732	25
1-4 family residential real estate	12,637	12,451	1,085	12,783	306
Commercial and industrial business loans	1,519	1,429	67	1,573	38
Consumer loans and other	389	387	10	439	8
Total	$ 27,786	$ 27,012	$ 2,186	$ 28,150	$ 674
Total impaired loans					
Construction and land development	$ 5,165	$ 4,771	$ 51	$ 5,233	$ 137
Commercial real estate	25,909	25,604	960	26,088	669
Multifamily real estate	1,252	1,177	13	1,269	45
1-4 family residential real estate	16,684	16,238	1,085	17,180	411
Commercial and industrial business loans	3,406	3,140	67	3,464	88
Consumer loans and other	389	387	10	439	8
Total	$ 52,805	$ 51,317	$ 2,186	$ 53,673	$ 1,358

Note: Included in the table above are accruing TDRs of $24.66 million, which the Company has designated as performing loans, while nonaccruing TDRs, which are also included in the above table of impaired loans, totaled $5.55 million.

December 31, 2016	Unpaid Principal Balance	Recorded Balance	Specific Allowance	Average Recorded Investment	YTD Interest Income Recognized
Loans without a specific valuation allowance					
Construction and land development	$ 15,933	$ 15,842	$ —	$ 16,454	$ 808
Commercial real estate	18,495	18,251	—	20,024	1,006
Multifamily real estate	1,288	1,239	—	1,313	69
1-4 family residential real estate	7,569	7,445	—	7,711	323
Commercial and industrial business loans	1,892	1,749	—	1,904	106
Consumer loans and other	—	—	—	—	—
Total	$ 45,177	$ 44,526	$ —	$ 47,406	$ 2,312
Loans with a specific valuation allowance					
Construction and land development	$ 3,431	$ 3,082	$ 61	$ 3,459	$ 146
Commercial real estate	13,533	13,336	1,078	13,742	692
Multifamily real estate	268	268	13	274	15
1-4 family residential real estate	14,084	13,682	1,384	14,322	642
Commercial and industrial business loans	1,579	1,497	71	1,867	97
Consumer loans and other	351	348	14	392	16
Total	$ 33,246	$ 32,213	$ 2,621	$ 34,056	$ 1,608
Total impaired loans					
Construction and land development	$ 19,364	$ 18,924	$ 61	$ 19,913	$ 954
Commercial real estate	32,028	31,587	1,078	33,766	1,698
Multifamily real estate	1,556	1,507	13	1,587	84
1-4 family residential real estate	21,653	21,127	1,384	22,033	965
Commercial and industrial business loans	3,471	3,246	71	3,771	203
Consumer loans and other	351	348	14	392	16
Total	$ 78,423	$ 76,739	$ 2,621	$ 81,462	$ 3,920

Note: Included in the table above are accruing TDRs of $31.35 million, which the Company has designated as performing loans, while nonaccruing TDRs, which are also included in the above table of impaired loans, totaled $6.10 million.

Troubled debt restructurings

In order to maximize the collection of loan balances, the Company evaluates troubled loan accounts on a case-by-case basis to determine if a loan modification would be appropriate. Loan modifications may be utilized when there is a reasonable chance that an appropriate modification would allow our clients to continue servicing the debt. A loan is a troubled debt restructuring ("TDR") if both of the following exist: (1) a creditor has granted a concession to the debtor, and (2) the debtor is experiencing financial difficulties. Nonaccruing loans that are modified can be placed back on accrual status when both principal and interest are current, there is a sustained repayment performance of six months or greater, and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement. All restructured loans are considered impaired in the calendar year of restructuring. In subsequent years, a restructured loan may cease being classified as impaired if the loan was modified at a market rate and has performed according to the modified terms for at least six months.

The following table shows the loans modified in TDRs for the three and six months ended June 30, 2017 and 2016 (in thousands, except number of loans):

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Construction and land development	—	$ —	$ —	—	$ —	$ —
Commercial real estate	—	—	—	—	—	—
Multifamily real estate	—	—	—	—	—	—
1-4 family residential real estate	—	—	—	—	—	—
Commercial and industrial	—	—	—	1	14	13
Consumer loans and other	—	—	—	—	—	—
Total	—	$ —	$ —	1	$ 14	$ 13

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Construction and land development	—	$ —	$ —	1	$ 150	$ 148
Commercial real estate	3	4,233	4,230	3	4,233	4,230
Multifamily real estate	—	—	—	—	—	—
1-4 family residential real estate	3	827	822	3	827	822
Commercial and industrial	—	—	—	—	—	—
Consumer loans and other	1	25	25	1	25	25
Total	7	$ 5,085	$ 5,077	8	$ 5,235	$ 5,225

The restructured loans generally include terms to reduce the interest rate and extend payment terms. We have not forgiven any principal on the above loans. One loan relationship consisting of five commercial loans, which totaled $1.52 million, and two additional commercial loans in the amounts of $15,000 and $0.21 million were restructured within the last 12 months and subsequently defaulted.

The specific reserve portion of the allowance for loan losses on TDRs is determined by discounting the restructured cash flows at the original effective rate of the loan before modification, or is based on the underlying collateral value less costs to sell, if repayment of the loan is collateral-dependent. If the resulting amount is less than the recorded book value, the Company either establishes a valuation allowance as a component of the allowance for loan losses or charges off the impaired balance if it determines that such amount is a confirmed loss. This method is used consistently for all segments of the portfolio. At June 30, 2017, the large majority of significant impaired loans have been determined to be collateral-dependent.

Nonaccrual loans

The Company generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach a certain number of days past due. Commercial loans are placed on nonaccrual status when full collection of principal and interest becomes doubtful, or when any portion of principal or interest becomes 90 days past due, whichever occurs first, unless the debt is both well-secured and in the process of collection. Residential mortgage loans and other consumer loans are placed on nonaccrual status when full collection of principal and interest becomes doubtful, or when any portion of principal or interest becomes 120 days past due, whichever occurs first, unless the debt is both well-secured and in the process of collection. When loans are placed on nonaccrual status, interest receivable is reversed against interest income recognized in the current period, and any prior year unpaid interest is charged off against the allowance for loan losses. Interest payments received thereafter are applied as a reduction of the remaining principal balance so long as doubt exists as to the ultimate collection of the principal. Loans are removed from nonaccrual status when they become current as to both principal and interest and when the collection of principal or interest is no longer doubtful. Similarly, mortgage loans and other consumer loans are also placed on nonaccrual status when full collection of principal and interest becomes doubtful, or they become delinquent for a specified period of time.

Note 5. Other Real Estate Owned ("OREO")

The table below presents a summary of the activity related to OREO for the three- and six-month periods ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	$ 24,271	$ 29,740	$ 24,505	$ 34,420
Additions and capital improvements	3,968	1,286	5,349	3,413
Franklin merger	—	—	—	(234)
Sales	(2,211)	(5,169)	(3,469)	(12,097)
Net change in valuation allowance	86	(181)	86	(90)
Gain (Loss) on sale and write-downs, net	(67)	31	(424)	295
Ending balance	$ 26,047	$ 25,707	$ 26,047	$ 25,707

As of June 30, 2017, the Company's recorded investment in OREO collateralized by residential real estate was $4.93 million. As of June 30, 2017, the Company's recorded investment in mortgage loans collateralized by residential real estate that are in the process of foreclosure was $0.25 million.

Note 6. Segment Reporting

The Company has three reportable segments: Banking, Realty, and Insurance. The Banking segment provides loan and deposit services to retail and commercial customers throughout Richmond, Virginia, the Greater Hampton Roads area in southeastern Virginia, and northeastern North Carolina, and includes the operations of TowneBank Commercial Mortgage, LLC, and Towne Investment Group. The Realty segment combines the operations of Berkshire Hathaway HomeServices Towne Realty with TowneBank Mortgage; Lawyers Escrow and Title, LLC, d/b/a Virginia Home Title and Settlements; SimonTowne Mortgage, LLC; Towne Mortgage of the Carolinas, LLC; Towne Center Mortgage, LLC; Coastal Home Mortgage, LLC; NewTowne Mortgage, LLC; Homesale Mortgage, LLC; Towne Vacations, LLC, d/b/a Beach Properties of Hilton Head; Towne Vacations Deep Creek, LLC, d/b/a Railey Mountain Vacations; and Towne Vacations Oak Island, LLC, d/b/a Oak Island Accommodations, to provide residential real estate services, resort property management, originations of a variety of mortgage loans, and commercial and residential title insurance. Mortgage loans are originated and sold principally in the secondary market through purchase commitments from investors. The Insurance segment provides full-service commercial and retail insurance and employee benefit services through Towne Insurance Agency, LLC, and Towne Benefits.

All the segments are service-based. The Banking segment offers a distribution and referral network for the realty and insurance services, and the Realty and Insurance divisions offer a similar network for the Banking segment, due largely to overlapping geographic markets. A major distinction is the source of income. The Realty and Insurance businesses are fee-based, while the Banking segment is driven principally by net interest income.

Segment profit and loss is measured by net income after income tax. Inter-segment transactions are recorded at cost and eliminated as part of the consolidation process. Because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities.

The following tables provide information about reportable segments and reconciliation of such information to the consolidated financial statements for the periods indicated (dollars in thousands):

Three Months Ended June 30, 2017	**Banking**	**Realty**	**Insurance**	**Consolidated Totals**
Net interest income	$ 66,434	$ 2,819	$ —	$ 69,253
Provision for loan losses	1,320	—	—	1,320
Net interest income after provision for loan losses	65,114	2,819	—	67,933
Residential mortgage banking income, net	(136)	21,730	—	21,594
Insurance commissions and other title fees and income, net	115	582	12,205	12,902
Real estate brokerage and property management income, net	—	7,629	—	7,629
Other noninterest income	7,324	661	233	8,218
Noninterest expense	41,973	26,701	9,445	78,119
Income before income tax, corporate allocation and noncontrolling interest	30,444	6,720	2,993	40,157
Corporate allocation	410	(266)	(144)	—
Income before income tax provision and noncontrolling interest	30,854	6,454	2,849	40,157
Provision for income tax expense	9,307	1,889	1,044	12,240
Net income	21,547	4,565	1,805	27,917
Noncontrolling interest	(1)	(1,361)	(342)	(1,704)
Net income attributable to TowneBank	$ 21,546	$ 3,204	$ 1,463	$ 26,213
Net income as percentage of total	82.20%	12.22%	5.58%	100.00%
Total assets	$ 7,668,330	$ 591,714	$ 166,998	$ 8,427,042

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended June 30, 2016	Banking	Realty	Insurance	Consolidated Totals
Net interest income	$ 46,888	$ 896	$ —	$ 47,784
Provision for loan losses	2,099	—	—	2,099
Net interest income after provision for loan losses	44,789	896	—	45,685
Residential mortgage banking income, net	(342)	12,490	—	12,148
Insurance commissions and other title fees and income, net	—	550	11,077	11,627
Real estate brokerage and property management income, net	—	6,116	—	6,116
Other noninterest income	5,887	487	203	6,577
Noninterest expense	49,977	13,145	8,777	71,899
Income before income tax, corporate allocation and noncontrolling interest	357	7,394	2,503	10,254
Corporate allocation	255	(123)	(132)	—
Income before income tax provision and noncontrolling interest	612	7,271	2,371	10,254
Provision for income tax expense	(678)	2,249	804	2,375
Net income	1,290	5,022	1,567	7,879
Noncontrolling interest	—	(1,257)	(363)	(1,620)
Net income attributable to TowneBank	$ 1,290	$ 3,765	$ 1,204	$ 6,259
Net income as percentage of total	20.61%	60.15%	19.24%	100.00%
Total assets	$ 7,432,566	$ 360,121	$ 148,054	$ 7,940,741

Six Months Ended June 30, 2017	Banking	Realty	Insurance	Consolidated Totals
Net interest income	$ 124,878	$ 4,655	$ —	$ 129,533
Provision for loan losses	3,861	—	—	3,861
Net interest income after provision for loan losses	121,017	4,655	—	125,672
Residential mortgage banking income, net	(279)	39,505	—	39,226
Insurance commissions and other title fees and income, net	236	936	26,530	27,702
Real estate brokerage and property management income, net	—	12,623	—	12,623
Other noninterest income	14,042	1,150	485	15,677
Noninterest expense	80,323	49,778	18,266	148,367
Income before income tax, corporate allocation and noncontrolling interest	54,693	9,091	8,749	72,533
Corporate allocation	895	(574)	(321)	—
Income before income tax provision and noncontrolling interest	55,588	8,517	8,428	72,533
Provision for income tax expense	16,072	2,516	3,038	21,626
Net income	39,516	6,001	5,390	50,907
Noncontrolling interest	(3)	(1,872)	(852)	(2,727)
Net income attributable to TowneBank	$ 39,513	$ 4,129	$ 4,538	$ 48,180
Net income as percentage of total	82.01%	8.57%	9.42%	100.00%
Total assets	$ 7,668,330	$ 591,714	$ 166,998	$ 8,427,042

Six Months Ended June 30, 2016	Banking	Realty	Insurance	Consolidated Totals
Net interest income	$ 92,711	$ 1,409	$ —	$ 94,120
Provision for loan losses	1,840	—	—	1,840
Net interest income after provision for loan losses	90,871	1,409	—	92,280
Residential mortgage banking income, net	(534)	19,800	—	19,266
Insurance commissions and other title fees and income, net	—	899	24,761	25,660
Real estate brokerage and property management income, net	—	10,943	—	10,943
Other noninterest income	11,678	901	434	13,013
Noninterest expense	82,157	24,330	17,573	124,060
Income before income tax, corporate allocation and noncontrolling interest	19,858	9,622	7,622	37,102
Corporate allocation	614	(292)	(322)	—
Income before income tax provision and noncontrolling interest	20,472	9,330	7,300	37,102
Provision for income tax expense	5,051	2,908	2,604	10,563
Net income	15,421	6,422	4,696	26,539
Noncontrolling interest	—	(1,625)	(836)	(2,461)
Net income attributable to TowneBank	$ 15,421	$ 4,797	$ 3,860	$ 24,078
Net income as percentage of total	64.05%	19.92%	16.03%	100.00%
Total assets	$ 7,432,566	$ 360,121	$ 148,054	$ 7,940,741

Note 7. Commitments and Contingencies

Commitments to extend credit are agreements to lend to customers, provided there are no violations of any conditions set forth in the contracts. Commitments are evaluated on a case-by-case basis based on the customer's creditworthiness. They tend to have fixed expiration dates and may expire without being completely utilized. Therefore, total commitment amounts may not necessarily represent future cash requirements. At June 30, 2017, the amounts of off-balance sheet commitments to extend credit were $2.15 billion.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of customers to third parties. The credit risk involved is similar to the risk involved in extending loans to customers. At June 30, 2017, standby letters of credit and financial guarantees were $81.53 million.

Additionally, the Company had $46.21 million in mortgage loans sold to investors with various recourse and warranty provisions as of June 30, 2017.

Note 8. Mergers and Acquisitions

Railey Mountain Lake Vacations, LLC: Effective April 11, 2017, the Company acquired Railey Mountain Lake Vacations, LLC, an independent resort property management company that was merged with the operations of Towne Vacations Deep Creek, LLC, a division of TowneBank's Realty segment. The acquisition was accounted for as a business combination under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*, and, as such, the assets acquired and liabilities assumed in the transaction were recorded at their respective fair values as of the acquisition date. Such fair values were preliminary estimates and are subject to adjustment for up to one year after the merger date, or when additional information relative to the closing date fair values became available and such information is considered final, whichever is earlier. The primary areas of the preliminary allocation of the fair value of consideration transferred that are not yet finalized relate to the fair values of certain intangible assets acquired and the residual goodwill. The results of operations of the acquired business are included in the Company's Consolidated Statements of Income commencing April 11, 2017. The purchase price for the transaction was $8.93 million in cash. The allocation of the purchase price resulted in tangible assets of $6.36 million, assumed liabilities of $5.79 million, goodwill of $3.34 million, and other intangible assets of $5.02 million.

Paragon Commercial Corporation: On April 27, 2017, the Company announced the signing of a definitive agreement and plan of reorganization, dated April 26, 2017 (the "Paragon merger agreement"), pursuant to which the Company will acquire Paragon Commercial Corporation ("Paragon"), and its wholly owned bank subsidiary, Paragon Commercial Bank, a Raleigh, North Carolina-based bank with three banking offices servicing Raleigh, Cary, and Charlotte, North Carolina. The proposed acquisition of Paragon and Paragon Commercial Bank has been approved by the Boards of Directors of TowneBank, Paragon, and Paragon Commercial Bank and is expected to close in the first quarter of 2018, subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of Paragon's shareholders. At March 31, 2017, Paragon had total assets of $1.55 billion, gross loans of $1.23 billion, and total deposits of $1.26 billion.

Under the terms of the Paragon merger agreement, Paragon shareholders will receive 1.725 shares of the Company's common stock for each share of Paragon common stock held immediately prior to the effective date of the merger. As a result of the merger, unexercised Paragon stock options, whether or not vested, will be converted into replacement option awards of TowneBank on the same terms and conditions applicable to Paragon stock options, as adjusted based on the 1.725 exchange ratio. Similarly, restricted stock awards will be converted into replacement restricted stock awards of TowneBank on the same terms and conditions applicable to the Paragon restricted stock awards, adjusted based on the 1.725 exchange ratio, unless vested at the time of the merger in accordance with the related award agreement and converted into shares of TowneBank common stock.

Monarch Financial Holdings: Effective June 24, 2016, the Company completed its acquisition of Monarch Financial Holdings, Inc. ("Monarch"), and its wholly owned bank subsidiary, Monarch Bank, which were merged with and into TowneBank.

In the merger with Monarch, each outstanding share of common stock of Monarch was converted into 0.8830 shares of TowneBank common stock. TowneBank issued an aggregate of 10.49 million shares of TowneBank common stock to Monarch stockholders. Based on the closing price of TowneBank's common stock on June 24, 2016, of $21.21 per share, the aggregate consideration paid to Monarch common stockholders to acquire Monarch common stock was approximately $222.44 million.

Monarch Bank had 12 branches, of which 11 branches were closed and one branch was re-opened on June 27, 2016, as a TowneBank branch. The integration of Monarch Bank's deposit system and the conversion of the re-opened Monarch Bank branch to TowneBank's operating platform were completed over the weekend of June 25-26, 2016.

The Monarch merger has been accounted for under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the June 24, 2016, merger date. Such fair values were preliminary estimates and were subject to adjustment for up to one year after the merger date, or when additional information relative to the closing date fair values became available and such information is considered final, whichever is earlier. Application of the acquisition method of accounting resulted in goodwill of approximately $108.05 million. All of the recognized goodwill is expected to be non-deductible for tax purposes.

The following table presents the estimated fair values of the assets acquired and liabilities assumed for Monarch as of June 24, 2016 (dollars in thousands):

Fair value of assets acquired:		
Cash and cash equivalents	$	67,457
Securities available for sale		20,818
Loans held for sale		283,528
Loans held for investment		808,137
Bank premise and equipment		23,998
Intangible assets		13,210
Other assets		62,427
Total assets	$	1,279,575
Fair value of liabilities assumed:		
Deposits	$	1,061,620
Total borrowings		82,046
Other liabilities		21,513
Total liabilities	$	1,165,179
Net identifiable assets acquired		114,396
Goodwill		108,048
Net assets acquired	$	222,444
Purchase price:		
Company common shares issued		10,487,069
Purchase price per share of Company's common stock	$	21.21
Common stock issued	$	222,431
Cash exchanged for fractional shares		13
Fair value of total consideration transferred	$	222,444

During the year ended December 31, 2016, adjustments were made to the purchase price allocations that resulted in a decrease to the initial fair value estimate of loans of $9.98 million, an increase in deferred tax assets of $3.37 million, and a decrease in acquired net assets of $0.83 million resulting from adjustments to other assets and liabilities. The Company made these measurement period adjustments to reflect facts and circumstances that existed as of the merger date and did not result from intervening events subsequent to such date. The revised fair value estimates resulted in an increase to goodwill of $7.44 million. As of December 31, 2016, the Company finalized its valuation of all assets and liabilities acquired.

The loans acquired in the Monarch merger were divided into loans with evidence of credit quality deterioration, which are accounted for under ASC 310-30 (purchased impaired), and loans that do not meet this criteria, which are accounted for under ASC 310-20 (purchased performing). As of June 24, 2016, as revised for measurement period adjustments, the estimated fair value of the Monarch purchased performing loans acquired was $793.10 million, the related gross contractual amount was $917.34 million, and the estimated contractual cash flows not expected to be collected were $7.33 million.

The following table presents the acquired impaired loans receivable at the acquisition date, as adjusted (dollars in thousands):

Contractual principal and interest at acquisition	$ 36,510
Nonaccretable difference	(19,264)
Expected cash flows at acquisition	17,246
Accretable yield	(2,207)
Estimated fair value of loans acquired with a deterioration of credit quality	$ 15,039

The following table presents unaudited pro forma results of operations for the periods presented as if the Monarch acquisition had been completed on January 1, 2015. The pro forma results of operations include the historical accounts of the Company and Monarch, and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. Pro forma earnings were adjusted to exclude $16.84 million and $17.11 million of acquisition-related expenses for the three- and six-month periods ended June 30, 2016. The pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results, or operating results that would have occurred had the Monarch acquisition been completed at the beginning of 2015. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies, or asset dispositions.

(in thousands)	Pro Forma for the Three Months Ended June 30, 2016	Pro Forma for the Six Months Ended June 30, 2016
Revenues (net interest income plus noninterest income)	$ 121,170	$ 232,027
Net income	$ 15,835	$ 37,635

Oak Island Accommodations, Inc.: Effective January 14, 2016, the Company acquired Oak Island Accommodations, Inc., an independent resort property management company that was merged with the operations of Towne Vacations Oak Island, LLC, a division of TowneBank's Realty segment. The acquisition was accounted for as a business combination under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*, and, as such, the assets acquired and liabilities assumed in the transaction were recorded at their respective fair values as of the acquisition date. The results of operations of the acquired business are included in the Company's Consolidated Statements of Income commencing January 14, 2016. The purchase price for the transaction was $5.52 million in cash. The allocation of the purchase price resulted in tangible assets of $0.36 million, goodwill of $1.58 million, and other intangible assets of $3.58 million.

Note 9. Goodwill and Other Intangibles

Goodwill and intangible assets with an indefinite life are subject to impairment testing at least annually, or more often if events or circumstances suggest potential impairment. Other acquired intangible assets determined to have a finite life are amortized over their estimated useful life in a manner that best reflects the economic benefits of the intangible asset. Intangible assets with a finite life are periodically reviewed for other than temporary impairment. See *Note 1 – Summary of Significant Accounting Policies* and *Note 7 – Goodwill and Intangible Assets* of the 2016 Annual Report to the Stockholders for more information on the Company's goodwill and other intangibles. The following table presents the gross carrying amount and accumulated amortization for the Company's intangible assets as of the dates indicated (in thousands):

	June 30, 2017		June 30, 2016		December 31, 2016	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Core deposit intangible	$ 9,818	$ 3,018	$ 9,818	$ 541	$ 9,818	$ 1,827
Non-compete agreements	1,468	665	2,201	1,242	2,201	1,407
Customer lists	47,298	18,087	43,140	15,155	43,291	17,493
Trade name	211	190	211	148	211	169
Total intangible assets subject to amortization	58,795	21,960	55,370	17,086	55,521	20,896
Contractual agreements	3,231	—	3,231	—	3,231	—
Total intangible assets not subject to amortization	3,231	—	3,231	—	3,231	—
Total intangible assets	$ 62,026	$ 21,960	$ 58,601	$ 17,086	$ 58,752	$ 20,896

Amortization expense for intangible assets was $2.01 million and $1.10 million for the three-month periods, and $3.87 million and $2.19 million for the six-month periods ended June 30, 2017 and 2016, respectively.

Changes in the net carrying amount of goodwill related to each of the Company's segments since December 31, 2016, are as follows (in thousands):

	Banking	Realty	Insurance	Consolidated Totals
Balance, December 31, 2016	$ 194,913	$ 23,495	$ 46,502	$ 264,910
Additions to goodwill	—	3,336	—	3,336
Other adjustments	—	—	—	—
Balance, June 30, 2017	$ 194,913	$ 26,831	$ 46,502	$ 268,246

Note 10. Bank-Owned Life Insurance Policies

The total carrying amount of bank-owned life insurance policies ("BOLI") as of June 30, 2017, was $192.34 million. The Company had $164.93 million and $189.50 million of BOLI as of June 30, 2016, and December 31, 2016, respectively. The Company recognized BOLI income, included in other noninterest income, of $1.42 million and $1.18 million for the three-month periods, and $2.90 million and $2.35 million for the six-month periods ended June 30, 2017 and 2016, respectively. The Company has a related retirement plan, which provides retirement benefits to the executives covered under the plan. Although the retirement plan is technically unfunded, the life insurance policies are available to finance future benefits.

Note 11. Postretirement Benefits

The following table sets forth the Company's periodic postretirement benefit cost for the interim period identified (in thousands):

	SERP		Other Postretirement Benefits	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
Service cost	$ 573	$ 481	$ 15	$ 15
Interest cost	310	252	6	8
Amortization of prior service costs	41	38	—	—
Amortization of actuarial (gain) loss	37	19	2	(15)
Net periodic postretirement benefit cost	$ 961	$ 790	$ 23	$ 8

	SERP		Other Postretirement Benefits	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Service cost	$ 1,207	$ 890	$ (34)	$ 30
Interest cost	597	507	17	16
Amortization of prior service costs	92	76	—	—
Amortization of actuarial (gain) loss	74	38	4	(30)
Net periodic postretirement benefit cost	$ 1,970	$ 1,511	$ (13)	$ 16

Note 12. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the components of accumulated other comprehensive income (loss) at June 30, 2017 and 2016 (in thousands), and changes in the six months then ended. The amounts reclassified from accumulated other comprehensive income ("AOCI") for the securities available for sale are included in gain on investment securities, net on the consolidated statements of income, while the amounts reclassified from AOCI for the pension and postretirement plans are a component of salaries and employee benefits expense on the consolidated statements of income.

	Unrealized Gains (Losses) on Securities (a)	Pension and Postretirement Plans (b)	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance, December 31, 2016	$ (3,109)	$ (877)	$ (3,986)
Other comprehensive income before reclassifications	1,776	(256)	1,520
Amounts reclassified from AOCI	1	110	111
Net change	1,777	(146)	1,631
Balance, June 30, 2017	$ (1,332)	$ (1,023)	$ (2,355)

	Unrealized Gains (Losses) on Securities (a)	Pension and Postretirement Plans (b)	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance, December 31, 2015	$ (1,805)	$ (1,189)	$ (2,994)
Other comprehensive income before reclassifications	4,426	71	4,497
Amounts reclassified from AOCI	—	101	101
Net change	4,426	172	4,598
Balance, June 30, 2016	$ 2,621	$ (1,017)	$ 1,604

(a) For additional information about securities, refer to Note 3.
(b) For additional information about retirement plans, refer to Note 11.

Note 13. Other Expenses

The following table shows a summary of other expenses for the three- and six-month periods ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Advertising and marketing	$ 2,989	$ 1,978	$ 5,631	$ 3,881
Acquisition-related expenses	1,281	18,435	1,277	18,849
Other	3,228	2,045	6,040	3,220
Charitable contributions	1,690	1,373	3,088	2,421
Outside processing	1,808	1,395	3,442	2,792
Professional fees	1,471	1,159	3,299	2,610
Stationery and supplies	787	546	1,396	1,140
FDIC and other insurance	1,332	1,280	2,269	2,271
Foreclosed property expenses	144	458	276	570
Software expense	2,048	1,538	4,299	3,160
Telephone and postage	1,782	1,202	3,453	2,412
Amortization-intangibles	2,006	1,100	3,869	2,193
Bank franchise tax/SCC fees	1,243	941	2,485	1,881
Directors fees and expenses	453	329	769	599
Travel/meals/entertainment	802	489	1,484	869
Total other expenses	$ 23,064	$ 34,268	$ 43,077	$ 48,868

Note 14. Variable Interest Entities

A Variable Interest Entity ("VIE") is an entity that either (i) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (ii) has a group of equity owners that are unable to make significant decisions about its activities, or (iii) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns as generated by its operations. If any of these characteristics are present, the entity is subject to a variable interest consolidation model, and consolidation is based on variable interests, not on ownership of the entity's outstanding voting stock. Variable interests are defined as contractual, ownership, or other monetary interests in an entity that change with fluctuations in the entity's net asset value. The primary beneficiary consolidates the VIE. The primary beneficiary is the entity that has (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (ii) the obligation to absorb losses of the entity that could potentially be significant to the VIE, or the right to receive benefits from the entity that could potentially be significant to the VIE. The Company reviews all significant interests in the VIEs it is involved with, including the amounts and types of financial and other support, including equity investments, debt financing, and guarantees. The Company also considers the activities of the VIEs that most significantly impact the VIEs' economic performance and whether it has control over those activities.

Low income housing tax credit partnerships

As part of its community reinvestment initiatives, the Company invests within its footprint in multifamily affordable housing developments as a limited partner. The Company receives tax credits for its partnership investments. The Company has determined that these partnerships meet the definition of a VIE and are evaluated for the purpose of determining whether the Company is the primary beneficiary.

For each of the partnerships, the Company acts strictly in a limited partnership capacity. The Company has determined that it is not the primary beneficiary of these partnerships because the general partner of each limited partnership has both the power to direct the activities that most significantly affect the performance of each partnership and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. The Company accounts for its limited partner interests in accordance with the accounting guidance for investments in affordable housing projects. Partnership assets of $91.42 million, $79.87 million, and $92.44 million were not included in the Consolidated Balance Sheets at June 30, 2017, June 30, 2016, and December 31, 2016, respectively. These limited partner interests had carrying values of $19.82 million, $14.75 million, and $14.94 million at June 30, 2017, June 30, 2016, and December 31, 2016, respectively, and are recorded in other assets on the Company's Consolidated Balance Sheets. The Company's maximum exposure to loss for these limited partner investments totaled $24.49 million, $20.67 million, and $21.02 million at June 30, 2017, June 30, 2016, and December 31, 2016, respectively. The Company's maximum exposure to loss would result from the loss of its limited partner investments, along with $4.67 million of loans to the entities at June 30, 2017. As of June 30, 2017, the Company had $20.27 million in funding commitments that are dependent on certain contractual milestones and $4.67 million in loans, unfunded short-term construction loans, or letters of credit commitments. For the three- and six-month periods ended June 30, 2017, tax benefits totaling $0.40 million and $0.94 million, net of amortization expenses of $0.99 million and $2.38 million, respectively, were recognized as a component of income tax expense.

Note 15. Fair Value Disclosures

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level valuation hierarchy was established for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis.

Securities available for sale: Fair values are based on published market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Derivative Financial Instruments: Interest rate lock commitments, related to the origination of mortgage loans held for sale, are recorded at estimated fair value based on the value of the underlying loan, which in turn is based on quoted prices for similar loans in the secondary market. However, this value is adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close. This factor, the fall-out rate, is derived from the Company's internal data and is adjusted using significant management judgment. The fall-out rate is largely dependent on the processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. As such, interest rate lock commitments are classified as recurring Level 3. For the three-month periods ended June 30, 2017 and 2016, and the year ended December 31, 2016, the Company used weighted average fall-out rates of 17.14%, 17.75%, and 17.99%, respectively.

To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into either a forward sales contract to sell loans to investors when using best efforts or a "to be announced" ("TBA") mortgage-backed security under mandatory delivery. The forward sales contracts lock in a price for the sale of loans with similar characteristics to the specific rate lock commitments. The Company has not formally designated these derivatives as a qualifying hedge relationship; accordingly, changes to fair value are recorded to earnings each period. These valuations fall into a Level 2 category.

The following table presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of June 30, 2017, and December 31, 2016 (in thousands):

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ —	$ 201,977	$ —	$ 201,977
U.S. Treasury notes	—	257,520	—	257,520
Municipal securities	—	15,509	—	15,509
Mortgage-backed securities issued by GSEs	—	221,190	—	221,190
Trust preferred and other corporate securities	—	4,158	—	4,158
Derivative assets	—	—	3,203	3,203
Derivative liabilities	—	—	—	—

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ —	$ 292,470	$ —	$ 292,470
U.S. Treasury notes	—	252,001	—	252,001
Municipal securities	—	23,552	—	23,552
Mortgage-backed securities issued by GSEs	—	240,903	—	240,903
Trust preferred and other corporate securities	—	4,048	—	4,048
Derivative assets	—	1,547	2,282	3,829
Derivative liabilities	—	647	—	647

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at quarter-end, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at June 30, 2017, and December 31, 2016 (in thousands):

June 30, 2017	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ —	$ —	$ 7,841	$ 7,841
Other real estate owned and other nonperforming assets	—	22,147	3,900	26,047

December 31, 2016	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ —	$ —	$ 12,097	$ 12,097
Other real estate owned and other nonperforming assets	—	20,355	4,150	24,505

The following is a description of valuation methodologies used for assets measured on a nonrecurring basis.

Loans: Impaired loans for which repayment of the loan is expected to be provided solely by the value of the underlying collateral are considered collateral-dependent and are valued based on the fair value of such collateral. Collateral values are estimated using inputs based on observable market data or inputs based on customized discounting criteria. In cases where such inputs were unobservable, specifically, discounts applied to appraisal values to adjust such values to current market conditions or to reflect net realizable value, the impaired loan balance is reflected within Level 3 of the hierarchy. These discounts ranged from 2% to 33%, with a weighted average of 15.96%.

Loans held for sale: Loans held for sale are carried at the lower of cost or estimated fair value. Fair values of loans held for sale are based on commitments on hand from investors or, if commitments have not yet been obtained, prevailing market rates.

Foreclosed property: The fair value of foreclosed property is estimated using Level 2 inputs based on observable market data, or Level 3 inputs based on assumptions specific to the individual property. Level 3 inputs typically include unobservable inputs such as management-applied discounts used to further reduce values to a net realizable value, or in situations where our appraisal date predates a likely change in market conditions. At June 30, 2017, one property was valued using Level 3 inputs with a discount of 5.86%.

The following methods and assumptions were used in estimating fair value for the remaining classes of our financial instruments.

Cash and due from banks, interest-bearing deposits in financial institutions, and federal funds sold: The carrying amount approximates fair value.

Securities held to maturity: Fair values are based on published market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans: For credit card and other loan receivables with short-term and/or variable characteristics, the total receivable outstanding approximates fair value. The fair value of other loans is estimated by discounting the future cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Interest receivable and interest payable: The carrying amount approximates fair value.

Deposits: The fair value of noninterest-bearing deposits and deposits with no defined maturity approximates the carrying amount payable on demand. The fair value of certificates of deposit is estimated by discounting future cash flows using current rates at which similar deposits would be made.

Advances from the FHLB: The fair value of advances from the FHLB is determined using the discounted cash flow method with the discount rate being equal to the rate currently offered on similar products.

Repurchase agreements: The fair value of securities sold under agreements to repurchase is calculated using discounted cash flows, applying discount rates based on market yield curve rates for similar maturities.

Commitments to extend and standby letters of credit: These financial instruments are generally not sold or traded. The estimated fair values of off-balance-sheet credit commitments, including standby letters of credit and guarantees written, are not readily available due to the lack of cost-effective and reliable measurement methods for these instruments.

The levels within the fair value hierarchy and the estimated fair values of our financial instruments required to be disclosed under ASC 825, *Financial Instruments*, as of June 30, 2017, and December 31, 2016, are as follows (in thousands):

June 30, 2017	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Cash and due from banks	$ 468,455	$ 468,455	$ 468,455	$ —	$ —
Interest-bearing deposits in financial institutions	5,071	5,071	5,071	—	—
Securities available for sale	700,354	700,354	—	700,354	—
Securities held to maturity	63,937	66,389	—	66,389	—
Mortgage loans held for sale	388,523	388,811	—	388,811	—
Net loans	5,949,061	5,984,839	—	—	5,984,839
Interest receivable	20,258	20,258	—	20,258	—
Non-maturity deposits	4,712,110	4,712,110	—	4,712,110	—
Time deposits	1,883,659	1,871,519	—	1,871,519	—
Advances from the Federal Home Loan Bank of Atlanta	527,219	525,213	—	525,213	—
Repurchase agreements and other borrowings	28,571	28,575	—	28,575	—
Interest payable	3,066	3,066	—	3,066	—

December 31, 2016	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Cash and due from banks	$ 130,967	$ 130,967	$ 130,967	$ —	$ —
Interest-bearing deposits in financial institutions	5,581	5,581	5,581	—	—
Securities available for sale	812,974	812,974	—	812,974	—
Securities held to maturity	66,490	68,196	—	68,196	—
Mortgage loans held for sale	314,046	314,338	—	314,338	—
Net loans	5,807,221	5,828,335	—	—	5,828,335
Interest receivable	20,288	20,288	—	20,288	—
Non-maturity deposits	4,411,835	4,411,835	—	4,411,835	—
Time deposits	1,623,362	1,611,537	—	1,611,537	—
Advances from the Federal Home Loan Bank of Atlanta	687,511	687,100	—	687,100	—
Repurchase agreements and other borrowings	32,540	32,543	—	32,543	—
Interest payable	3,320	3,320	—	3,320	—

Note 16. Derivative Instruments and Hedging Activities

The Company enters into rate lock commitments with its mortgage customers. The Company is also a party to forward mortgage loan sales contracts to sell loans servicing released and sales of TBA mortgage-backed securities. When the interest rate is locked with the borrower, the rate lock commitment, forward sale agreement, and mortgage-backed security position are undesignated derivatives and marked to fair value through earnings. The fair value of the rate lock derivative is based on quoted prices for similar loans in the secondary market adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close. Both the rate lock commitment and the corresponding forward sales contracts are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives during the commitment period are recorded in current earnings and included in net residential mortgage banking income in the Consolidated Statements of Income.

As a result of the Monarch merger, we participate in a “mandatory” delivery program for mortgage loans. Under the mandatory delivery system, loans with interest rate locks are paired with the sale of a TBA mortgage-backed security bearing similar attributes. Under the mandatory delivery program, we commit to deliver loans to an investor at an agreed-upon price prior to the close of such loans. This differs from a “best efforts” delivery, which sets the sale price with the investor on a loan-by-loan basis when each loan is locked.

The following table reflects the amount and market value of mortgage banking derivatives included in the Consolidated Balance Sheets (in thousands):

	June 30, 2017		December 31, 2016	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Forward contracts related to interest rate lock commitments and mortgage loans held for sale	$ —	$ —	$ 14,923	$ 78
Interest rate lock commitments	346,672	3,203	215,166	2,282
TBA mortgage-backed securities	—	—	73,500	1,469
Total included in other assets		$ 3,203		$ 3,829
Included in other liabilities:				
Forward contracts related to interest rate lock commitments and mortgage loans held for sale	$ —	$ —	$ 29,881	$ 647
Total included in other liabilities		$ —		$ 647

The following table indicates the gain or loss recognized in income on derivatives for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest rate lock commitments	$ (313)	$ 356	$ 922	$ 740
Forward sales contracts	(23)	326	(38)	326
	$ (336)	682	$ 884	1,066

Note 17. Borrowings

The Company has short-term borrowings for terms under one year consisting of retail repurchase agreements ("REPOs") and FHLB advances. FHLB advances are for various terms and are secured by a blanket lien on residential mortgages and other real estate secured loans. All REPOs are overnight short-term investments and are not insured by the Federal Deposit Insurance Corporation. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and, therefore, are accounted for as a secured borrowing. Mortgage-backed securities and U.S. government agency securities with a total carrying value of $40.93 million at June 30, 2017, and $42.01 million at December 31, 2016, were pledged as collateral for these secured transactions. The pledged securities are held in safekeeping at the FHLB. Due to the overnight, short-term nature of REPOs, potential risk due to a decline in the value of the pledged collateral is low. Collateral pledging requirements with REPOs are monitored daily.

Note 18. Subsequent Events

On July 17, 2017, the Company issued $250.0 million of fixed-to-floating rate subordinated notes due July 30, 2027 in a public offering. The Company received $247.10 million in net proceeds after deducting discounts and issuance costs. The subordinated notes accrue interest at a fixed rate of 4.50% for the first five years until July 30, 2022. From and including this date and for the remaining five years of the subordinated notes' term, interest will accrue at a floating 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. The subordinated notes are unsecured obligations subordinated in right of payment to all of the Company's existing and future senior indebtedness, whether secured or unsecured, including claims of depositors and general creditors, and rank equally in right of payment with any unsecured, subordinated indebtedness that the Company may incur in the future that rank equally with the subordinated notes.

Selected Quarterly Information (unaudited)
TOWNEBANK

(Dollars in thousands, except per share data)	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016
Results of Operations:					
Interest income	$ 78,681	$ 70,087	$ 71,818	$ 71,823	$ 56,241
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
Gain (loss) on investment securities	(1)	—	6	—	—
Total noninterest income	50,343	44,886	39,518	46,821	36,468
Noninterest expense:					
Salaries and 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 noncontrolling interest and income tax	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

Selected Quarterly Information (unaudited)
TOWNEBANK

(Dollars in thousands, except per share data)	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016
Per Share Data:					
Net income:					
Basic	$ 0.42	$ 0.35	$ 0.31	$ 0.39	$ 0.12
Diluted	0.42	0.35	0.31	0.39	0.12
Book value at period end	17.74	17.42	17.20	17.11	16.84
Tangible book value at period end	12.81	12.59	12.36	12.23	12.05
Cash dividends declared	0.14	0.13	0.13	0.13	0.13
Common Stock Closing Price:					
High	34.35	33.50	34.10	24.03	22.64
Low	29.00	30.60	23.83	21.66	19.10
Close	30.80	32.40	33.25	24.03	21.65
Selected Financial Ratios (annualized):					
Return on average assets	1.29%	1.11%	0.95%	1.20%	0.39%
Return on average tangible assets	1.40%	1.22%	1.05%	1.29%	0.44%
Return on average equity	9.43%	8.15%	6.95%	8.95%	2.93%
Return on average tangible equity	13.67%	11.88%	10.27%	12.87%	4.21%
Net interest margin (tax-equivalent basis)	3.84%	3.45%	3.52%	3.55%	3.33%
Daily Averages:					
Total assets	$ 8,180,959	$ 8,000,366	$ 7,965,438	$ 7,991,213	$ 6,534,063
Total tangible assets	7,873,036	7,698,310	7,661,845	7,689,122	6,339,815
Loans, net of unearned income, excluding nonaccrual loans	5,926,336	5,862,799	5,705,832	5,583,711	4,702,825
Total earning assets	7,318,667	7,177,697	7,297,299	7,093,401	5,871,197
Total deposits	6,268,138	6,059,996	6,099,708	6,178,341	5,082,863
FHLB advances	527,219	723,506	628,272	479,660	433,626
Total equity	1,115,008	1,093,490	1,087,382	1,075,023	859,938
Tangible equity	807,085	791,433	783,789	772,932	665,690
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

PART I. FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist readers in understanding and evaluating our consolidated results of operations and financial condition. The following should be read in conjunction with our 2016 audited Consolidated Financial Statements included in our 2016 Annual Report to Stockholders and our 2016 Annual Report on Form 10-K. The financial statements contained in this Form 10-Q have been subject to a review by Dixon Hughes Goodman LLP, independent certified public accountants, as described in their report included as Exhibit 99.

Forward-Looking Statements. *This quarterly report on Form 10-Q contains certain forward-looking statements with respect to our financial condition, results of operations, and business. These forward-looking statements involve certain risks and uncertainties and are based on the beliefs and assumptions of our management. When used in this quarterly report or future regulatory filings, in press releases or other public shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We wish to caution the readers and users of this information not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in the levels of market rates of interest, credit risk and lending activities, mergers and acquisitions (including the pending acquisition of Paragon Commercial Corporation), competitive and legislative or regulatory factors, and other factors described in our 2016 Annual Report on Form 10-K and Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 could affect our financial performance and could cause actual results for future periods to differ materially from those anticipated or projected.*

We do not undertake and specifically disclaim any obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Overview

TowneBank ("Company," "we," "us") is a retail and commercial banking business serving Richmond, Virginia, the Greater Hampton Roads area in southeastern Virginia, and northeastern North Carolina. We place special emphasis on serving the financial needs of small- and medium-size businesses, professionals, and individuals in our geographic footprint. We offer a full range of banking and related financial services through our controlled divisions and subsidiaries.

Since our inception, we have expanded our financial services to include banking, real estate, mortgage, title, insurance, employee benefit services, and investments. We have three reportable segments: Banking, Realty, and Insurance. Our Banking segment provides loan and deposit services to retail and commercial customers. The Realty segment offers residential real estate services, mortgage loans, and residential and commercial title insurance. Commercial and retail insurance and employee benefit services are provided through our Insurance segment.

PART I. FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a summary of the Company's financial performance in the quarter ended June 30, 2017:

- Net income for the three months ended June 30, 2017, was $26.21 million, or $0.42 per common diluted share, compared with $6.26 million, or $0.12 per common diluted share, in the same period in 2016. Net income for the six months ended June 30, 2017, was $48.18 million, or $0.77 per common diluted share, compared with $24.08 million, or $0.47 per common diluted share, in the same period in 2016.

- Net interest income increased $21.47 million, or 44.93%, in second quarter 2017 from the comparable period in 2016. The increase was primarily due to an increase in average earning assets as a result of the acquisition of Monarch Financial Holdings, Inc. ("Monarch") in the second quarter of 2016.

- The provision for loan losses decreased $0.78 million from the provision of $2.10 million in the comparative three-month period of 2016, and increased $2.02 million compared to the six-month period ended June 30, 2016. The loan loss reserve was 0.74% of total loans at June 30, 2017, as compared to 0.73% at March 31, 2017, and 0.71% at June 30, 2016. The decrease in the provision for loan losses in comparison to prior year and linked quarters was primarily a result of slower loan growth combined with a reduction in historical loss ratios. Loan loss reserve as a percentage of total loans, excluding purchased loans, remained steady at 0.86% at June 30, 2017, unchanged from March 31, 2017, which is consistent with continued stability in credit quality.

- Noninterest income for the three- and six-month periods ended June 30, 2017, increased by $13.87 million, or 38.05%, and $26.35 million, or 38.25%, respectively, from the comparative periods in 2016. The increase from second quarter 2016 was primarily due to an increase in residential mortgage banking income related to the Monarch acquisition, combined with an increase in insurance commissions and our April 2017 acquisition of a Maryland resort property management company. The increase from the linked quarter was primarily related to a seasonal increase in residential mortgage banking income combined with increases in real estate brokerage and property management income, partially offset by a seasonal decrease in insurance contingency commission income.

- For the three- and six-month periods ended June 30, 2017, noninterest expense increased $6.22 million, or 8.65%, and increased $24.31 million, or 19.59%, respectively, compared to the same periods in 2016. The increase from comparable three- and six-month periods of 2016 was primarily driven by increased operating expenses related to the June 2016 acquisition of Monarch and the previously mentioned resort property management company acquisition, partially offset by a decrease in acquisition-related expenses. The increase from the linked quarter was primarily due to higher personnel expenses, acquisition-related expenses, and the resort property management company acquisition.

- Our effective tax rate was 31.83% for the second quarter of 2017, an increase from 27.51% in the comparative period of 2016 and increased from 29.94% in the first quarter of 2017. For the first six months of 2017, the effective tax rate increased to 30.98% compared to 30.49% for the same period in 2016. The increase from the prior year periods was primarily a result of an increase in taxable income, partially offset by the effect of the adoption of Accounting Standards Update ("ASU") No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which resulted in a $0.12 million and $0.62 million reduction in income taxes for the excess tax benefits on stock-based compensation for the three and six months ended June 30, 2017, respectively. The increase from the linked quarter was primarily due to an increase in income subject to the federal statutory rate of 35% and a decrease in non-taxable income combined with a decrease in excess tax benefits on stock-based compensation.

Pending Acquisition of Paragon Commercial Corporation

On April 27, 2017, the Company announced the signing of a definitive agreement and plan of reorganization, dated April 26, 2017 (the "Paragon merger agreement"), pursuant to which the Company will acquire Paragon Commercial Corporation ("Paragon") and its wholly owned bank subsidiary, Paragon Commercial Bank, a Raleigh, North Carolina-based bank with three banking offices servicing Raleigh, Cary, and Charlotte, North Carolina. The proposed acquisition of Paragon and Paragon Commercial Bank is expected to close in the first quarter of 2018, subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of Paragon's shareholders. Under terms of the Paragon merger agreement, Paragon shareholders will receive 1.725 shares of the Company's common stock for each share of Paragon common stock held immediately prior to the effective date of the merger. For further information, see *Note 8 - Mergers and Acquisitions* of the Notes to Consolidated Financial Statements in this report and the Company's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation ("FDIC") on April 2, 2017.

We expect to exceed $10 billion in total consolidated assets at the time of the closing of this transaction. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and its implementing regulations impose various additional requirements on banks with $10 billion or more in total assets, including compliance with portions of the Federal Reserve's enhanced prudential oversight requirements and annual stress testing requirements. In addition, once our assets exceed $10 billion, we will be subject to the Durbin Amendment promulgated under the Dodd-Frank Act. Under the Durbin Amendment, interchange fees for debit card transactions are capped at $0.21 plus five basis points. This limitation on interchange fees will adversely impact our results of operations.

Subordinated Debt Offering

On July 17, 2017, the Company issued $250.0 million of fixed-to-floating rate subordinated notes due July 30, 2027 in a public offering. The Company received $247.10 million in net proceeds after deducting discounts and issuance costs. The subordinated notes accrue interest at a fixed rate of 4.50% for the first five years until July 30, 2022. From and including this date and for the remaining five years of the subordinated notes' term, interest will accrue at a floating 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. For further information, see *Note 18 - Subsequent Events* of the Notes to Consolidated Financial Statements in this report and the Company's Current Report on Form 8-K filed with the FDIC on July 17, 2017.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make judgments, assumptions, and estimates in certain circumstances that affect amounts reported in the consolidated financial statements and the accompanying footnotes. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. We consider our policies for the allowance for loan losses, other real estate owned, deferred income taxes, estimates of fair value of financial instruments, mergers and acquisitions, and goodwill and other intangibles to be critical accounting policies. Refer to our 2016 Annual Report to Stockholders for further discussion of these policies.

ANALYSIS OF RESULTS OF OPERATIONS

Consolidated Performance Summary

Profitability as measured by our annualized return on average assets ("ROA") was 1.29% for second quarter 2017 compared to 0.39% for second quarter 2016, and 1.11% for first quarter 2017. The annualized return on average tangible assets was 1.40%, 0.44%, and 1.22% for the same respective periods. ROA for the six-month period ended June 30, 2017, was 1.20% compared to 0.75% for the six-month period ended June 30, 2016.

The annualized return on average equity ("ROE") was 9.43% for second quarter 2017, 2.93% for second quarter 2016, and 8.15% for first quarter 2017, while the annualized return on average tangible equity was 13.67%, 4.21%, and 11.88% for the same respective periods. ROE for the six-month period ended June 30, 2017, was 8.80%, compared to 5.73% for the six-month period ended June 30, 2016.

Operating income, calculated as net interest income and noninterest income less gains on investment securities, was $119.60 million for the quarter ended June 30, 2017, which increased $35.34 million, or 41.95%, compared to the quarter ended June 30, 2016. Operating income was $105.17 million for the quarter ended March 31, 2017. For the six-month period ended June 30, 2017, operating income was $224.76 million, an increase of $61.76 million, or 37.89%, over comparative 2016.

Basic earnings per share were $0.42 for the three months ended June 30, 2017, compared to $0.12 in comparative 2016, while basic earnings per share for the six months ended June 30, 2017, were $0.78, compared to $0.47 in comparative 2016. Diluted earnings per share were $0.42 for the three months ended June 30, 2017, compared to $0.12 in comparative 2016, while diluted earnings per share for the six months ended June 30, 2017, were $0.77, up from $0.47 in comparative 2016.

Net Interest Income. Net interest income, the major source of our earnings, is the income generated by interest-earning assets reduced by the total interest cost of the funds incurred to carry them. It is affected by market interest rates and the mix and volume of earning assets and interest-bearing liabilities. The yields and rates in this discussion and in the following tables have been computed based upon interest income and expense adjusted to a fully taxable equivalent basis using a 35% federal marginal tax rate for all periods shown.

TowneBank reported net interest income, on a tax-equivalent basis, of $69.98 million for the quarter ended June 30, 2017, which was $21.41 million, or 44.07%, higher than the year-ago amount of $48.57 million. On a linked-quarter basis, tax-equivalent net interest income increased by $8.97 million, or 14.71%, from the $61.01 million reported for first quarter 2017. In comparison to prior year comparative periods, net interest income rose primarily due to increased balances of earning assets combined with an increase in accretion of purchased loans related to a reclassification of purchased-impaired loans, while the increase from the linked quarter was primarily due to purchased loan accretion and a combination of higher balances of loans held for sale and a decrease in borrowing costs. Accretion of purchase accounting marks added $5.57 million, or 31 basis points, to margin in the current quarter, $0.61 million, or 5 basis points, in second quarter 2016, and $1.13 million, or 9 basis points, in the linked quarter. Accretion of purchase accounting marks included $3.89 million, or 21 basis points, in the current quarter due to the reclassification of certain purchased-impaired loans.

Interest income, on a tax-equivalent basis, was $79.41 million for the quarter ended June 30, 2017, which was $22.38 million, or 39.24%, higher than the $57.03 million reported for the quarter ended June 30, 2016. On a linked-quarter basis, tax-equivalent interest income increased $8.59 million, or 12.14%, from $70.81 million in first quarter 2017. Average earning assets grew to $7.32 billion in the quarter ended June 30, 2017, from $5.87 billion in the comparative prior year quarter, an increase of $1.45 billion, or 24.65%. In the linked quarter comparison, average earning assets increased by $140.97 million, or 1.96%, from $7.18 billion in first quarter 2017. The yield on earning assets was 4.35% in the quarter ended June 30, 2017, which compared to 3.91% in the comparative prior year and 4.00% in the linked period. Average loan balances, excluding nonaccrual loans, of $5.93 billion were $1.22 billion, or 26.02%, higher in second quarter 2017 than in the same period a year ago, while loan yields increased by 41 basis points. In the linked quarter, average loans grew $63.54 million, or 1.08%, and loan yields increased by 39 basis points. The increase in interest income from the prior year second quarter was primarily driven by growth in loans, combined with purchased loan accretion growth in loans held for sale. The increase from the linked quarter was primarily due to the increase in loan yields related to the purchased loan accretion and a seasonal increase in loans held for sale.

Interest expense for the quarter ended June 30, 2017, was $9.43 million, which was $0.97 million, or 11.48%, higher than the $8.46 million amount in the year-ago quarter. The average balance of interest-bearing liabilities increased to $4.83 billion in second quarter 2017 from $4.02 billion in the comparative prior year quarter, an increase of 20.22%. On a linked-quarter basis, interest expense decreased by 3.85% from $9.81 million in first quarter 2017. In the linked quarter, average interest-bearing liabilities increased by $2.45 million, or 0.05%, from $4.83 billion in the quarter ended March 31, 2017. The increase in interest expense as compared to prior year periods was primarily due to the increase in interest-bearing liabilities, partially offset by lower rates in borrowings. During fourth quarter 2016, the Company pre-funded $260 million of Federal Home Loan Bank of Atlanta ("FHLB") advances with maturities in 2017. The existing cost on these funds was an average of 4.28% and was replaced at a cost of 1.26%. The resulting annualized pre-tax savings is expected to be approximately $7.9 million. On July 17, 2017, the Company issued $250.0 million of fixed-to-floating rate subordinated notes due July 30, 2027 in a public offering. The subordinated notes accrue interest at a fixed rate of 4.50% for the first five years until July 30, 2022. From and including this date and for the remaining five years of the subordinated notes' term, interest will accrue at a floating rate of three-month LIBOR plus 2.550%.

Net interest margin, which is net interest income expressed as a percentage of average earning assets, was 3.84% in the quarter ended June 30, 2017, which was 51 basis points higher than the 3.33% margin of the June 30, 2016, quarter, and 39 basis points higher than the 3.45% margin from the March 31, 2017, quarter. The improvement in margin from the prior year and first quarter was driven by accretion of purchase accounting marks and rate decreases in borrowings. Excluding the effects of the reclassification of revolving credits from purchased impaired to purchased performing loans, net interest margin was 3.63% in the quarter ended June 30, 2017. As the positive effect of the Monarch acquisition on net interest margin diminishes, the Company expects compression in the net interest margin to continue in the coming quarters. The rate of compression will reflect the impacts of the merger, including acquisition accounting impacts. Net interest margin will be impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the competitive environment.

The following table sets forth an estimate of the expected effects of the estimated aggregate acquisition accounting adjustments on the pre-tax net interest income for the periods shown (in thousands):

	Discount Accretion (Premium Amortization)			
	For the three months ended			
	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018
Assets:				
Investment Securities	$ (68)	$ (64)	$ (58)	$ (53)
Loans	865	843	755	784
Liabilities:				
Deposits	171	136	111	85
Total estimated effect on net interest income	$ 626	$ 643	$ 586	$ 646

Note: This information is intended for informational purposes only and is not necessarily indicative of future results. Actual results may differ due to factors such as changes in estimated prepayment speeds or projected credit loss rates.

The following tables depict our interest income on earning assets and related average yields, as well as interest expense on interest-bearing liabilities and related average rates paid for the periods presented. Also presented for the three-month periods are the changes in interest income and expense caused by variations in the volume and mix of these assets and liabilities, as well as changes in interest rates when compared to the previous three-month period (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	$8,180,959			$8,000,366			$6,534,063		
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	1,115,008			1,093,490			859,938		
Total liabilities and equity	$8,180,959			$8,000,366			$6,534,063		
Net interest income (tax-equivalent basis)		$ 69,977			$ 61,005			$ 48,572	
Reconcilement of Non-GAAP Financial Measures									
Tax-equivalent basis adjustment		(724)			(724)			(788)	
Net interest income (GAAP)		$ 69,253			$ 60,281			$ 47,784	
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 rate 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.

	Increase/(Decrease) Three Months Ended June 30, 2017 Compared to Three Months Ended March 31, 2017			Increase/(Decrease) Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016		
	Volume	Rate (1)	Total	Volume	Rate (1)	Total
Assets:						
Loans	$ 799	$ 6,389	$ 7,188	$ 14,668	$ 5,267	$ 19,935
Taxable investment securities	(139)	97	(42)	(323)	390	67
Tax-exempt investment securities	(15)	10	(5)	(30)	(5)	(35)
Interest-bearing deposits	11	290	301	287	537	824
Loans held for sale	1,022	130	1,152	1,291	294	1,585
Total earning assets	1,678	6,916	8,594	15,893	6,483	22,376
Liabilities and Equity:						
Interest-bearing deposits						
Demand and money market	(26)	118	92	339	320	659
Savings	(4)	62	58	42	64	106
Certificates of deposit	308	416	724	496	349	845
Total interest-bearing deposits	278	596	874	877	733	1,610
Borrowings	(388)	(864)	(1,252)	940	(1,579)	(639)
Total interest-bearing liabilities	(110)	(268)	(378)	1,817	(846)	971
Net interest income	$ 1,788	$ 7,184	$ 8,972	$ 14,076	$ 7,329	$ 21,405

(1) Variances caused by the change in rate times the change in balances are allocated to rate.

PART I. FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

	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	Change due to Volume
Assets:									
Loans (net of unearned income and deferred costs), excluding nonaccrual loans	$5,894,743	$ 137,146	4.69%	$4,609,551	$ 103,012	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	112,297	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	$8,091,161			$6,423,650					
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)	(2,333)	2,311
Total interest-bearing liabilities	4,826,848	19,234	0.80%	3,992,547	16,855	0.85%	2,378	(1,426)	3,804
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	$8,091,161			$6,423,650					
Net interest income (tax-equivalent basis)		$ 130,982			$ 95,442		$ 35,540	$ 7,820	$ 27,720
Reconcilement of Non-GAAP Financial Measures									
Tax-equivalent basis adjustment		(1,449)			(1,322)		(127)		
Net interest income (GAAP)		$ 129,533			$ 94,120		$ 35,413		
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.

Noninterest Income. Total noninterest income for the quarter ended June 30, 2017, was $50.34 million, an increase of $13.88 million, or 38.05%, compared to the same period in 2016, and an increase of $5.46 million, or 12.16%, compared to first quarter 2017. As a percentage of total operating income, noninterest income, excluding securities gains or losses, for second quarter 2017 was 42.09%, compared with 43.28% for comparative 2016 and 43.28% for first quarter 2017.

Our noninterest income primarily consists of fee income produced by our three reportable segments, less applicable commission expenses. The following table provides an analysis of noninterest income for the periods presented (dollars in thousands):

	Three Months Ended June 30,		Increase/(Decrease) 2017 over 2016	
	2017	2016	Amount	Percent
Residential mortgage banking income, net	$ 21,594	$ 12,148	$ 9,446	77.76%
Insurance commissions and other title fees and income, net	12,902	11,627	1,275	10.97%
Real estate brokerage and property management, net	7,629	6,116	1,513	24.74%
Service charges on deposit accounts	2,644	2,284	360	15.76%
Credit card merchant fees, net	1,298	1,113	185	16.62%
Bank-owned life insurance	1,421	1,181	240	20.32%
Other income	2,856	1,999	857	42.87%
Subtotal before loss on investment securities	50,344	36,468	13,876	38.05%
Net loss on investment securities	(1)	—	(1)	N/M
Total noninterest income	$ 50,343	$ 36,468	$ 13,875	38.05%

	Three Months Ended		Increase/(Decrease) Second Quarter 2017 over First Quarter 2017	
	June 30, 2017	March 31, 2017	Amount	Percent
Residential mortgage banking income, net	$ 21,594	$ 17,632	$ 3,962	22.47 %
Insurance commissions and other title fees and income, net	12,902	14,800	(1,898)	(12.82)%
Real estate brokerage and property management, net	7,629	4,993	2,636	52.79 %
Service charges on deposit accounts	2,644	2,472	172	6.96 %
Credit card merchant fees, net	1,298	1,118	180	16.10 %
Bank-owned life insurance	1,421	1,474	(53)	(3.60)%
Other income	2,856	2,397	459	19.15 %
Subtotal before loss on investment securities	50,344	44,886	5,458	12.16 %
Net loss on investment securities	(1)	—	(1)	N/M
Total noninterest income	$ 50,343	$ 44,886	$ 5,457	12.16 %

	Six Months Ended June 30,		Increase/(Decrease) 2017 over 2016	
	2017	2016	Amount	Percent
Residential mortgage banking income, net	$ 39,226	$ 19,266	$ 19,960	103.60%
Insurance commissions and other title fees and income, net	27,702	25,660	2,042	7.96%
Real estate brokerage and property management, net	12,623	10,943	1,680	15.35%
Service charges on deposit accounts	5,115	4,460	655	14.69%
Credit card merchant fees, net	2,416	2,008	408	20.32%
Bank-owned life insurance	2,896	2,352	544	23.13%
Other income	5,251	4,193	1,058	25.23%
Subtotal before loss on investment securities	95,229	68,882	26,347	38.25%
Net loss on investment securities	(1)	—	(1)	N/M
Total noninterest income	$ 95,228	$ 68,882	$ 26,346	38.25%

For the second quarter of 2017, residential mortgage banking income, net of commission expense, was $21.59 million, an increase of $9.45 million, or 77.76%, compared to second quarter 2016, and an increase of $3.96 million, or 22.47%, compared to first quarter 2017. For the six-month period ended June 30, 2017, residential mortgage banking income, net of commission expense, was $39.23 million, reflecting an increase of $19.96 million, or 103.60%, compared to the same period in 2016. The increase from second quarter 2016 was primarily due to higher production volumes resulting from the Monarch merger in June 2016, while the increase from the linked quarter was due to a seasonally driven increase in production volumes. Also factoring in the variance from the prior periods was a decrease in mortgage banking income of $0.31 million associated with a decrease in the value of rate lock commitments and forward contracts recorded as of June 30, 2017, as compared to an increase of $1.22 million and an increase of $0.36 million recognized for the quarters ended March 31, 2017, and June 30, 2016, respectively.

For the second quarter of 2017, insurance commissions and other title income, net of commission expense, was $12.90 million, which was $1.28 million, or 10.97%, higher than comparative 2016, and $1.90 million, or 12.82%, lower than first quarter 2017. For the 2017 six-month period, insurance commissions and other title income, net of commission expense, was $2.04 million, or 7.96%, higher than comparative 2016. The increase from the comparative prior year quarter was largely due to organic growth in property and casualty insurance and employee benefits insurance combined with an increase in employee benefits bonus income. In comparison to first quarter 2017, the Company saw a decrease in contingency and bonus revenue income of $2.59 million, as contingent commissions are mostly received during the first quarter of each year. Also contributing to the variance was a seasonal decrease in travel insurance of $0.47 million.

Real estate brokerage and property management income, net of commission expense, for second quarter 2017 was $7.63 million, which was $1.51 million, or 24.74%, higher than comparative 2016, and $2.64 million, or 52.79%, higher than first quarter 2017. The increase for the 2017 six-month period was $1.68 million, or 15.35%, higher than the comparative period in 2016. The increase from the prior year comparative period was primarily a result of an increase in property management fees associated with our purchase of Railey Mountain Lake Vacations, LLC ("Deep Creek") on April 11, 2017. The increase from the linked quarter was due to a combination of the increase in resort property management fees related to the Deep Creek acquisition and a seasonal increase in residential real estate sales commissions.

Service charges on deposit accounts were $2.64 million for second quarter 2017, compared with $2.28 million for the comparative 2016 period, and $2.47 million for first quarter 2017. For the six-month period ended June 30, 2017, service charges on deposit accounts were $5.12 million, which was $0.66 million, or 14.69%, lower than comparative 2016. The increase from second quarter 2016 was primarily due to the addition of accounts related to the June 2016 Monarch merger, while the increase in the linked quarter was related to higher overdraft fees and account analysis charges.

For the second quarter of 2017, credit card merchant fees totaled $1.30 million, which was $0.19 million, or 16.62%, higher than comparative 2016, and $0.18 million, or 16.10%, higher than first quarter 2017. For the six-month period ended June 30, 2017, credit card merchant fees totaled $2.42 million, which was $0.41 million, or 20.32%, higher than comparative 2016. The increase from the prior year comparative periods was primarily related to the effects of the Monarch merger, while the Company saw a seasonally driven increase from the linked quarter.

Income from bank-owned life insurance ("BOLI") was $1.42 million in second quarter 2017, compared to $1.18 million in second quarter 2016, and $1.47 million in first quarter 2017. The increase from second quarter 2016 was primarily due to a higher average BOLI balance in the current quarter, while the slight decrease from the linked quarter was due to a lower yield on the investments.

Other noninterest income for the three and six months ended June 30, 2017, was $2.86 million and $5.25 million, respectively, and included income generated by Towne Wealth Management, net of commission expense. For the three months ended June 30, 2017, net commission income for Towne Wealth Management totaled $1.09 million, as compared to $0.63 million for second quarter 2016 and $0.94 million for first quarter 2017.

Noninterest Expense. For the quarter ended June 30, 2017, total noninterest expense was $78.12 million, which was $6.22 million, or 8.65%, higher than comparative 2016, and $7.87 million, or 11.20%, higher than the quarter ended March 31, 2017. For the six-month period ended June 30, 2017, total noninterest expense increased $24.31 million, or 19.59%, from comparative 2016 to $148.37 million.

As a percentage of operating income, noninterest expense was 65.32% for the second quarter of 2017, 85.34% for comparative 2016, and 66.80% for the quarter ended March 31, 2017. The primary components of noninterest expense in the second quarter of 2017 were salaries and employee benefits of $44.83 million, occupancy expenses of $6.66 million, furniture and equipment expenses of $3.56 million, advertising and marketing expenses of $2.99 million, professional fees of $1.47 million, software expenses of $2.05 million, and amortization expense of $2.01 million. In comparison to the second quarter of the prior year and the linked quarter, the primary driver of the increase in total noninterest expense was due to an increase in salaries and benefits of $14.74 million and $4.63 million, respectively. Also contributing to the increase from the prior periods was the Deep Creek acquisition in April 2017, which contributed additional operational expenses of $1.72 million in the three-month period ending June 30, 2017.

The following table provides an analysis of quarterly total noninterest expense by line item for the periods presented (dollars in thousands):

	Three Months Ended			Increase/(Decrease)			
	June 30,		March 31,	June 30, 2017 over June 30, 2016		June 30, 2017 over March 31, 2017	
	2017	2016	2017	Amount	Percent	Amount	Percent
Salaries and benefits	$ 44,834	$ 30,093	$ 40,208	$ 14,741	48.98 %	$ 4,626	11.51 %
Occupancy expense	6,658	5,157	6,684	1,501	29.11 %	(26)	(0.39)%
Furniture and equipment	3,563	2,381	3,343	1,182	49.64 %	220	6.58 %
Other							
Advertising and marketing	2,989	1,978	2,642	1,011	51.11 %	347	13.13 %
Acquisition-related expenses	1,281	18,435	(5)	(17,154)	(93.05)%	1,286	N/M
Other	3,228	2,045	2,813	1,183	57.85 %	415	14.75 %
Charitable contributions	1,690	1,373	1,398	317	23.09 %	292	20.89 %
Outside processing	1,808	1,395	1,634	413	29.61 %	174	10.65 %
Professional fees	1,471	1,159	1,828	312	26.92 %	(357)	(19.53)%
Stationery and supplies	787	546	609	241	44.14 %	178	29.23 %
FDIC and other insurance	1,332	1,280	937	52	4.06 %	395	42.16 %
Foreclosed property expenses	144	458	131	(314)	(68.56)%	13	9.92 %
Software expense	2,048	1,538	2,251	510	33.16 %	(203)	(9.02)%
Telephone and postage	1,782	1,202	1,671	580	48.25 %	111	6.64 %
Amortization - intangibles	2,006	1,100	1,864	906	82.36 %	142	7.62 %
Bank franchise tax/SCC fees	1,243	941	1,242	302	32.09 %	1	0.08 %
Directors fees and expenses	453	329	316	124	37.69 %	137	43.35 %
Travel/meals/entertainment	802	489	682	313	64.01 %	120	17.60 %
Total other expenses	23,064	34,268	20,013	(11,204)	(32.70)%	3,051	15.25 %
Total noninterest expense	$ 78,119	$ 71,899	$ 70,248	$ 6,220	8.65 %	$ 7,871	11.20 %

	Six Months Ended June 30,		Increase/(Decrease) 2017 over 2016	
	2017	2016	Amount	Percent
Salaries and benefits	$ 85,042	$ 60,279	$ 24,763	41.08 %
Occupancy expense	13,342	10,174	3,168	31.14 %
Furniture and equipment	6,906	4,739	2,167	45.73 %
Other				
Advertising and marketing	5,631	3,881	1,750	45.09 %
Acquisition-related expenses	1,277	18,849	(17,572)	(93.23)%
Other	6,040	3,220	2,820	87.58 %
Charitable contributions	3,088	2,421	667	27.55 %
Outside processing	3,442	2,792	650	23.28 %
Professional fees	3,299	2,610	689	26.40 %
Stationery and supplies	1,396	1,140	256	22.46 %
FDIC and other insurance	2,269	2,271	(2)	(0.09)%
Foreclosed property expenses	276	570	(294)	(51.58)%
Software expense	4,299	3,160	1,139	36.04 %
Telephone and postage	3,453	2,412	1,041	43.16 %
Amortization - intangibles	3,869	2,193	1,676	76.42 %
Bank franchise tax/SCC fees	2,485	1,881	604	32.11 %
Directors fees and expenses	769	599	170	28.38 %
Travel/meals/entertainment	1,484	869	615	70.77 %
Total other expenses	43,077	48,868	(5,791)	(11.85)%
Total noninterest expense	$ 148,367	$ 124,060	$ 24,307	19.59 %

Salary and benefits expense, the largest portion of noninterest expense, was $44.83 million, representing 57.39% of total noninterest expense for the quarter ended June 30, 2017, and $85.04 million, or 57.32% of total noninterest expense for the six months ended June 30, 2017. Salary and benefits expense increased $14.74 million, or 48.98%, and increased $24.76 million, or 41.08% over the comparative three- and six-month periods in 2017, and increased $4.63 million, or 11.51%, from first quarter 2017. The increase from prior year second quarter was primarily due to the addition of staff resulting from the Monarch acquisition, combined with increases in employee profit-sharing expense. The increase from the linked quarter was primarily due to increases in employee profit-sharing and incentive plan expenses, combined with addition of staff resulting from the Deep Creek acquisition.

In our Banking segment, we had a total of 867 full-time equivalent employees ("FTE") at June 30, 2017, as compared to 841 at June 30, 2016, and 822 at March 31, 2017. In our non-Banking segments at June 30, 2017, we had a total of 1,289 FTEs, excluding real estate sales agents, which was up from 1,245 at June 30, 2016, and 1,266 at March 31, 2017. Real estate sales agents are independent contractors and, therefore, not included as our employees. Total operating income per FTE was $55,000 for the quarter ended June 30, 2017, increased from $40,000 and $50,000 for the three-month periods ended June 30, 2016, and March 31, 2017, respectively.

Occupancy expense for the second quarter of 2017 experienced a $1.50 million, or 29.11%, increase from the comparative quarter of 2016, and a $0.03 million, or 0.39%, decrease from first quarter 2017. Occupancy expense for the first six months of 2017 increased $3.17 million, or 31.14%, from comparative 2016. The increase from prior year second quarter was primarily related to facilities acquired in the Monarch acquisition, while the slight decrease from first quarter 2017 was due to a lower level of expenses related to maintenance and cleaning services partially offset by facilities acquired in the Deep Creek acquisition.

For the three and six-month periods ended June 30, 2017, furniture and equipment expense increased by $1.18 million and $2.17 million over the comparative 2016 periods, and increased $0.22 million over first quarter 2017. The increase from the second quarter of 2016 was primarily related to facilities acquired in the Monarch acquisition. The increase from the linked quarter was primarily a result of higher equipment lease and depreciation expenses.

Other noninterest expenses for the second quarter of 2017 were $23.06 million, a decrease of $11.20 million, or 32.70%, compared to the same period in 2016, and for the first six months of 2017 decreased $5.79 million, or 11.85%, compared to the same period in 2016, while there was an increase of $3.05 million, or 15.25% compared to first quarter 2017. Acquisition-related expenses in 2016 from the Monarch merger were the primary driver of the decrease from the comparative prior year periods, partially offset by increases in amortization expenses and marketing expenses. The increase from first quarter 2017 was driven by higher acquisition-related expenses, insurance expenses, and marketing costs.

Provision for Income Taxes. We reported a provision for income tax expense of $12.24 million, representing an effective tax rate of 31.83%, in the second quarter of 2017. The provision for income tax expense was $2.38 million for the second quarter of 2016, with an effective rate of 27.51%, and $9.39 million, with an effective rate of 29.94%, for the first quarter of 2017. For the first six months of 2017, the effective rate decreased to 30.98% compared to 30.49% in the same period of 2016. The increase from the prior year periods was primarily a result of an increase in taxable income, partially offset by the effect of the adoption of ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which resulted in a $0.12 million and $0.62 million reduction in income taxes for the excess tax benefits on stock-based compensation for the three and six months ended June 30, 2017, respectively. The increase from the linked quarter was primarily due to an increase in income subject to the federal statutory rate of 35% and a decrease in non-taxable income combined with a decrease in excess tax benefits on stock-based compensation.

Segment Performance Summary. Our reportable segments are a traditional full-service community bank, a full-service realty business, and a full-service insurance agency. In this section, we discuss the performance and financial results of our segments. For further financial details, see *Note 6 – Segment Reporting* of the Notes to Consolidated Financial Statements in this report.

Banking Segment. For the three months ended June 30, 2017, the Banking segment represented 82.20%, or $21.55 million, of our total consolidated net income, compared to 20.61%, or $1.29 million, for comparative 2016. For the six months ended June 30, 2017, the Banking segment represented 82.01%, or $39.51 million, of our consolidated income compared to 64.05%, or $15.42 million, for comparative 2016. The variance from the prior year periods was primarily due to acquisition-related expenses in 2016 related to the Monarch merger.

Pre-tax earnings for the three months ended June 30, 2017, for the Banking segment were $30.85 million, increasing $30.24 million from comparative 2016. The increase in earnings from the comparative 2016 quarter was driven by an increase in net interest income of $19.55 million, which was primarily a result of additional interest income from earning assets related to the Monarch merger, combined with accretion of purchase accounting marks of $5.57 million as compared to $0.61 million in second quarter 2016. Also contributing was a decrease in the provision for loan losses of $0.78 million and a decrease in noninterest expenses of $8.00 million primarily due to a decrease in other expenses of $15.87 million, which included a reduction of acquisition-related expenses of $17.32 million. The decrease in other noninterest expenses was partially offset by increased personnel costs of $6.40 million, higher occupancy costs of $0.24 million, and additional furniture and equipment expenses of $0.52 million.

Pre-tax earnings increased $6.12 million compared to the linked quarter ended March 31, 2017. The increase in earnings was driven by an increase in net interest income of $7.99 million, which was due to a combination of accretion-driven higher loan yields and lower borrowing costs. Additionally, there was a decrease in the provision for loan losses of $1.22 million. The increase in earnings was partially offset by an increase in noninterest expenses of $3.62 million, which included an increase in personnel costs of $3.18 million and charitable contributions of $0.33 million.

Pre-tax earnings were up $35.12 million for the six months ended June 30, 2017, compared to the same period in 2016. The increase in earnings was driven by an increase in net interest income of $32.17 million, which was due to a combination of increased earning assets and higher loan yields. Additionally, there was a decrease in noninterest expenses of $1.83 million, as increases in personnel costs of $9.23 million, occupancy costs of $0.89 million, and furniture and equipment expenses of $0.93 million, were more than offset by the decrease in acquisition-related expenses of $17.53 million. These factors were partially offset by an increase in the provision for loan losses of $2.02 million.

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The following charts present revenue and expenses for the Banking segment for the periods presented, as well as changes between periods (dollars in thousands):

	Three Months Ended			Increase/(Decrease)			
	June 30,		March 31,	June 30, 2017 June 30, 2016		June 30, 2017 March 31, 2017	
	2017	2016	2017	Amount	Percent	Amount	Percent
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)%
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	141	457	130	(316)	(69.15)%	11	8.46 %
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	5,305	21,174	4,797	(15,869)	(74.95)%	508	10.59 %
Total noninterest expenses	41,973	49,977	38,349	(8,004)	(16.02)%	3,624	9.45 %
Income before income tax and corporate allocation	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	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	(1,472.7)%	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)%

	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	271	570	(299)	(52.46)%
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	10,102	24,774	(14,672)	(59.22)%
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)%

Realty Segment. For the three months ended June 30, 2017, the Realty segment had income before income tax provision and noncontrolling interest of $6.45 million, as compared to $7.27 million for the comparative 2016 period, and $2.07 million for the linked quarter ended March 31, 2017. Total revenue increased to $33.42 million in second quarter 2017 from $20.54 million in second quarter 2016. The $9.24 million, or 73.98%, increase in residential mortgage banking income resulted from higher production volumes primarily related to the Monarch merger. Residential mortgage banking income included a decrease in the value of rate lock commitments and forward contracts of $0.31 million for the quarter ended June 30, 2017, compared to an increase of $0.36 million in the same period of 2016. The increase in property management fees from 2016 was primarily due to increased revenue from our purchase of Deep Creek on April 11, 2017. The increase in net interest and other income of $2.06 million was a result of additional net interest income resulting from a higher balance of average mortgage loans held for sale. The increase in revenue from the linked quarter was due to the increase in resort property management fees due to the Deep Creek acquisition, combined with seasonal increases in mortgage banking and real estate brokerage.

Expenses for the Realty segment increased 103.13%, or $13.56 million, when compared to the same period in 2016, and increased by 15.70%, or $3.62 million, when compared to the quarter ended March 31, 2017.

The increase from second quarter 2016 was primarily due to an increase in mortgage operation expenses related to the Monarch merger, while an increase in personnel costs drove the linked quarter variance.

The following charts present revenue and expenses for the Realty segment for the periods presented (dollars in thousands):

	Three Months Ended			Increase/(Decrease)			
	June 30,		March 31,	June 30, 2017 / June 30, 2016		June 30, 2017 / March 31, 2017	
	2017	2016	2017	Amount	Percent	Amount	Percent
Residential mortgage banking 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 %
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	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 %

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	Three Months Ended			Increase/(Decrease)			
	June 30,		March 31,	June 30, 2017 June 30, 2016		June 30, 2017 March 31, 2017	
	2017	2016	2017	Amount	Percent	Amount	Percent
Key data:							
Efficiency ratio	79.89%	64.00%	90.68%	15.89%	24.83 %	(10.79)%	(11.90)%
Number of units sold	1,292	1,256	796	36	2.87 %	496	62.31 %
Volume of units sold	$ 402,154	$ 372,124	$ 222,095	$ 30,030	8.07 %	$ 180,059	81.07 %
Number of real estate agents	404	416	411	(12)	(2.88)%	(7)	(1.70)%
Loans originated, mortgage	$ 782,384	$ 326,840	$ 540,958	$ 455,544	139.38 %	$ 241,426	44.63 %
Loans originated, joint venture	296,143	264,945	165,097	31,198	11.78 %	131,046	79.38 %
Total loans originated	$ 1,078,527	$ 591,785	$ 706,055	$ 486,742	82.25 %	$ 372,472	52.75 %
Number of loans, mortgage	3,069	1,313	2,158	1,756	133.74 %	911	42.22 %
Number of loans, joint venture	1,312	1,232	781	80	6.49 %	531	67.99 %
Total number of loans	4,381	2,545	2,939	1,836	72.14 %	1,442	49.06 %
Average loan amount, mortgage	$ 255	$ 249	$ 251	$ 6	2.41 %	$ 4	1.59 %
Average loan amount, joint venture	226	215	211	11	5.12 %	15	7.11 %
Average loan amount	$ 246	$ 233	$ 240	$ 13	5.58 %	$ 6	2.50 %
Average number of originators, mortgage	243	66	251	177	268.18 %	(8)	(3.19)%
Average number of originators, joint venture	71	55	67	16	29.09 %	4	5.97 %
Average number of originators	314	121	318	193	159.50 %	(4)	(1.26)%

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	Six Months Ended June 30,		Increase/(Decrease) 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)%
Key data:				
Efficiency ratio	84.56%	71.66%	12.90%	18.00 %
Number of units sold	2,088	2,060	28	1.36 %
Volume of units sold	$ 624,249	$ 596,825	$ 27,424	4.59 %
Number of real estate agents	404	416	(12)	(2.88)%
Loans originated, mortgage	$ 1,323,343	$ 489,830	$ 833,513	170.16 %
Loans originated, joint venture	461,240	415,093	46,147	11.12 %
Total loans originated	$ 1,784,583	$ 904,923	$ 879,660	97.21 %
Number of loans, mortgage	5,227	1,994	3,233	162.14 %
Number of loans, joint venture	2,093	1,968	125	6.35 %
Total number of loans	7,320	3,962	3,358	84.76 %
Average loan amount, mortgage	$ 253	$ 246	$ 7	2.85 %
Average loan amount, joint venture	220	211	9	4.27 %
Average loan amount	$ 244	$ 228	$ 16	7.02 %
Average number of originators, mortgage	247	66	181	274.24 %
Average number of originators, joint venture	69	55	14	25.45 %
Average number of originators	316	121	195	161.16 %

Mortgage. Loan volume for the combined mortgage operations increased in the quarter ended June 30, 2017, as compared to the same period in 2016. Total loans originated in the second quarter of 2017 were $1.08 billion, an 82.25% increase, or $486.74 million, from $591.79 million in the comparative period of 2016, and a $372.47 million, or 52.75%, seasonal increase compared to the volume for the quarter ended March 31, 2017. Refinance activity comprised $117.23 million of loan volume for the quarter ended June 30, 2017, while purchases accounted for the remaining $961.30 million in loan volume for the quarter.

For the quarters ended June 30, 2016, and March 31, 2017, refinance volume was $80.68 million and $129.20 million, respectively, while purchase volume was $511.11 million and $576.86 million, respectively.

Insurance Segment. The Insurance segment comprises property and casualty and group benefit divisions. The Insurance segment represented 5.58%, or $1.46 million, of total consolidated net income at June 30, 2017, and 19.24%, or $1.20 million, at June 30, 2016.

Earnings before income taxes and noncontrolling interest for the three months ended June 30, 2017, were $2.85 million, increasing $0.48 million, or 20.16%, from comparative 2016, and decreasing $2.73 million from the linked quarter ended March 31, 2017. The primary factors affecting earnings in comparison to the prior year periods were income related to organic growth in property and casualty and employee benefits lines, and an increase in contingency and bonus revenue.

The following chart presents revenue and expenses as well as changes for the Insurance segment for the periods presented (dollars in thousands):

	Three Months Ended			Increase/(Decrease)			
	June 30,		March 31,	June 30, 2017 June 30, 2016		June 30, 2017 March 31, 2017	
	2017	2016	2017	Amount	Percent	Amount	Percent
Net 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 net 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 revenues	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	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 %

	Six Months Ended June 30,		Increase/(Decrease) 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)%

Total revenues for the second quarter of 2017 increased $1.36 million, or 10.03%, when compared to the same period in 2016, and increased $2.13 million, or 7.18%, for the six months ended June 30, 2017, compared to the same period of 2016. The increase from the comparative prior year period was due to organic growth across the lines of business and an increase in contingency and bonus revenue. The decrease in revenues of $1.96 million on a linked quarter basis was a result of a seasonal decrease in contingency and bonus revenue of $2.59 million combined with a seasonal decrease in travel insurance commissions of $0.47 million. The decrease was partially offset by an increase in property and casualty commissions of $0.81 million. Contingent commissions primarily consist of amounts received from various property and casualty insurance carriers. The carriers use several non-client-specific factors to determine the amount of the contingency payments. Such factors include the aggregate loss performance of insurance policies previously placed and the volume of business, among other things. Such commissions are seasonal in nature and are mostly received during the first quarter of each year.

Total operating expenses for the second quarter of 2017 increased $0.67 million, or 7.61%, when compared to the same period in 2016, and increased $0.69 million, or 3.94%, for the six months ended June 30, 2017, when compared to the six months ended June 30, 2016. The largest factor in the increase from the comparative prior year period was salaries and employee benefits expense, which increased $0.37 million, or 6.50%, and $0.56 million, and 4.82%, when comparing the three- and six-month periods ended June 30, 2017, to the same periods for 2016. The linked quarter increase was primarily due to acquisition-related expenses, partially offset by decreases in personnel and occupancy costs.

ANALYSIS OF FINANCIAL CONDITION

Overview. At June 30, 2017, total assets were $8.43 billion, which is $486.30 million, or 6.12%, higher than the period-end balance for comparative 2016, and $252.26 million, or 3.09%, higher than the balance at March 31, 2017. Our loan portfolio, less unearned income and deferred costs, made up 70.59% of our period-end assets and totaled $5.95 billion at June 30, 2017. Average assets for the quarter ended June 30, 2017, were $8.18 billion, up $1.65 billion, or 25.20%, from the comparative June 30, 2016 quarter, and up $180.59 million, or 2.26%, from the quarter ended March 31, 2017.

Average earning assets increased $1.45 billion, or 24.65%, from $5.87 billion for the second quarter of 2016 to $7.32 billion for the second quarter of 2017. Compared to first quarter 2017, average earning assets increased $140.97 million.

Our average total deposits were $6.27 billion for second quarter 2017, reflecting growth of $1.19 billion, or 23.32%, compared to second quarter 2016. Growth continued in average noninterest-bearing deposits, which increased $543.45 million, or 35.33%, from June 30, 2016.

Interest-Bearing Deposits in Financial Institutions. Interest-bearing deposits in other banks and federal funds sold are used for daily cash management purposes, management of short-term interest rate opportunities, and liquidity. Interest-bearing deposit balances at June 30, 2017, were $399.87 million and consisted mainly of overnight deposits with the Federal Reserve Bank of Richmond.

The average balance of interest-bearing deposits in other banks and federal funds sold during the second quarter of 2017 was $455.49 million, or 6.22%, of average total earning assets compared with $289.70 million, or 4.93%, of average total earning assets for comparative 2016. For the first quarter of 2017, the average balance of interest-bearing deposits in other banks was $450.08 million, or 6.27%, of average total earning assets.

Securities Available for Sale. Our available-for-sale securities portfolio is reported at fair value, which is determined based on market prices of similar instruments. The available-for-sale securities portfolio was $700.35 million at June 30, 2017, compared with $812.37 million at June 30, 2016. The average balance during the second quarter of 2017 was $529.53 million, compared to the 2016 period average of $617.84 million, or 7.24%, and 10.52% of average earning assets, respectively. During the six months ended June 30, 2017, we had sales, maturities, and calls totaling $516.26 million in investment securities that were classified as available for sale.

The securities are held primarily for earnings, liquidity, and asset/liability management purposes and reviewed quarterly for possible other-than-temporary impairments. During this review, we analyze the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer, and our intent and ability to hold the security to recovery or maturity. These factors are analyzed on an individual basis.

Securities Held to Maturity. Held-to-maturity securities are valued at amortized cost. Securities held to maturity were $63.94 million at June 30, 2017, and $65.73 million at June 30, 2016. The average balance during the second quarter of 2017 was $64.52 million, compared with $66.33 million in the 2016 period, representing 0.88% and 1.13% of total average earning assets, respectively. These securities are held primarily for yield and pledging purposes. Similar to available-for-sale securities, held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment.

Loans Held for Sale. At June 30, 2017, we held $388.52 million in mortgage loans originated and intended for sale in the secondary market, as compared with $473.15 million at June 30, 2016, and $214.05 million at March 31, 2017. Average loans held for sale were 3.98% and 2.63% of average earning assets for the quarters ended June 30, 2017 and 2016, respectively. Average loans held for sale were 2.61% of average earning assets for the quarter ended March 31, 2017. The majority of mortgage loans held for sale have been pre-committed to investors, which minimizes our interest rate risk.

Our mortgage banking activities include two types of commitments: rate lock commitments and forward loan commitments. Rate lock commitments are loans in our pipeline that have an interest rate locked with the customer. The commitments are generally for periods of 60 days and are at market rates. In order to mitigate the effect of the interest rate risk inherent in providing rate lock commitments, we economically hedge our commitments by entering into either a forward loan sales contract under best efforts or a trade of "to be announced" ("TBA") mortgage-backed securities ("notional securities") for mandatory delivery. The changes in fair value related to movements in market rates of the rate lock commitments and the forward loan sales contracts and notional securities generally move in opposite directions, and the net impact of changes in these valuations on net income during the loan commitment period is generally inconsequential. The Company has not formally designated these derivatives as a qualifying hedge relationship and, accordingly, accounts for such forward contracts as freestanding derivatives with changes in fair value recorded to earnings each period.

The fair value of interest rate lock commitments is based on current secondary market pricing and recognized on the income statement at the time of commitment. Gains on the sales of mortgages are recognized when the Company, the borrower, and the investor enter into a loan contract and the subject loan is closed.

Loan Portfolio. Loans, net of unearned income and deferred costs, were $5.95 billion at June 30, 2017, which was $389.11 million, or 7.0%, above the $5.56 billion reported at June 30, 2016, and $35.98 million, or 0.61%, above the $5.91 billion at March 31, 2017. As a percentage of total average earning assets, average loans were 80.98% for the quarter ended June 30, 2017, compared with 80.10% for comparable 2016 and 81.68% for the quarter ended March 31, 2017.

Allowance for Loan Losses and Asset Quality. The allowance for loan losses is established through a provision for loan losses charged against earnings. The level of the allowance for loan losses is based on management's evaluation of the risk inherent in the loan portfolio at the balance sheet date and changes in the nature and volume of loan activity. This evaluation includes a review of loans for which collection may not be reasonably assured. It considers internal risk grades, estimated fair value of the underlying collateral, current economic conditions, historical loan loss experience, and other current factors that warrant consideration in determining an adequate allowance.

The allowance for loan losses consists of three elements: (i) specific valuation allowances determined in accordance with Accounting Standards Codification ("ASC") 310, *Receivables*, based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC 450, *Contingencies*, based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC 450 based on general economic conditions and other qualitative risk factors both internal and external to the Company.

It is our policy to recommend internal risk grades to all loans as a component of the approval process. Based on the size of the loan, senior credit officers, regional credit administrators, and the chief credit officer review the classification to ensure accuracy and consistency of classifications, which are then validated by the internal loan review process. Loan classifications are internally reviewed to determine if any changes in the circumstances of the loan require a different risk grade. To determine the most appropriate risk grade classification for each loan, the credit officers examine the borrower's liquidity level, asset quality, the amount of the borrower's other indebtedness, cash flow, earnings, sources of financing, and existing lending relationships. The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of classified loans.

Historical valuation allowances are calculated based on the historical loss experience of specific types of loans. We calculate historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are updated quarterly based on actual charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool. Our pools of similar loans include groups of construction and land development loans, commercial real estate loans, commercial and industrial business loans, 1-4 family residential real estate loans, multifamily real estate loans, and consumer and other loans.

General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to TowneBank. In general, such valuation allowances are determined by evaluating, among other things: (i) the experience, ability, and effectiveness of the Company's lending management and staff; (ii) the effectiveness of the Company's loan policies, procedures, and internal controls; (iii) changes in asset quality; (iv) changes in loan portfolio volume; (v) the composition and concentrations of credit; (vi) the effectiveness of the internal loan review function; (vii) the impact of national economic trends on portfolio risks; and (viii) the impact of local economic trends on portfolio risk. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis to determine an appropriate general valuation allowance.

The allowance for loan losses at June 30, 2017, June 30, 2016, and March 31, 2017, was $44.13 million, $39.62 million, and $43.19 million, respectively. The allowance was equal to 0.74% of total loans outstanding at June 30, 2017, compared with 0.71% and 0.73% at June 30, 2016, and March 31, 2017, respectively. Excluding purchased loans, the allowance was equal to 0.86% of loans outstanding at June 30, 2017, compared with 0.90% and 0.86% at June 30, 2016, and March 31, 2017, respectively. We believe the decline in the ratio from the prior year, excluding purchased loans, is appropriate given continued improvement in the risk profile of our loan portfolio and diversification efforts in the loan portfolio. Reflective of improving credit quality, classified loans, defined as loans in the substandard and doubtful categories, remained low at 0.81% of total loans at June 30, 2017, down from 1.33% at June 30, 2016, and 1.31% at December 31, 2016. Additionally, loans 30 to 89 days past due were $4.19 million, including purchased impaired loans of $0.12 million, at June 30, 2017, as compared to $5.04 million and $10.46 million at June 30, 2016, and December 31, 2016, respectively, and total past due and nonaccruing loans were $14.30 million, including purchased impaired past-due loans of $0.37 million, at June 30, 2017, from $2.62 million and $25.21 million at June 30, 2016, and December 31, 2016, respectively. Also reflecting improvement in our loan portfolio and supporting the adequacy of coverage levels of the allowance for loan losses, the allowance was equal to 4.58x of nonperforming loans at June 30, 2017, compared with 3.74x and 3.74x at June 30, 2016, and March 31, 2017, respectively. Additionally, overall economic conditions and labor market conditions have continued to show improvement. Given the combination of these noted factors, we believe that our allowance for loan losses is adequate to cover loan losses inherent in the loan portfolio at June 30, 2017.

The following table provides information on activity for the allowance for loan losses and nonperforming assets for the periods presented (dollars in thousands):

	Three Months Ended			Six Months Ended	
	June 30,		March 31,	June 30,	
	2017	2016	2017	2017	2016
Allowance for loan losses					
Balance beginning of period	$ 43,195	$ 37,760	$ 42,001	$ 42,001	$ 38,359
Loans charged off:					
Residential 1-4 family	(432)	(575)	(1,288)	(1,720)	(895)
Multifamily	—	—	—	—	—
Commercial real estate	—	—	(67)	(67)	(66)
Construction	—	(4)	—	—	(66)
Commercial and industrial	(116)	—	(36)	(152)	(72)
Consumer and other	(103)	(12)	(228)	(331)	(24)
Total	(651)	(591)	(1,619)	(2,270)	(1,123)
Loans recovered:					
Residential 1-4 family	—	150	101	101	263
Multifamily	1	1	—	1	1
Commercial real estate	97	22	10	107	38
Construction	5	95	11	16	101
Commercial and industrial	65	47	—	65	77
Consumer and other	99	35	150	249	62
Total	267	350	272	539	542
Net loans charged off	(384)	(241)	(1,347)	(1,731)	(581)
Provision for loan losses	1,320	2,099	2,541	3,861	1,840
Balance end of period	$ 44,131	$ 39,618	$ 43,195	$ 44,131	$ 39,618
Nonperforming assets					
Nonperforming loans	$ 9,645	$ 10,580	$ 11,538	$ 9,645	$ 10,580
Former bank premises	2,798	—	2,798	2,798	—
Foreclosed property	23,249	25,707	21,473	23,249	25,707
Total nonperforming assets	$ 35,692	$ 36,287	$ 35,809	$ 35,692	$ 36,287
Loans past due 90 days and still accruing interest	$ 206	$ —	$ 35	$ 206	$ —
Asset Quality Ratios					
Allowance for loan losses to nonperforming loans	4.58x	3.74x	3.74x	4.58x	3.74x
Allowance for loan losses to period end loans	0.74%	0.71%	0.73%	0.74%	0.71%
Allowance for loan losses to period end loans excluding purchased loans	0.86%	0.90%	0.86%	0.86%	0.90%
Nonperforming loans to period end loans	0.16%	0.19%	0.20%	0.16%	0.19%
Nonperforming assets to period end assets	0.42%	0.46%	0.44%	0.42%	0.46%
Net charge-offs to average loans (annualized)	0.03%	0.02%	0.09%	0.06%	0.03%

Nonperforming assets consist of nonaccrual loans, foreclosed real estate, and other repossessed collateral. It is our policy to place commercial loans on nonaccrual status when full collection of principal and interest becomes doubtful, or when any portion of principal or interest becomes 90 days past due, whichever occurs first, unless the debt is both well-secured and in the process of collection. When loans are placed on nonaccrual status, interest receivable is reversed against interest income recognized in the current period, and any prior year unpaid interest is charged off against the allowance for loan losses. Interest payments received thereafter are applied as a reduction of the remaining principal balance so long as doubt exists as to the ultimate collection of the principal. Loans are removed from nonaccrual status when they become current as to both principal and interest and when the collection of principal or interest is no longer doubtful. Similarly, residential mortgage loans and other consumer loans are also placed on nonaccrual status when full collection of principal and interest becomes doubtful, or when any portion of principal or interest becomes 120 days past due, whichever occurs first, unless the debt is both well-secured and in the process of collection.

At June 30, 2017, we had $35.69 million in nonperforming assets, which amounted to 0.42% of total assets. Additionally, there were $0.21 million loans past due 90 days or more that were accruing interest. Nonperforming assets consist of $9.65 million in nonperforming loans, $2.80 million in former bank premises related to the Monarch merger, as well as $23.25 million in foreclosed property. Nonperforming loans decreased by $1.89 million from March 31, 2017, as additions to nonaccrual loans during the second quarter of 2017 were outpaced by transfers to other real estate owned ("OREO"), charge-offs, and payments received. Nonperforming residential loans decreased by $1.33 million as new nonperforming loans of $1.88 million were outpaced by paydowns of $0.54 million, transfers to OREO of $0.70 million, charge-offs of $0.37 million, and the sale of one loan in the amount of $1.20 million. There was also a decrease in nonperforming commercial real estate loans, which declined by $1.04 million, with new nonperforming loans of $0.51 million, paydowns of $0.78 million, and the sale of one foreclosed property for $0.53 million. Additionally, consumer nonperforming loans increased $0.11 million. Foreclosed property increased slightly from $21.47 million at March 31, 2017, and decreased from $25.71 million at June 30, 2016. The 10 largest foreclosed property developments represented approximately 85.13% of total foreclosed property at June 30, 2017, with the largest development representing approximately 38%. Foreclosed property consists of 14 residential properties, 20 construction and development properties, 1 multifamily property, and 6 commercial properties.

At June 30, 2017, loans 60-89 days past due, excluding nonperforming loans, totaled $1.13 million. Additionally, there are other performing loans, totaling $17.18 million, that are current but have certain documentation deficiencies or other potential weaknesses that management has determined warrant additional monitoring. All loans in these categories are subject to constant management attention, and their status is reviewed on a regular basis.

In order to maximize the collection of loan balances, we evaluate troubled loan accounts on a case-by-case basis to determine if a loan modification would be appropriate. We may pursue loan modifications when there is a reasonable chance that an appropriate modification would allow our clients to continue servicing the debt. Because some troubled debt restructurings ("TDRs") may not ultimately result in the complete collection of principal and interest (as modified by the terms of the restructuring), additional incremental losses could result. These potential incremental losses have been factored into our overall allowance for loan losses estimate.

At June 30, 2017, nonaccruing TDRs, which are included in nonperforming loans, totaled $5.55 million, and accruing TDRs totaled $24.66 million. Nonaccruing loans that are modified can be placed back on accrual status when both principal and interest are current, there is a sustained repayment performance of six months or longer, and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement. All restructured loans are considered impaired in the calendar year of restructuring. In subsequent years, a restructured loan may cease being classified as impaired if the loan was modified at a market rate and has performed according to the modified terms for at least six months.

The following table provides information on the composition of nonperforming loans by loan type as of the dates indicated (in thousands):

	June 30, 2017	December 31, 2016
Construction and land development	$ 296	$ 696
Commercial real estate	4,208	5,110
Multifamily real estate	652	690
1-4 family residential real estate	3,584	6,113
Commercial and industrial business loans	740	362
Consumer loans and other	165	128
Total nonperforming loans	$ 9,645	$ 13,099

Allocation of the Allowance for Loan Losses. The following table provides a breakdown of the allowance for loan losses among the various loan types as of the dates indicated (in thousands):

	June 30,		March 31,
	2017	2016	2017
Real estate loans:			
Residential 1-4 family	$ 9,096	$ 8,775	$ 8,942
Commercial	16,839	15,596	16,381
Construction	5,458	4,630	5,215
Multifamily	1,191	870	1,313
Total real estate loans	32,584	29,871	31,851
Commercial and industrial loans	6,571	5,846	6,591
Consumer loans and other	4,976	3,901	4,753
Total	$ 44,131	$ 39,618	$ 43,195

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Deposits. Total deposits at June 30, 2017, were \$6.60 billion, representing an increase of 6.62%, or \$409.49 million, over June 30, 2016, and an increase of \$405.0 million, or 6.54%, compared to March 31, 2017. Total average deposits were \$6.27 billion during the second quarter of 2017, compared to \$5.08 billion during the second quarter of 2016, and \$6.06 billion during the first quarter of 2017.

Average noninterest-bearing demand deposits as a percentage of average total deposits were 33.21% during the second quarter of 2017 and 30.27% during the same period in 2016. Average noninterest-bearing demand deposits were 32.31% of average total deposits for the first quarter of 2017. The cost of interest-bearing deposits was 0.66% for the second quarter of 2017, compared with 0.60% for the second quarter of 2016, and 0.59% for the first quarter of 2017.

The following tables set forth a summary of our various deposit categories and their respective cost rates for the periods presented (dollars in thousands):

	Average Balance/Cost Rate Three Months Ended					
	June 30,				March 31,	
	2017		2016		2017	
Interest-bearing demand and money market accounts	$ 2,235,869	0.35%	$ 1,813,502	0.29%	$ 2,272,911	0.33%
Regular savings	318,323	1.03%	301,542	0.95%	320,319	0.96%
Certificates of deposit	1,632,127	1.01%	1,429,449	0.92%	1,508,879	0.91%
Total interest bearing	4,186,319	0.66%	3,544,493	0.60%	4,102,109	0.59%
Noninterest bearing	2,081,819		1,538,370		1,957,887	
Total	$ 6,268,138	0.44%	$ 5,082,863	0.42%	$ 6,059,996	0.40%

	Average Balance/Cost Rate Six Months Ended			
	June 30, 2017		June 30, 2016	
Interest bearing demand and money market accounts	$ 2,254,288	0.34%	$ 1,798,205	0.29%
Regular savings	319,315	0.99%	300,806	0.94%
Certificates of deposit	1,570,844	0.96%	1,423,039	0.91%
Total interest bearing	4,144,447	0.63%	3,522,050	0.60%
Noninterest bearing	2,020,195		1,477,081	
Total	$ 6,164,642	0.42%	$ 4,999,131	0.42%

The following table provides the average balance and composition of our deposits by major classification for the periods presented (dollars in thousands):

	Average Balance and Composition Three Months Ended					
	June 30,				March 31,	
	2017		2016		2017	
Interest-bearing demand and money market accounts	$ 2,235,869	35.67%	$ 1,813,502	35.68%	$ 2,272,911	37.50%
Regular savings	318,323	5.08%	301,542	5.93%	320,319	5.29%
Certificates of deposit	1,632,127	26.04%	1,429,449	28.12%	1,508,879	24.90%
Total-interest bearing	4,186,319	66.79%	3,544,493	69.73%	4,102,109	67.69%
Noninterest-bearing	2,081,819	33.21%	1,538,370	30.27%	1,957,887	32.31%
Total	$ 6,268,138	100.00%	$ 5,082,863	100.00%	$ 6,059,996	100.00%

Advances from the Federal Home Loan Bank of Atlanta. Advances from the FHLB at June 30, 2017, were $527.22 million, compared to $500.80 million at June 30, 2016, and $687.51 million at March 31, 2017. The average borrowing cost for the second quarter of 2017 was 1.27%, 2.89% in the second quarter of 2016, and 2.23% in the first quarter of 2017.

The scheduled maturity dates, call dates, and related fixed interest rates on advances from the FHLB at June 30, 2017, are summarized as follows (dollars in thousands):

Maturity	Interest Rate	Call / Reset Date	Outstanding Amount
01/29/2018	3.05%	—	$ 13,000
11/15/2028	3.43%	—	4,787
12/01/2028	2.83%	—	3,432
12/07/2020	1.08%	07/07/2017	74,000
08/29/2019	1.17%	07/31/2017	72,000
11/04/2019	1.26%	—	260,000
03/06/2020	1.11%	07/06/2017	100,000
		Total FHLB Loans	**$ 527,219**

During fourth quarter 2016, the Company pre-funded $260 million of FHLB advances that had maturities in the first and second quarters of 2017. The existing cost on these funds was an average of 4.28% and was replaced at a cost of 1.26%. The resulting annualized pre-tax savings is expected to be approximately $7.9 million.

At June 30, 2017, certain residential home equity lines of credit ("HELOCS"), second mortgages, agency securities, and commercial mortgages secured by real estate with carrying values of $1.19 billion collateralized the advances from the FHLB. At June 30, 2016, certain loans with carrying values of $1.15 billion collateralized the advances from the FHLB. At March 31, 2017, certain residential HELOCS, second mortgages, and commercial mortgages secured by real estate with carrying values of $1.18 billion collateralized the advances from the FHLB.

In addition to borrowings from the FHLB, we maintain various borrowing arrangements with financial institutions to support liquidity needs. As of June 30, 2017, we had no outstanding balances on these borrowing agreements with other financial institutions. Average total borrowings, including FHLB advances, during the second quarter of 2017 were $641.75 million, compared with $471.39 million for the second quarter of 2016, and $723.51 million for the first quarter of 2017, while the average cost of these funds was 1.57%, 2.69%, and 2.10%, respectively.

Common Stock and Dividends. For the high and low prices of our common stock, see *Selected Quarterly Information* starting on page 44 in this report.

On February 22, 2017, we declared a quarterly shareholder cash dividend of $0.13 per common share. The dividend was paid April 12, 2017, to shareholders of record on March 30, 2017.

On May 23, 2017, we declared a quarterly shareholder cash dividend of $0.14 per common share. The dividend was paid July 12, 2017, to shareholders of record on June 30, 2017. All dividends paid are limited by the requirement to meet capital guidelines issued by regulatory authorities, and future declarations are subject to financial performance and regulatory requirements.

Liquidity and Capital Structure. Liquidity represents our ability to provide funds to meet customer demands for loan and deposit withdrawals without impairing profitability. Our liquid assets consist of cash, interest-bearing deposits in financial institutions, federal funds sold, and investments and loans maturing within one year. Asset liquidity is also provided by managing both loan and security maturities.

Risk-based capital guidelines for United States banking organizations have been issued by the Board of Governors of the Federal Reserve System, the FDIC, and the Office of the Comptroller of the Currency. Per these guidelines, we consider our sources of liquidity to be adequate to meet our estimated needs and have sufficient alternative sources of liquidity to meet our funding commitments and growth plans.

In July 2013, the FDIC and the other federal banking agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (commonly known as Basel III). On January 1, 2015, the Company became subject to the FDIC final rule's revised definitions of regulatory capital, the new minimum regulatory capital ratios, and various regulatory capital adjustments and deductions according to transition provisions and timelines. All banking organizations began calculating standardized total risk-weighted assets on January 1, 2015. A transition period for the capital conservation buffer under Basel III for all banking organizations began on January 1, 2016, and will end January 1, 2019.

Risk-based capital ratios, which include common equity tier I, tier I capital, total capital and leverage capital, are calculated based on Basel III regulatory transitional guidance related to the measurement of capital, risk-weighted assets, and average assets. As indicated below, our risk-based capital ratios are 11.98% for common equity tier I, 12.03% for tier I capital, and 12.68% for total capital, which are well above the required minimums of 4.50%, 6.00%, and 8.00%, respectively. Under the FDIC rules, we are considered "well capitalized" as of June 30, 2017.

The following table provides information on our risk-based capital position as of the date indicated (dollars in thousands):

	June 30, 2017	June 30, 2016	March 31, 2017
Tier I Capital:			
Shareholders’ equity	$ 1,122,998	$ 1,061,548	$ 1,101,245
Less: goodwill and disallowed intangible assets, net of deferred tax	293,580	280,669	287,877
AOCI-related adjustments	(2,355)	1,604	(4,173)
Noncontrolling interests	12,317	11,188	11,485
Total common equity tier I capital	819,456	768,087	806,056
Included noncontrolling interests	3,186	4,689	2,705
Total tier I capital	822,642	772,776	808,761
Tier II Capital:			
Qualifying allowance for loan losses (1)	44,131	39,618	43,195
Total tier II capital	44,131	39,618	43,195
Total Risk-Based Capital	$ 866,773	$ 812,394	$ 851,956
Total assets	$ 8,427,042	$ 7,940,741	$ 8,174,786
Total risk-weighted assets (2)	6,837,630	6,499,191	6,749,487
Average assets for leverage capital purposes	7,890,484	6,253,394	7,712,490
Risk-weighted assets to total assets	81.14%	81.85%	82.56%
Risk-based capital ratios:			
Common equity tier I (4.5% minimum requirement)	11.98%	11.82%	11.94%
Tier I (6% minimum requirement)	12.03%	11.89%	11.98%
Total (8% minimum requirement)	12.68%	12.50%	12.62%
Tier I leverage ratio (4% minimum requirement)	10.43%	12.36%	10.49%

(1) Limited to 1.25% of risk-weighted assets.
(2) Risk-weighted assets are determined based on the regulatory capital requirements in effect for the periods presented.

Non-GAAP Reconciliations. The Company presents return on average assets, return on average tangible assets, return on average equity, and return on average tangible equity. Management excludes the balance of average goodwill and other intangible assets from the Company’s calculation of return on average tangible assets and return on average tangible equity. This adjustment allows management to review the Company’s core operating result and core capital position.

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Return on average assets (GAAP basis)	1.29%	0.39%	1.20%	0.75%
Impact of excluding average goodwill and other intangibles and amortization	0.11%	0.05%	0.11%	0.07%
Return on average tangible assets	1.40%	0.44%	1.31%	0.82%

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Return on average equity (GAAP basis)	9.43%	2.93%	8.80%	5.73%
Impact of excluding average goodwill and other intangibles and amortization	4.24%	1.28%	3.99%	2.11%
Return on average tangible equity	13.67%	4.21%	12.79%	7.84%

The Company presents book value (period ended shareholders' equity divided by the period ended common shares outstanding) and tangible book value. In calculating tangible book value, goodwill and other intangible assets are excluded, allowing management to review the Company's core capital position.

	Three Months Ended June 30,	
	2017	2016
Book value (GAAP basis)	$ 17.74	$ 16.84
Impact of excluding goodwill and other intangibles and amortization	(4.93)	(4.79)
Tangible book value	$ 12.81	$ 12.05

PART I. FINANCIAL INFORMATION
Item 3. Quantitative and Qualitative Disclosures About Market Risk

Disclosures About Market Risk. Our Asset/Liability Management Committee ("ALCO") monitors loan, investment, and liability portfolios to ensure comprehensive management of interest rate risk. These portfolios are analyzed for proper fixed-rate and variable-rate mixes under various interest rate scenarios.

The asset/liability management process is designed to achieve relatively stable net interest margins and ensure liquidity by coordinating the volumes, maturities, or repricing opportunities of earning assets, deposits, and borrowed funds. It is the responsibility of the ALCO to determine and achieve the most appropriate volume and mix of earning assets and interest-bearing liabilities, as well as ensure an adequate level of liquidity and capital within the context of corporate performance goals. The ALCO also sets policy guidelines and establishes long-term strategies with respect to interest rate risk exposure and liquidity. The ALCO meets regularly to review our interest rate risk and liquidity positions in relation to present and prospective market and business conditions, and adopts funding and balance sheet management strategies intended to ensure that the potential impact on earnings and liquidity as a result of fluctuations in interest rates is within acceptable standards.

Market Risk. The effective management of market risk is essential to achieving our strategic objectives. As a financial institution, our most significant market risk exposure is interest rate risk. The primary objective of interest rate risk management is to minimize the effect that changes in interest rates have on net interest income. This is accomplished through active management of asset and liability portfolios, with a focus on the strategic pricing of asset and liability accounts and management of appropriate maturity mixes of assets and liabilities. The goal of these activities is the development of appropriate maturity and repricing opportunities in our portfolios of assets and liabilities that will produce consistent net interest income during periods of changing interest rates.

Prudent balance sheet management requires processes that monitor and protect us against unanticipated or significant changes in the level of market interest rates. Net interest income stability should be maintained in changing rate environments by ensuring that interest rate risk is kept to an acceptable level.

The ability to reprice our interest-sensitive assets and liabilities over various time intervals is of critical importance. An asset-sensitive balance sheet structure implies that assets, such as loans and securities, will reprice faster than liabilities; consequently, net interest income should be positively affected in an increasing interest rate environment. Conversely, a liability-sensitive balance sheet structure implies that liabilities, such as deposits, will reprice faster than assets; consequently, net interest income should be positively affected in a decreasing interest rate environment.

Interest Rate Risk. We utilize a variety of measurement techniques to identify and manage our exposure to interest rates. We do not use off-balance sheet financial instruments to manage interest rate sensitivity and net interest income. We do, however, use a variety of traditional and on-balance sheet tools to manage our interest rate risk. Gap analysis, which monitors the "gap" between interest-sensitive assets and liabilities, is one such tool. In addition, we use simulation modeling to forecast future balance sheet and income statement behavior. By studying the effects on net interest income of rising, stable, and falling interest rate scenarios, we can position ourselves to take advantage of anticipated interest rate movement and to protect ourselves from unanticipated rate movements by understanding the dynamic nature of our balance sheet components.

PART I. FINANCIAL INFORMATION
Item 3. Quantitative and Qualitative Disclosures About Market Risk

At June 30, 2017, we had $18.50 million more assets than liabilities subject to repricing within one year and, therefore, were in an asset-sensitive position. This is a one-day position, which is continually changing and is not necessarily indicative of our position at any other time. There were no known reported material changes in interest rate risk information from the preceding year-end.

Earnings Simulation Analysis: Management uses simulation analysis to measure the sensitivity of net interest income to changes in interest rates. The model calculates an earnings estimate based on current and projected balances and rates. This method is subject to the accuracy of the assumptions that underlie the process, but it provides an additional analysis of the sensitivity of earnings to changes in interest rates to static gap analysis. Assumptions used in the model rates are derived from historical trends, peer analysis, and management's outlook, and include loans and deposit growth rates and projected yields and rates. All maturities, calls, and prepayments in the securities portfolio are assumed to be reinvested in like instruments. Mortgage loans and mortgage-backed securities prepayment assumptions are based on industry estimates of prepayment speeds for portfolios with similar coupon ranges and seasoning. Different interest rate scenarios and yield curves are used to measure the sensitivity of earnings to changing interest rates. Interest rates on different asset and liability accounts move differently when the prime rate changes and are reflected in the different rate scenarios.

The following table represents interest rate sensitivity on our net interest income using different rate scenarios:

Change in Prime Rate	% Change in Net Interest Income
+ 300 basis points	17.09 %
+ 200 basis points	11.83 %
+ 100 basis points	6.39 %
- 100 basis points	(9.79)%

Market Value Simulation: Market value simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. Market values are calculated based on discounted cash flow analysis. The net market value is the market value of all assets minus the market value of all liabilities. The change in net market value over different rate environments is an indication of the longer term repricing risk in the balance sheet. The same assumptions are used in the market value simulation as in the earnings simulation. The following table reflects the change in net market value over different rate environments:

Change in Prime Rate	Change in Net Market Value (dollars in thousands)
+ 300 basis points	$ (17,518)
+ 200 basis points	$ 14,352
+ 100 basis points	$ 29,882
- 100 basis points	$ (150,662)

PART I. FINANCIAL INFORMATION
Item 4. Controls and Procedures

Controls and Procedures. As of June 30, 2017, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are adequate and effective.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2017. There were no changes that occurred during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
In the ordinary course of operations, we are a party to various legal proceedings. Based upon information currently available, management believes that such legal proceedings, in the aggregate, will not have a material adverse effect on our business, financial condition, or results of operations.

Item 1A. Risk Factors
For information regarding factors that could affect the Company's results of operations, financial condition, or liquidity, see the risk factors discussed in Part I, Item 1A, of TowneBank's 2016 Annual Report on Form 10-K and Part I, Item 1A, of TowneBank's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. See also "Forward-Looking Statements," included in Part I, Item 2, of this Quarterly Report on Form 10-Q. There have been no material changes from the risk factors previously disclosed in TowneBank's 2016 Annual Report on Form 10-K and TowneBank's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None

Item 3. Defaults Upon Senior Securities
None

Item 4. Mine Safety Disclosures
Not applicable

Item 5. Other Information
None

Item 6. Exhibits

Exhibit No.	Description
(2.1)	Agreement and Plan of Reorganization, dated as of April 26, 2017, by and among TowneBank, TB Acquisition, LLC, Paragon Commercial Corporation and Paragon Commercial Bank (incorporated herein by reference to Exhibit 2.1 to our Form 8-K, previously filed on May 2, 2017).
(2.2)	Agreement and Plan of Reorganization, dated as of December 16, 2015, by and among TowneBank, Monarch Financial Holdings, Inc. and Monarch Bank (incorporated herein by reference to Exhibit 2.1 to our Form 8-K, previously filed on December 22, 2015).
(3.2)	Bylaws, as amended.
(10.1)	TowneBank 2017 Stock Incentive Plan.
(10.2)	TowneBank Annual Incentive Compensation Plan.
(31.1)	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31.2)	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32)	Certification Pursuant to 18 U.S.C. Section 1350 as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
(99)	Report of Independent Registered Public Accounting Firm dated August 8, 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.

TOWNEBANK

August 8, 2017	By: /s/ G. Robert Aston, Jr.
Date	G. Robert Aston, Jr. Chairman of the Board/Chief Executive Officer
August 8, 2017	By: /s/ Clyde E. McFarland, Jr.
Date	Clyde E. McFarland, Jr. Senior Executive Vice President/Chief Financial Officer

Exhibit (3.2)

BYLAWS

OF

TOWNEBANK

BYLAWS

OF

TOWNEBANK

ARTICLE I
Meetings of Shareholders

1.1 Places of Meetings. All meetings of the shareholders shall be held at such place, either within or without the State of Virginia, as from time to time may be fixed by the Board of Directors.

1.2 Annual Meetings. The annual meeting of the shareholders, for the election of Directors and transaction of such other business as may come before the meeting, shall be held in each year on the second Thursday in May, or such other date as may be fixed by the Board of Directors.

1.3 Special Meetings. A special meeting of the shareholders for any purpose or purposes may be called at any time by the Chairman of the Board, the Chief Executive Officer, the President or by a majority of the Board of Directors. At a special meeting no business shall be transacted and no corporate action shall be taken other than that stated in the notice of the meeting.

1.4 Notice of Meetings. Written or printed notice stating the place, day and hour of every meeting of the shareholders and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be mailed not fewer than ten nor more than sixty days before the date of the meeting to each shareholder of record entitled to vote at such meeting, at his or her address which appears in the share transfer books of the Corporation.

1.5 Quorum. Any number of shareholders together holding at least a majority of the outstanding shares of each voting group entitled to vote with respect to the business to be transacted, who shall be present in person or represented by proxy at any meeting duly called, shall constitute a quorum of such voting group for the transaction of business. If less than a quorum of a voting group shall be in attendance at the time for which a meeting of such voting group shall have been called, with respect to that voting group the meeting may be adjourned from time to time by a majority of the shares of such voting group present or represented by proxy without notice other than by announcement at the meeting.

1.6 Voting. At any meeting of the shareholders each shareholder of a class entitled to vote on any matter coming before the meeting shall, as to such matter, have one vote, in person or by proxy, for each share of capital stock of such class standing in his or her name on the books of the Corporation on the date, not more than seventy days prior to such meeting, fixed by the Board of Directors as the record date for the purpose of determining shareholders entitled to vote. Every proxy shall be in writing, dated and signed by the shareholder entitled to vote or his or her duly authorized attorney-in-fact.

1.7 Inspectors. An appropriate number of inspectors for any meeting of shareholders may be appointed by the Chairman of such meeting. Inspectors so appointed will open and close the polls, will receive and take charge of proxies and ballots, and will decide all questions as to the qualifications of voters, validity of proxies and ballots, and the number of votes properly cast.

1.8 Advance Notice of Nominations and Shareholder Business.

(a) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the shareholders may be made at an annual meeting of the shareholders (1) pursuant to the Corporation's notice of meeting, (2) by or at the direction of the Board of Directors or (3) by any shareholder of the Corporation who was a shareholder of record at the time of delivery of the notice provided for in this Section 1.8, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 1.8.

(b) For any nomination of a Director or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (3) of paragraph (a) of this Section, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal office of the Corporation not fewer than sixty days nor more than ninety days prior to the first anniversary of the preceding year's annual meeting (not less than sixty days nor more than ninety days prior to April 15, 2000 in the case of the Corporation's first annual meeting); provided, however, if the date of the annual meeting is advanced by more than thirty days or delayed by more than sixty days from such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of the sixtieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such shareholder's notice shall set forth (1) as to each person whom the shareholder proposes to nominate for election or reelection as a Director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including such person’s written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (2) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and (3) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (i) the name and address of such shareholder, as they appear on the Corporation’s books, and of such beneficial owner and (ii) the class and number of shares of the Corporation that are owned beneficially and of record by such shareholder and such beneficial owner.

(c) Notwithstanding anything in the second sentence of paragraph (b) of this Section 1.8 to the contrary, in the event that the number of Directors to be elected by the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Corporation at least seventy days prior to the first anniversary of the preceding year’s annual meeting, a shareholders’ notice required by this Section 1.8 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal office of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

(d) Only such persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible to serve as Directors and only such business shall be conducted at an annual meeting as is proposed in accordance with the procedures set forth in these Bylaws. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defective proposed business or nomination shall be disregarded.

(e) For purposes of these Bylaws, "public announcement" shall mean disclosure in a press release issued by the Corporation or in a mailing to the Corporation's shareholders.

(f) Notwithstanding the foregoing provisions of this Section 1.8, a shareholder also shall comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.8. Nothing in this Section 1.8 shall affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE II
Directors

2.1 General Powers. The property, affairs and business of the Corporation shall be managed under the direction of the Board of Directors, and, except as otherwise expressly provided by law, the Articles of Incorporation or these Bylaws, all of the powers of the Corporation shall be vested in such Board.

2.2 Number of Directors. The number of Directors constituting the Board of Directors shall be thirty-three.

2.3 Election and Removal of Directors; Quorum.

(a) Directors shall be elected at each annual meeting of shareholders to succeed those Directors whose terms have expired and to fill any vacancies then existing.

(b) Directors shall hold their offices until their terms have expired and until their successors are elected. Any Director may be removed from office as set forth in the Articles of Incorporation.

(c) Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of the majority of the remaining Directors though less than a quorum of the Board, and the term of office of any Director so elected shall expire at the next shareholders' meeting at which directors are elected.

(d) A majority of the number of Directors prescribed in these Bylaws shall constitute a quorum for the transaction of business. The act of a majority of Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. Less than a quorum may adjourn any meeting.

2.4 Meetings of Directors. An annual meeting of the Board of Directors shall be held as soon as practicable after the adjournment of the annual meeting of shareholders at such place as the Board may designate. Other meetings of the Board of Directors shall be held at places within or without the State of Virginia and at times fixed by resolution of the Board, or upon call of the Chairman of the Board, the Chief Executive Officer, the President or any two of the Directors. The Secretary or officer performing the Secretary's duties shall give not less than twenty-four hours' notice by letter, telegraph, facsimile, telephone or in person of all meetings of the Board of Directors, provided that notice need not be given of the annual meeting or of regular meetings held at times and places fixed by resolution of the Board. Meetings may be held at any time without notice if all of the Directors are present, or if those not present waive notice in writing either before or after the meeting. The notice of meetings of the Board need not state the purpose of the meeting.

2.5 Compensation. By resolution of the Board, Directors may be allowed a fee and expenses for attendance at all meetings, but nothing herein shall preclude Directors from serving the Corporation in other capacities and receiving compensation for such other services.

ARTICLE III
Committees

3.1 Executive Committee. The Board of Directors, by resolution adopted by a majority of the number of Directors fixed by these Bylaws, may elect an Executive Committee which shall consist of not fewer than two Directors, including the Chairman. When the Board of Directors is not in session, the Executive Committee shall have all power vested in the Board of Directors by law, by the Articles of Incorporation, or by these Bylaws, provided that the Executive Committee shall not have power to (i) approve or recommend to shareholders action that the Virginia Stock Corporation Act requires to be approved by shareholders; (ii) fill vacancies on the Board or on any of its committees; (iii) amend the Articles of Incorporation pursuant to Section 13.1-706 of the Virginia Code; (iv) adopt, amend, or repeal the Bylaws; (v) approve a plan of merger not requiring shareholder approval; (vi) authorize or approve a distribution, except according to a general formula or method prescribed by the Board of Directors; or (vii) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, other than within limits specifically prescribed by the Board of Directors. The Executive Committee shall report at the next regular or special meeting of the Board of Directors all action that the Executive Committee may have taken on behalf of the Board since the last regular or special meeting of the Board of Directors.

3.2 Audit Committee. The Board of Directors, by resolution adopted by a majority of the number of Directors fixed by these Bylaws, shall designate an Audit Committee which shall consist of two or more Directors, none of whom shall be an employee of the Corporation or any of its subsidiaries. The Committee shall keep minutes of its meetings and all action taken shall be reported to the Board of Directors. The Audit Committee shall (a) recommend the firm to be employed as the Corporation's external auditor and review the proposed discharge of any such firm; (b) review the external auditor's compensation, the proposed terms of its engagement and its independence; (c) review the appointment and replacement of the senior internal-auditing executive, if any; (d) serve as a channel of communication between the external auditor and the Board of Directors and between the senior internal-auditing executive, if any, and the Board; (e) review the results of each external audit of the Corporation, the report of the audit, any related management letter, management's responses to recommendations made by the external auditor in connection with the audit, reports of the internal auditing department that are material to the Corporation as a whole and management's responses to such reports; (f) review the Corporation's annual financial statements, any certification, report, opinion or review rendered by the external auditor in connection with those financial statements, and any significant disputes between management and the external auditor that arose in connection with the preparation of those financial statements; (g) consider, in consultation with the external auditor and the senior internal-auditing executive, if any, the adequacy of the Corporation's internal financial controls; and (h) consider major changes and other major questions of choice respecting the appropriate auditing and accounting principles and practices to be used in preparation of the Corporation's financial statements.

3.3 Loan Committee. The Board of Directors, by resolution adopted by a majority of the number of Directors fixed by these bylaws, shall designate a Loan Committee that shall include the Chairman and President, and such other Directors and officers as determined by the Board. The Loan Committee shall have power to discount and purchase notes and other evidences of debt, to examine and approve loans and discounts; and to exercise authority regarding loans and discounts. The Loan Committee shall keep minutes of its meetings and such minutes shall be available at the next regular meeting of the Board of Directors at which a quorum is present and shall be read if requested by the Board, and any action taken by the Board with respect thereto shall be entered in the minutes of the Board. Until such time as the Board of Directors shall determine, by resolution adopted by a majority of the number of Directors fixed by these Bylaws, the powers and functions of the Loan Committee shall be reserved for the Executive Committee.

3.4 Compensation Committee. The Board of Directors, by resolution adopted by a majority of the number of Directors fixed by these Bylaws, shall designate a Compensation Committee which shall consist of two or more directors, none of whom are employees of the Corporation or any of its subsidiaries. The Compensation Committee shall meet at least annually or as necessary to perform the duties provided for in this section. The Compensation Committee shall: (a) review and recommend to the Board of

Directors the annual salary, bonus, stock options and other benefits, direct and indirect, of the Chief Executive Officer, the President and other senior executive officers of the Corporation; (b) review any new executive compensation program; review on a periodic basis the operation of the Corporation's executive compensation programs to determine whether they are properly coordinated; establish and periodically review policies for the administration of executive compensation programs; (c) establish and periodically review policies in the area of management perquisites; (d) evaluate the performance of the Chief Executive Officer and the President and review the evaluations of the Corporation's senior management conducted by the Chief Executive Officer and the President; (e) oversee the development of plans for the succession of senior management personnel; and (f) administer stock option plans maintained by the Corporation.

3.5 Other Committees. The Board of Directors, by resolution adopted by a majority of the number of Directors fixed by these Bylaws, may establish such other standing or special committees of the Board as it may deem advisable, consisting of not fewer than two Directors; and the members, terms and authority of such committees shall be as set forth in the resolutions establishing the same.

3.6 Meetings. Regular and special meetings of any Committee established pursuant to this Article may be called and held subject to the same requirements with respect to time, place and notice as are specified in these Bylaws for regular and special meetings of the Board of Directors.

3.7 Quorum and Manner of Acting. A majority of the members of any Committee serving at the time of any meeting thereof shall constitute a quorum for the transaction of business at such meeting. The action of a majority of those members present at a Committee meeting at which a quorum is present shall constitute the act of the Committee.

3.8 Term of Office. Members of any Committee shall be elected as above provided and shall hold office until their successors are elected by the Board of Directors or until such Committee is dissolved by the Board of Directors.

3.9 Resignation and Removal. Any member of a Committee may resign at any time by giving written notice of his intention to do so to the Chief Executive Officer or the Secretary of the Corporation, or may be removed, with or without cause, at any time by such vote of the Board of Directors as would suffice for his election.

3.10 Vacancies. Any vacancy occurring in a Committee resulting from any cause whatever may be filled by a majority of the number of Directors fixed by these Bylaws.

ARTICLE IV
Officers

4.1 Election of Officers; Terms. The officers of the Corporation shall consist of a Chairman of the Board, a Chief Executive Officer, a President, a Secretary and a Treasurer. Other officers, including one or more Vice Presidents (whose seniority and titles, including Executive Vice Presidents and Senior Vice Presidents, may be specified by the Board of Directors), and assistant and subordinate officers, may from time to time be elected by the Board of Directors. All officers shall hold office until the next annual meeting of the Board of Directors and until their successors are elected. The Chairman of the Board shall be chosen from among the Directors. Any two officers may be combined in the same person as the Board of Directors may determine.

4.2 Removal of Officers; Vacancies. Any officer of the Corporation may be removed summarily with or without cause, at any time, by the Board of Directors. Vacancies may be filled by the Board of Directors.

4.3 Duties. The officers of the Corporation shall have such duties as generally pertain to their offices, respectively, as well as such powers and duties as are prescribed by law or are hereinafter provided or as from time to time shall be conferred by the Board of Directors. The Board of Directors may require any officer to give such bond for the faithful performance of his duties as the Board may see fit.

4.4 Duties of the Chairman of the Board. The Chairman of the Board shall have the powers and duties customarily and usually associated with the office of the Chairman of the Board. The Chairman of the Board shall preside over the meetings of the Board of Directors and of the shareholders. In the event of the Chairman of the Board's temporary absence or disability and the absence or disability of the Chief Executive Officer and the President, the Chairman of the Board shall have the power to designate any Director to preside at any or all meetings of the shareholders and of the Board of Directors. If at any time the offices of both the Chief Executive Officer and President shall not be filled, or in the event of the disability of both the Chief Executive Officer and President, the Chairman of the Board shall have the duties and powers of the Chief Executive Officer and President. The Chairman of the Board shall have such other powers and perform such greater or lesser duties as may be delegated to him or her from time to time by the Board of Directors.

4.5 Duties of the Chief Executive Officer. The Chief Executive Officer of the Corporation shall be primarily responsible for the implementation of policies of the Board of Directors. The Chief Executive Officer shall have authority over the general management and direction of the business and operations of the Corporation and its divisions, if any, subject only to the ultimate authority of the Board of Directors. The Chief Executive Officer shall be a Director, and, except as otherwise provided in these Bylaws or in the resolutions establishing such committees, he or she shall be ex officio a member of all Committees of the Board. In the absence of the Chairman of the Board, the Chief Executive Officer shall preside at all corporate meetings. The Chief Executive Officer may sign and execute in the name of the Corporation share certificates, deeds, mortgages, bonds, contracts or other instruments except in cases where the signing and the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law otherwise to be signed or executed. In addition, the Chief Executive Officer shall perform all duties incident to the office of the Chief Executive Officer and such other duties as from time to time may be assigned to him or her by the Board of Directors.

4.6 Duties of the President. The President, together with the Chief Executive Officer of the Corporation (in the event the President and Chief Executive Officer are not the same person), shall have authority over the general management and direction of the business and operations of the Corporation and its divisions, if any, subject only to the ultimate authority of the Board of Directors. The President shall be a Director, and, except as otherwise provided in these Bylaws or in the resolutions establishing such committees, he or she shall be ex officio a member of all Committees of the Board. In the absence of the Chairman of the Board and the Chief Executive Officer, the President shall preside at all corporate meetings. The President may sign and execute in the name of the Corporation share certificates, deeds, mortgages, bonds, contracts or other instruments except in cases where the signing and the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law otherwise to be signed or executed. In addition, the President shall perform all duties incident to the office of the President and such other duties as from time to time may be assigned to him or her by the Board of Directors or the Chief Executive Officer.

4.7 Duties of the Vice Presidents. Each Vice President, if any, shall have such powers and duties as may from time to time be assigned to him or her by the Chief Executive Officer or the Board of Directors. Any Vice President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board of Directors, except where the signing and execution of such documents shall be expressly delegated by the Board of Directors or the Chief Executive Officer to some other officer or agent of the Corporation or shall be required by law or otherwise to be signed or executed.

4.8 Duties of the Treasurer. The Treasurer shall have charge of and be responsible for all funds, securities, receipts and disbursements of the Corporation, and shall deposit all monies and securities of the Corporation in such banks and depositories as shall be designated by the Board of Directors. The Treasurer shall be responsible (i) for maintaining adequate financial accounts and records in accordance with generally accepted accounting practices; (ii) for the preparation of appropriate operating budgets and financial statements; (iii) for the preparation and filing of all tax returns required by law; and (iv) for the performance of all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him or her by the Board of Directors, the Audit Committee, or the Chief Executive Officer. The Treasurer may sign and execute in the name of the Corporation share certificates, deeds, mortgages, bonds, contracts or other instruments, except in cases where the signing and the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law or otherwise to be signed or executed.

4.9 Duties of the Secretary. The Secretary shall act as secretary of all meetings of the Board of Directors and shareholders of the Corporation. When requested, the Secretary shall also act as secretary of the meetings of the committees of the Board. The Secretary shall keep and preserve the minutes of all such meetings in permanent books. The Secretary shall see that all notices required to be given by the Corporation are duly given and served; shall have custody of the seal of the Corporation and shall affix the seal or cause it to be affixed to all share certificates of the Corporation and to all documents the execution of which on behalf of the Corporation under its corporate seal is duly authorized in accordance with law or the provisions of these Bylaws; shall have custody of all deeds, leases, contracts and other important corporate documents; shall have charge of the books, records and papers of the Corporation relating to its organization and management as a Corporation; shall see that all reports, statements and other documents required by law (except tax returns) are properly filed; and shall in general perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him or her by the Board of Directors or the Chief Executive Officer.

4.10 Compensation. The Board of Directors shall have authority to fix the compensation of all officers of the Corporation.

ARTICLE V

Capital Stock

5.1 Form of Shares. The shares of capital stock of the Corporation may be certificated or uncertificated, as provided under Virginia law. Transfer agents and/or registrars for one or more classes of the stock of the Corporation may be appointed by the Board of Directors and may be required to countersign certificates, when issued, representing shares of such class or classes. In the event that any officer whose signature or facsimile thereof shall have been used on a stock certificate shall for any reason cease to be an officer of the Corporation and such certificate shall not then have been delivered by the Corporation, the Board of Directors may nevertheless adopt such certificate and it may then be issued and delivered as though such person had not ceased to be an officer of the Corporation.

5.2 Lost, Destroyed and Mutilated Certificates. Holders of the capital stock of the Corporation shall immediately notify the Corporation of any loss, destruction or mutilation of any certificate for any shares, and the Board of Directors may, in its discretion, cause one or more new certificates to be issued or a written confirmation of the Corporation's records for the same number of shares in the aggregate to be delivered to such shareholder upon the surrender of the mutilated certificate or upon satisfactory proof of such loss or destruction, and the deposit of a bond in such form and amount and with such surety as the Board of Directors may require.

5.3 Transfer of Stock. The capital stock of the Corporation shall be transferable or assignable only on the books of the Corporation by the holder(s) in person or by attorney and upon surrender of the certificate for such shares, if any, duly endorsed and, if sought to be transferred by attorney, accompanied by a written power of attorney to have the same transferred on the books of the Corporation. The Board of Directors may prescribe such other procedures for the transfer or assignment of the capital stock of the Corporation as it may deem appropriate. The Corporation will recognize the exclusive right of the person registered on its books as the owner of shares to receive dividends and to vote as such owner.

5.4 Fixing Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than seventy days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which notices of the meeting are mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof unless the Board of Directors fixes a new record date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

ARTICLE VI

Miscellaneous Provisions

6.1 Seal. The seal of the Corporation shall consist of a flat-faced circular die, of which there may be any number of counterparts, on which there shall be engraved the word "Seal" and the name of the Corporation.

6.2 Fiscal Year. The fiscal year of the Corporation shall end on such date and shall consist of such accounting periods as may be fixed by the Board of Directors.

6.3 Checks, Notes and Drafts. Checks, notes, drafts and other orders for the payment of money shall be signed by such persons as the Board of Directors from time to time may authorize. When the Board of Directors so authorizes, however, the signature of any such person may be a facsimile.

6.4 Amendment of Bylaws. Unless proscribed by the Articles of Incorporation, these Bylaws may be amended or altered at any meeting of the Board of Directors by affirmative vote of a majority of the number of Directors fixed by these Bylaws. The shareholders entitled to vote in respect of the election of Directors, however, shall have the power to rescind, amend, alter or repeal any Bylaws and to enact Bylaws which, if expressly so provided, may not be amended, altered or repealed by the Board of Directors.

6.5 Voting of Shares Held. Unless otherwise provided by resolution of the Board of Directors or of the Executive Committee, if any, the Chief Executive Officer may from time to time appoint an attorney or attorneys or agent or agents of the Corporation, in the name and on behalf of the Corporation, to cast the vote which the Corporation may be entitled to cast as a shareholder or otherwise in any other corporation, any of whose securities may be held by the Corporation, at meetings of the holders of the shares or other securities of such other corporation, or to consent in writing to any action by any such other corporation; and the Chief Executive Officer shall instruct the person or persons so appointed as to the manner of casting such votes or giving such consent and may execute or cause to be executed on behalf of the Corporation, and under its corporate seal or otherwise, such written proxies, consents, waivers or other instruments as may be necessary or proper in the premises. In lieu of such appointment the Chief Executive Officer may himself attend any meetings of the holders of shares or other securities of any such other corporation and there vote or exercise any or all power of the Corporation as the holder of such shares or other securities of such other corporation.

6.6 Indemnification of the Members of the TowneBanking Group Boards. In accordance with the authority granted to the Board of Directors of the Corporation in section 8 of Article VII of the Articles of Incorporation that empowers the Board of Directors to cause the Corporation to indemnify persons other than its corporate directors and officers, the Corporation shall indemnify each member of the various TowneBanking Group boards who was, is or may become a party to any threatened or pending action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal, by reason of the fact that he or she is or was a member of one of the TowneBanking Group boards to the same extent as if such person were a corporate director or officer of the Corporation to whom indemnification is granted under the Articles of Incorporation. The other sections of Article VII, including section 7 requiring the Corporation to advance the reasonable expenses incurred by an applicant for indemnification, shall be applicable to any indemnification hereafter provided pursuant to these Bylaws.

ARTICLE VII

Emergency Bylaws

The Emergency Bylaws provided in this Article VII shall be operative during any emergency, notwithstanding any different provision in the preceding Articles of these Bylaws or in the Articles of Incorporation of the Corporation or in the Virginia Stock Corporation Act (other than those provisions relating to emergency bylaws). An emergency exists if a quorum of the Corporation's Board of Directors cannot readily be assembled because of a catastrophic event. To the extent not inconsistent with these Emergency Bylaws, the Bylaws provided in the preceding Articles shall remain in effect during such emergency and upon the termination of such emergency the Emergency Bylaws shall cease to be operative unless and until another such emergency shall occur.

During any such emergency:

(a) Any meeting of the Board of Directors may be called by any officer of the Corporation or by any Director. The notice thereof shall specify the time and place of the meeting. To the extent feasible, notice shall be given in accord with Section 2.4 above, but notice may be given only to such of the Directors as it may be feasible to reach at the time, by such means as may be feasible at the time, including publication or radio, and at a time less than twenty-four hours before the meeting if deemed necessary by the person giving notice. Notice shall be similarly given, to the extent feasible, to the other persons referred to in (b) below.

(b) At any meeting of the Board of Directors, a quorum shall consist of a majority of the number of Directors fixed at the time by Article II of the Bylaws. If the Directors present at any particular meeting shall be fewer than the number required for such quorum, other persons present as referred to below, to the number necessary to make up such quorum, shall be deemed Directors for such particular meeting as determined by the following provisions and in the following order of priority:

(i) Vice Presidents not already serving as Directors, in the order of their seniority of first election to such offices, or if two or more shall have been first elected to such offices on the same day, in the order of their seniority in age;

(ii) All other officers of the Corporation in the order of their seniority of first election to such offices, or if two or more shall have been first elected to such offices on the same day, in the order of their seniority in age; and

(iii) Any other persons that are designated on a list that shall have been approved by the Board of Directors before the emergency, such persons to be taken in such order of priority and subject to such conditions as may be provided in the resolution approving the list.

(c) The Board of Directors, during as well as before any such emergency, may provide, and from time to time modify, lines of succession in the event that during such an emergency any or all officers or agents of the Corporation shall for any reason be rendered incapable of discharging their duties.

(d) The Board of Directors, during as well as before any such emergency, may, effective in the emergency, change the principal office, or designate several alternative offices, or authorize the officers so to do.

No officer, Director or employee shall be liable for action taken in good faith in accordance with these Emergency Bylaws.

These Emergency Bylaws shall be subject to repeal or change by further action of the Board of Directors or by action of the shareholders, except that no such repeal or change shall modify the provisions of the next preceding paragraph with regard to action or inaction prior to the time of such repeal or change. Any such amendment of these Emergency Bylaws may make any further or different provision that may be practical and necessary for the circumstances of the emergency.

Exhibit (10.1)

TOWNEBANK

2017 STOCK INCENTIVE PLAN

1. Purpose; Eligibility.

(a) General Purpose. The purpose of the TowneBank 2017 Stock Incentive Plan (the "Plan") is to further the long-term stability and financial success of TowneBank, a Virginia chartered banking company (the "Company"), by attracting and retaining key personnel, including employees, directors and consultants, through the use of stock incentives. The Company believes that ownership of Company Stock will stimulate the efforts of those persons upon whose judgment, interest and efforts the Company and its Affiliates (as defined below) are and will be largely dependent for the successful conduct of their businesses and will further the alignment of those persons' interests with the interests of the Company's shareholders.

(b) Eligible Award Recipients. Any employee of, director of, or consultant to the Company or an Affiliate who, in the judgment of the Committee (as defined below), has contributed or can be expected to contribute to the profits or growth of the Company or the Affiliate is eligible to become a Participant (as defined below). The Committee shall have the power and complete discretion, as provided in Section 4, to select eligible Participants and to determine for each Participant the terms, conditions and nature of the Award (as defined below) and the number of shares to be allocated as part of the Award; provided, however, that any Award made to a member of the Committee must be approved by the Board.

(c) Available Awards. Awards of Options, Restricted Stock, Restricted Stock Units, Stock Awards, and Incentive Awards (as such terms are defined below) may be granted under the Plan. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options.

(d) Date of Adoption; Effective Date. The Plan was adopted by the Board of Directors of the Company on March 22, 2017 and will become effective (the "Effective Date") as of May 24, 2017 if approved by the shareholders of the Company on that date in accordance with applicable laws and applicable rules of the Nasdaq Global Select Market on which the Company Stock is listed.

(e) Termination of the 2008 Stock Incentive Plan. The Plan will replace the TowneBank 2008 Stock Incentive Plan (the "2008 Plan"). At the Effective Date of the Plan, the 2008 Plan will terminate and no additional awards will be made thereunder.

2. Certain Definitions. The following terms have the meanings indicated:

(a) Act. The Securities Exchange Act of 1934, as amended.

(b) Affiliate. A corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company, in each case as designated by the Board as being a participating employer in the Plan.

(c) Applicable Withholding Taxes. The aggregate amount of federal, state and local income and payroll taxes that the Company or an Affiliate is required to withhold in connection with any exercise of an Option or the award, lapse of restrictions or payment with respect to Restricted Stock or any other Award.

(d) Award. The award of an Option, Restricted Stock, Restricted Stock Unit, Stock Award or Incentive Award under the Plan.

(e) Award Agreement. An Award Agreement means any agreement, contract, certificate or other instrument or document (whether written or electronic) evidencing the terms and conditions of an Award granted under the Plan. Each Award Agreement shall be subject to the terms and conditions of the Plan.

(f) Beneficiary. Means the person designated by a Participant pursuant to Section 25.

(g) Board. The Board of Directors of the Company.

(h) Cause. If the Participant is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Cause, the definition of Cause contained in the agreement. If no such agreement exists or if such agreement does not define Cause, the definition of Cause contained in the Award Agreement. In all other cases, Cause shall mean:

> (i) Continual or deliberate neglect by the Participant in the performance of his material duties and responsibilities as established from time to time by the Company, or the Participant's repeated failure or refusal to follow reasonable instructions or policies of the Company after being advised in writing of such failure or refusal and being given a reasonable opportunity and period (as determined by the Company) to remedy such failure or refusal;
>
> (ii) Conviction of, indictment for (or its procedural equivalent), entering of a guilty plea or plea of no contest with respect to a felony, a crime of moral turpitude or any other crime with respect to which imprisonment is a possible punishment, or the commission of an act of embezzlement or fraud against the Company;
>
> (iii) Violation in any material respect of any code or standard of conduct generally applicable to employees of the Company;
>
> (iv) Dishonesty of the Participant with respect to the Company, or breach of a fiduciary duty owed to the Company; or
>
> (v) The engaging by the Participant in conduct that is reasonably likely to result, in the good faith judgment of the Company, in material injury to the Company, monetarily, reputationally or otherwise.

The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause.

(i) Change in Control. A Change in Control shall be deemed to have occurred if any one of the conditions in paragraphs (i) - (iv) have been satisfied at any time after the Award is granted:

(i) The acquisition by any Person (as defined below) of beneficial ownership of 30% or more of the then outstanding shares of Company Stock;

(ii) Individuals who constitute the Board on the date of this Plan (the "Incumbent Board") cease to constitute a majority of the Board, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company;

(iii) Consummation by the Company of a reorganization, merger, share exchange or consolidation (a "Reorganization"), provided that a Reorganization will not constitute a Change in Control if, upon consummation of the Reorganization, each of the following conditions is satisfied:

(1) more than 50% of the then outstanding shares of common stock of the corporation resulting from the Reorganization is beneficially owned by all or substantially all of the former shareholders of the Company in substantially the same proportions as their ownership existed in the Company immediately prior to the Reorganization; and

(2) at least a majority of the members of the board of directors of the corporation resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization.

(iv) The sale, transfer or assignment of all or substantially all of the assets of the Company and its Affiliates to a third party.

For purposes of this Section 2(i), "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) of the Act), other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate, and "beneficial ownership" has the meaning given the term in Rule 13d-3 under the Act.

(j) Code. The Internal Revenue Code of 1986, as amended. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

(k) Committee. The Compensation Committee appointed by the Board of Directors shall administer the Plan pursuant to Plan Section 4.

(l) Company. TowneBank, a Virginia banking corporation, or any successor thereto. Unless the context otherwise requires, references in this Plan to the "Company" also shall mean and refer to any Affiliate.

(m) Company Stock. Common stock of the Company.

(n) Consultant. A person or entity rendering consulting or advisory services to the Company or an Affiliate who is not an "employee" for purposes of employment tax withholding under the Code.

(o) Date of Grant. The effective date of an Award granted by the Committee.

(p) Disability or Disabled. As to an Incentive Stock Option, a Disability within the meaning of Section 22(e)(3) of the Code. As to all other Awards, the Committee shall determine whether a Disability exists and such determination shall be conclusive.

(q) Fair Market Value.

(i) The Fair Market Value of the shares of Company Stock shall be the closing price for such stock on the Date of Grant (or if no sales were reported the closing price on the immediately preceding date on which the Company Stock was traded) as reported by the established stock exchange or established stock market system on which the shares of Company Stock are listed or quoted or such other source as the Committee deems reliable; provided, however, the Committee may elect to use the average closing price over a designated number of consecutive days to determine the Fair Market Value if the daily volume of trading in the Company Stock is not, in the sole discretion of the Committee, sufficient to be a reliable indicator of Fair Market Value.

(ii) If the Company Stock is no longer publicly traded, the Fair Market Value shall be determined by the Committee using any reasonable method in good faith and such determination shall be conclusive and binding on all persons, provided that the fair market value of Company Stock subject to an Incentive Stock Option shall be determined in good faith within the meaning of Treasury Regulation §1.422-2(e)(2).

(iii) Fair Market Value shall be determined as of the Date of Grant specified in the Award.

(iv) The Committee reserves the right to specify in the Award Agreement the appropriate method for determining Fair Market Value for purposes of recognizing any gain or deductions for tax purposes in a manner consistent with the Code in connection with the exercise or vesting of an Award.

(r) Good Reason. If the Participant is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Good Reason, the definition contained in the agreement. If no such agreement exists or if such agreement does not define Good Reason, the definition of Good Reason contained in the Award Agreement. In all other cases, Good Reason shall mean the occurrence of one or more of the following without the Participant's express written consent, which circumstances are not remedied by the Company within thirty (30) days of its receipt of a written notice from the Participant describing the applicable circumstances (which notice must be provided by the Participant within ninety (90) days of the Participant's knowledge of the applicable circumstances: (i) any material, adverse change in the Participant's duties, responsibilities, authority, title, status or reporting structure; (ii) a material reduction in the Participant's base salary or bonus opportunity unless any such base salary or bonus opportunity reduction is proportionate to reductions in base salaries or bonus opportunities of other similarly situated officers of the Company; or (iii) a geographical relocation of the Participant's principal office location by more than thirty-five (35) miles.

(s) Incentive Award. A Performance-Based Compensation Award awarded upon the terms and subject to the restrictions set forth in Section 9 that can be settled in Company stock or cash, or a combination thereof.

(t) Incentive Stock Option. An Option intended to meet the requirements of, and qualify for favorable federal income tax treatment under, Section 422 of the Code.

(u) Nonstatutory Stock Option. An Option that does not meet the requirements of Section 422 of the Code, or that is otherwise not intended to be an Incentive Stock Option and is so designated.

(v) Option. A right to purchase Company Stock granted under the Plan, at a price determined in accordance with the Plan.

(w) Participant. Any individual who is granted an Award under the Plan.

(x) Performance-Based Compensation Award. An Award for which exercise, full enjoyment or receipt thereof by the Participant is contingent on satisfaction or achievement of a performance objective applicable, which may or may not be a Performance Goal. If a Performance-Based Compensation Award is intended to be "performance based compensation" within the meaning of Section 162(m)(4)(C) of the Code, the grant of the Award, the establishment of the Performance Goal, the making of any modifications or adjustments and the determination of satisfaction or achievement of the Performance Goal shall be made during the period or periods required under and in conformity with the requirements of Section 162(m) of the Code. The terms and conditions of each Performance-Based Compensation Award, including the performance objective and performance period, shall be set forth in the Award Agreement or in a subplan of the Plan which is incorporated by reference into the Award Agreement.

(y) Performance Goal. One or more performance measures or goals set by the Committee in its discretion for each grant of a Performance-Based Compensation Award that is intended to be "performance based compensation" within the meaning of Section 162(m)(4)(C) of the Code. The extent to which such performance measures or goals are met will determine the amount or value of the Award to which a Participant is entitled to exercise, receive or retain. For purposes of this Plan, a Performance Goal may be particular to a Participant, and may include any one or more of the following performance criteria, either individually, alternatively or in any combination, subset or component, applied to the performance of the Company as a whole or to the performance of an Affiliate, division, strategic business unit, line of business or business segment, measured either quarterly, annually or cumulatively over a period of years or partial years, in each case as specified by the Committee in the Award : (1) stock value or increases in stock value, (2) earnings per share and/or earnings per share growth, (3) earnings and/or earnings growth (before or after one or more of taxes, interest, depreciation and/or amortization), (4) total shareholder return, (5) operating revenue or operating cash flow, (6) tangible book value or tangible book value growth, tangible book value per share or growth in tangible book value per share, (7) return on equity, tangible equity, assets, capital and/or investment, (8) net revenue or net revenue growth, (9) gross profit or gross profit growth, (10) deposits, loan and/or equity levels or growth thereof, (11) working capital targets, (12) cost control measures, (13) regulatory compliance and regulatory examination results, (14) gross, operating or other margins, (15) efficiency ratio (as generally recognized and used for bank financial reporting and analysis), (16) interest income, (17) non-interest income, (18) credit quality, (19) net charge-offs and/or non-performing assets (excluding such loans or classes of loans as may be designated for exclusion), (20) customer satisfaction and quality control measures, (21) satisfactory internal or external audits, (22) maintenance or improvement of regulatory or financial ratings, (23) achievement of balance sheet or income statement objectives, (24) budget and expense management, (24) assets under management or growth thereof, (25) achievement of risk management objectives, (26) achievement of strategic performance objectives, (27) implementation, management or completion of critical projects or processes, and (28) achievement of merger or acquisition objectives.

Performance Goals may include a threshold level of performance below which no payment or vesting may occur, levels of performance at which specified payments or specified vesting will occur, and a maximum level of performance above which no additional payment or vesting will occur. Performance Goals may be absolute in their terms or measured against or in relationship to a pre-established target, the Company's budget or budgeted results, previous period results, a market index, a designated comparison group of other companies comparably, similarly or otherwise situated, or any combination thereof. The Committee shall determine the performance period during which a Performance Goal must be met, and attainment of Performance Goals shall be subject to certification by the Committee.

The Committee retains the discretion to adjust the compensation or economic benefit due upon attainment of Performance Goals and to adjust Performance Goals themselves; provided that, with respect to an Award intended to be "performance based compensation" within the meaning of Section 162(m) of the Code, any such adjustments shall be made only on conformity with the requirements of Section 162(m) of the Code.

(z) Restricted Stock. Company Stock awarded upon the terms and subject to the restrictions set forth in Section 6.

(aa) Restricted Stock Unit. An Award, designated as a restricted stock unit, under the Plan that represents the right to receive Company stock and/or cash in lieu thereof upon the terms and subject to the restrictions set forth in Section 7 and which, unless otherwise expressly provided, is valued by reference to the Fair Market Value of a share of Company Stock.

(bb) Rule 16b-3. Rule 16b-3 promulgated under the Act, including any corresponding subsequent rule or any amendments to Rule 16b-3 enacted after the effective date of the Plan.

(cc) Stock Award. Company stock awarded upon the terms and subject to the restrictions set forth in Section 8.

(dd) 10% Shareholder. A person who owns, directly or indirectly and within the meaning of Section 422 or 424 of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary of the Company. Indirect ownership of stock shall be determined in accordance with Section 424(d) of the Code.

3. Shares Subject to the Plan.

(a) Number of Shares. Subject to adjustment as provided in Section 13 of the Plan, the maximum aggregate number of shares of Company Stock that may be issued pursuant to Awards made under the Plan shall not exceed 2,500,000. Subject to adjustment as provided in Section 13, no more than an aggregate of 1,000,000 shares of Company Stock may be issued pursuant to the exercise of Incentive Stock Options granted under the Plan (including shares issued pursuant to the exercise of

Incentive Stock Options that are the subject to disqualifying dispositions within in the meaning of Sections 421 and 422 of the Code).

(b) Lapsed Awards or Forfeited Shares. If any Award granted under this Plan terminates, expires, or lapses for any reason other than by virtue of exercise or settlement of the Award, or if shares of Company Stock issued pursuant to Awards are forfeited, any shares of Company Stock subject to such Award again shall be available for the grant of an Award under the Plan.

(c) Use of Shares as Payment of Exercise Price or Taxes. Shares withheld by the Company, delivered by the Participant, or otherwise used to pay the exercise price of an Option shall not be available for future Awards under the Plan. Shares withheld by the Company, delivered by the Participant or otherwise used to satisfy payment of withholding taxes associated with an Award shall also not be available for future Awards under the Plan.

(d) Per-Participant Annual Limit. The maximum number of shares of Common Stock with respect to which Awards may be granted in any calendar year to any Participant during such calendar year shall not exceed 150,000 shares in the aggregate. If an Award is to be settled in cash, the number of shares of Company Stock on which the Award is based shall count toward the individual share limit set forth in this Section 3(d).

(e) Non-Employee Director Annual Limit. Notwithstanding anything in this Plan to the contrary, the maximum number of shares of Company Stock with respect to which Awards may be granted in any calendar year to any non-employee director of the Company, together with any cash fees paid to such non-employee director during such calendar year, shall not exceed $125,000 in total value (based on the Fair Market Value of such Award on the Grant Date for financial reporting purposes).

(f) No Fractional Shares. No fractional shares of Company Stock shall be issued or delivered pursuant to the Plan or any Award thereunder. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional shares.

4. Administration of the Plan.

(a) The Committee. The Plan shall be administered by the Committee, which shall be appointed by the Board. The Committee shall consist of “independent” directors for purposes of the relevant stock exchange listing standards. To the extent required by Rule 16b-3, all Awards shall be made by members of the Committee who are “Non-Employee Directors” as that term is defined in Rule 16b-3, or by the Board. Awards that are intended to be performance-based compensation for purposes of Section 162(m) of the Code shall be made by the Committee, or subcommittee of the Committee, comprised solely of two or more “outside directors” as that term is defined for purposes of Section 162(m) of the Code. In the event the Board determines that a member of the Committee (or any applicable subcommittee) was not an “independent director” under applicable stock exchange listing standards, was not a “non-employee director” as defined in Rule 16b-3, and/or was not an “outside director” as that term is defined for purposes of Section 162(m)(4)(c)(i), as applicable, on the Date of Grant, such determination shall not invalidate the Award and the Award shall remain valid in accordance with its terms. Except as required under Section 2.1(y) relating to Performance Goals, any authority granted to the Committee may also be exercised by the full Board.

(b) Authority of the Committee. Subject to the express provisions of the Plan, the Committee shall have full and final authority to impose such limitations or conditions upon an Award as the Committee deems appropriate to achieve the objectives of the Award and the Plan. Without limiting the foregoing and in addition to the powers set forth elsewhere in the Plan, the Committee shall have the power and complete discretion to determine: (i) which eligible persons shall receive an Award and the nature of the Award; (ii) the number of shares of Company Stock to be covered by each Award; (iii) whether Options shall be Incentive Stock Options or Nonstatutory Stock Options; (iv) the Fair Market Value of Company Stock; (v) the time or times when an Award shall be granted; (vi) whether an Award shall become vested over a period of time, according to a performance-based vesting schedule or otherwise, and when it shall be fully vested , provided, however, that 95% of all shares available under this Plan shall be subject to a minimum vest of one year from date of grant as described below; (vii) the terms and conditions under which restrictions imposed upon an Award shall lapse; (viii) whether a Change in Control has occurred; (ix) factors relevant to the lapse of restrictions, vesting, exercise and settlement of Awards; (x) when Options may be exercised; (xi) whether to approve a Participant's election with respect to Applicable Withholding Taxes; (xii) conditions relating to the length of time before disposition of Company Stock received in connection with an Award is permitted; (xiii) notice provisions relating to the sale of Company Stock acquired under the Plan; and (xiv) any additional requirements relating to Awards that the Committee deems appropriate. Notwithstanding anything is this subsection 4(b) or anywhere else in this Plan to the contrary, at least 95% of all shares available under this Plan will be subject to a minimum one year vesting period from date of grant, and the Committee shall not have the discretion to accelerate the vesting of such Awards except in the case of death, Disability or Change in Control.

(c) Action by the Committee. The Committee may adopt rules and regulations for carrying out the Plan. The Committee shall have the express discretionary authority to construe and interpret the Plan and the Award Agreements, to resolve any ambiguities, to define any terms, and to make any other determinations required by the Plan or an Award Agreement. The interpretation and construction of any provisions of the Plan or an Award Agreement by the Committee shall be final and conclusive. The Committee may consult with counsel, who may be counsel to the Company, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel.

(d) Section 162(m) of the Code. Notwithstanding any provision of the Plan to the contrary, the Plan is intended to give the Committee the authority to grant Awards that qualify as "performance-based compensation" under Section 162(m)(4)(C) of the Code as well as Awards that do not so qualify. Every provision of the Plan shall be administered, interpreted, and construed to carry out such intention, and any provision that cannot be so administered, interpreted, and construed shall to that extent be disregarded; and any provision of the Plan that would prevent an Award that the Committee intends to qualify as "performance-based compensation" under Section 162(m)(4)(C) of the Code from so qualifying shall be administered, interpreted, and construed to carry out such intention, and any provision that cannot be so administered, interpreted, and construed shall to that extent be disregarded.

5. Stock Options.

(a) Grants of Options. Whenever the Committee deems it appropriate to grant Options, an Award Agreement shall be given to the Participant stating the number of shares for which Options are granted, the exercise price per share, whether the options are Incentive Stock Options or Nonstatutory Stock Options, and the conditions to which the grant and exercise of the Options are subject. The Award Agreement shall also set forth all restrictions on disposition and transfer applicable to the Option shares. Non-employee directors and Consultants shall not be eligible to receive the Award of an

Incentive Stock Option.

(b) Exercise Price. The Committee shall establish the exercise price of Options. The exercise price of an Option shall be not less than 100% of the Fair Market Value of such shares on the Date of Grant, provided that if the Participant is a 10% Shareholder, the exercise price of an Incentive Stock Option shall not be less than 110% of the Fair Market Value of such shares on the Date of Grant.

(c) Term. The Committee shall establish the term of each Option in the Award Agreement. The term of an Incentive Stock Option shall not be longer than ten years from the Date of Grant, except that an Incentive Stock Option granted to a 10% Shareholder shall not have a term in excess of five years. No Option may be exercised after the expiration of its term or, except as set forth in the Award Agreement, after the termination of the Participant's employment with the Company and/or its Affiliates.

(d) Time of Exercise.

(i) During Participant's Employment. Options may be exercised during their terms in whole or in part at such times as may be specified by the Committee in the Award Agreement. The Committee may impose such vesting conditions and other requirements as the Committee deems appropriate.

(ii) After Participant's Termination of Employment. The Committee shall set forth in the Award Agreement when, and under what circumstances, an Option may be exercised after termination of the Participant's employment or period of service; provided that no Incentive Stock Option may be exercised after the earlier of: (a) (i) three months from the Participant's termination of employment with the Company for reasons other than Disability or death, or (ii) one year from the Participant's termination of employment on account of Disability or death; or (b) the expiration of the Option's term. The Award Agreement may provide for various conditions with respect to the exercise of the Option after termination of employment, including, but not limited to, compliance with noncompetition and confidentiality covenants.

(iii) After Participant's Death. If a Participant dies and if his Award Agreement provides that part or all of the Option may be exercised after the Participant's death, then such portion may be exercised by the executor or administrator of the Participant's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Participant's death during the time period specified in the Award Agreement, but not later than the expiration of the Option's term.

The Committee may, in its sole discretion, amend a previously granted Incentive Stock Option to provide for more liberal exercise provisions, provided, however, that if the Incentive Stock Option as amended no longer meets the requirements of Section 422 of the Code, and, as a result the Option no longer qualifies for favorable federal income tax treatment under Section 422 of the Code, the amendment shall not become effective without the written consent of the Participant.

(e) Limit on Exercise of Incentive Stock Options. An Incentive Stock Option, by its terms, shall be exercisable in any calendar year only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the Company Stock with respect to which Incentive Stock Options are exercisable by the Participant for the first time during the calendar year does not exceed $100,000 (the "Limitation Amount"). Incentive Stock Options granted under the Plan and all other plans of the

Company and its Affiliates shall be aggregated for purposes of determining whether the Limitation Amount has been exceeded. The Board may impose such conditions as it deems appropriate on an Incentive Stock Option to ensure that the foregoing requirement is met. If Incentive Stock Options that first become exercisable in a calendar year exceed the Limitation Amount, the excess Options will be treated as Nonstatutory Stock Options to the extent permitted by law.

(f) Payment of the Exercise Price. In no event shall any shares be issued pursuant to the exercise of an Option until the Participant has made full payment for the shares of Company Stock (including payment of the exercise price and any Applicable Withholding Taxes). Company Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows, provided that the Committee may impose such limitations and restrictions on payments with shares of Company Stock as the Committee, in its discretion, deems advisable:

(i) in cash or by check, payable to the order of the Company;

(ii) by delivery of Company Stock that the Participant has previously acquired and owned (valued at Fair Market Value on the date of exercise), provided that such method of payment is then permitted under applicable law and the Company Stock was owned by the Participant at least six months prior to such delivery (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes);

(iii) by withholding and retention by the Company of sufficient shares of Company Stock issuable in connection with the exercise to cover the exercise price (a “net share exercise”);

(iv) by delivery of a properly executed exercise notice together with irrevocable instructions to a creditworthy broker to deliver promptly to the Company, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the exercise price and, if required by the Committee, Applicable Withholding Taxes; or

(v) by any combination of the above permitted forms of payment.

(g) Delivery of Shares. The Company may place on any certificate representing Company Stock issued upon the exercise of an Option any legend deemed desirable by the Company’s counsel to comply with federal or state securities laws. The Company may require of the Participant a customary indication of his or her investment intent. A Participant shall not possess shareholder rights with respect to shares acquired upon the exercise of an Option until the Participant has made any required payment, including payment of Applicable Withholding Taxes, and the Company has issued a certificate (or made an equivalent book-entry notation in the records of the Company’s stock transfer agent) for the shares of Company Stock acquired.

(h) Disqualifying Disposition. If a Participant disposes of shares acquired upon exercise of an Incentive Stock Option within two (2) years from the date the Option is granted or within one (1) year after the issuance of such shares to the Participant, the Participant shall notify the Company of such disposition and provide information regarding the date of disposition, sale price, number of shares disposed of, and any other information relating thereto that the Company may reasonably request.

6. Restricted Stock Awards.

(a) Grant. Whenever the Committee deems it appropriate to grant a Restricted Stock Award, an Award Agreement shall be given to the Participant stating the number of shares of Restricted Stock for which the Award is granted, the Date of Grant, and the terms and conditions to which the Award is subject. Certificates representing the shares shall be issued (or an equivalent book-entry notation shall be made in the records of the Company's transfer agent) in the name of the Participant, subject to the restrictions imposed by the Plan and the Committee. Alternatively, the Committee may determine that the Restricted Stock shall be held by the Company rather than delivered to the Participant pending the release of the applicable restrictions. An Award Agreement may be entered into by the Committee in its discretion without cash consideration.

(b) Restrictions on Transferability and Vesting. The Committee may place such restrictions on the transferability and vesting of Restricted Stock as the Committee deems appropriate, including restrictions relating to continued employment and/or achievement of performance objectives, which may or may not be Performance Goals. Without limiting the foregoing, the Committee may provide performance or Change in Control acceleration parameters under which all, or a portion, of the Restricted Stock will vest on the Company's (or an Affiliate's) achievement of established performance objectives and, where applicable, after a determination of the satisfaction or achievement of any Performance Goal. Restricted Stock may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered until the restrictions on such shares shall have lapsed or shall have been removed pursuant to subsection (c) below.

(c) Lapse of Restrictions on Transferability. The Committee shall establish as to each Restricted Stock Award the terms and conditions upon which the restrictions on transferability set forth in paragraph (b) above shall lapse. Such terms and conditions may include, without limitation, the passage of time, the meeting of performance objectives, the lapsing of such restrictions as a result of the Disability or death of the Participant, or the occurrence of a Change in Control.

(d) Rights of the Participant and Restrictions. A Participant shall hold shares of Restricted Stock subject to the restrictions set forth in the Award Agreement and in the Plan. In other respects, unless otherwise provided in the Award Agreement, the Participant shall have all the rights of a shareholder with respect to the shares of Restricted Stock, including, but not limited to, the right to vote such shares and the right to receive all cash dividends and other distributions paid thereon; provided that the Restricted Stock Agreement shall provide that any cash dividends and stock dividends with respect to Restricted Stock shall be withheld by the Company for the Participant's account, and interest may be credited on the amount of cash dividends withheld at a rate and subject to such terms as determined by the Committee. The cash dividends or stock dividends so withheld by the Committee and attributable to any particular share of Restricted Stock shall be distributed to the Participant in cash or, at the discretion of the Committee, in shares of Company Stock having a Fair Market Value equal to the amount of such dividends, if applicable, upon the release of restrictions on such shares and, if such share is forfeited, the Participant shall have no right to such dividends. To the extent stock certificates are delivered to the Participant, the certificates representing Restricted Stock shall bear a legend referring to the restrictions set forth in the Plan and the Participant's Award Agreement. For the sake of clarity, no dividends shall be paid under this Plan unless and until the underlying Award vests.

7. Restricted Stock Unit Awards.

(a) Grant. Whenever the Committee deems it appropriate to grant a Restricted Stock Unit Award, an Award Agreement shall be given to the Participant stating the number of Restricted Stock Units in the Award, the Date of Grant, and the terms and conditions to which the Award is subject. No shares of Company Stock shall be issued at the time a Restricted Stock Unit is granted, and the Company will not be required to set aside a fund for the payment of any such award. A Restricted Stock Unit Award may be made by the Committee in its discretion without cash consideration.

(b) Restrictions on Vesting. The Committee may place such restrictions on the vesting and settlement of Restricted Stock Units as the Committee deems appropriate, including restrictions relating to continued employment or service and/or achievement of performance objectives, which may or may not be Performance Goals. Without limiting the foregoing, the Committee may provide performance or Change in Control acceleration parameters under which all, or a portion, of the Restricted Stock Unit will vest on the Company's achievement of established performance objectives and, where applicable, after a determination of the satisfaction or achievement of any Performance Goal. Restricted Stock Units may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered.

(c) Vesting and Settlement. The Committee shall establish as to each Restricted Stock Unit Award the terms and conditions upon which the Awards shall vest and be settled. Such terms and conditions may include, without limitation, the passage of time, the achievement of performance objectives, the lapsing of such restrictions, vesting and/or settlement as a result of the Disability or death of the Participant, or the occurrence of a Change of Control.

(d) Rights of the Participant. A Participant shall have no voting rights with respect to Restricted Stock Units. At the discretion of the Committee, to the extent set forth in the Award Agreement each Restricted Stock Unit (representing one share of Company Stock) may be credited with cash and stock dividends paid by the Company in respect of one share of Company Stock. Dividends credited to a Participant’s account and attributable to any particular Restricted Stock Unit shall be distributed in cash or, at the discretion of the Committee, in shares of Company Stock having a Fair Market Value equal to the amount of such accumulated dividends to the Participant upon settlement of such Restricted Stock Unit. If such Restricted Stock Unit is forfeited, the Participant shall have no right to such accumulated dividends. For the sake of clarity, no dividends shall be paid under this Plan unless and until the underlying Award vests.

(e) Settlement. Unless otherwise provided in the Award Agreement, a Participant’s Restricted Stock Units which vest shall be immediately settled by the issuance and delivery to the Participant of one share of Company Stock for each vested Restricted Stock Unit or the payment of cash in an amount equal to the number of shares which vested multiplied by the Fair Market Value of a share on the vesting date, or a combination thereof as determined by the Committee.

8. Stock Awards. Whenever the Committee deems it appropriate to grant a Stock Award, an Award Agreement shall be given to the Participant stating the number of shares of unrestricted Company Stock for which the Award is granted, the Date of Grant, and the terms and conditions to which the Award is subject, if any. Certificates representing the shares shall be issued (or an equivalent book-entry notation shall be made in the records of the Company’s transfer agent) in the name of the Participant, subject to any terms imposed by the Plan and the Committee, as soon as practicable after the Date of Grant. A Stock

Award may be made by the Committee in its discretion without cash consideration and may be granted as settlement of a Performance-Based Compensation Award.

9. Incentive Awards.

(a) Grant. Whenever the Committee deems it appropriate to grant an Incentive Award, an Award Agreement shall be given to the Participant stating the terms and conditions of the Award. An Incentive Award may be made by the Committee in its discretion without consideration other than the rendering of services.

(b) Performance. Each Incentive Award is intended to be a Performance-Based Compensation Award, and the terms and conditions of each such Award, including the performance objective and performance period (which may be equal to, less than or more than one year), shall be set forth in the Award Agreement or in a subplan of the Plan which is incorporated by reference into the Award Agreement. The Committee shall set the performance objective in its discretion for each Participant who is granted an Incentive Award.

(c) Settlement. After a performance period has ended, the holder of an Incentive Award shall be entitled to receive the value thereof based on the degree to which the performance objectives and other conditions established by the Committee and set forth in the Award Agreement (or subplan incorporated by reference into the Award Agreement) have been satisfied. Payment of the amount to which a Participant shall be entitled upon the settlement of an Incentive Award shall be made in cash, Company Stock or a combination thereof as determined by the Committee. Payment may be made in a lump sum or installments as determined by the Committee.

(d) Transfer. No Incentive Award granted under the Plan may be sold, transferred, pledged, assigned, or encumbered, otherwise than by will or by the laws of descent and distribution. All rights with respect to Incentive Awards granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

10. Applicable Withholding Taxes. Each Participant shall agree, as a condition of receiving an Award, to pay to the Company or the Affiliate, or make arrangements satisfactory to the Company or the Affiliate regarding the payment of, all Applicable Withholding Taxes with respect to the Award. Until the Applicable Withholding Taxes have been paid or arrangements satisfactory to the Company or the Affiliate have been made, no stock certificates (or, in the case of Restricted Stock, Restricted Stock Units and Stock Awards, no stock certificates free of a restrictive legend) shall be issued to the Participant. As an alternative to making a cash payment to the Company or the Affiliate to satisfy Applicable Withholding Tax obligations, the Committee may establish procedures permitting the Participant to elect to (a) deliver shares of already owned Company Stock or (b) have the Company or the Affiliate retain that number of shares of Company Stock that would satisfy all or a specified portion of the Applicable Withholding Taxes. Any such election shall be made only in accordance with procedures established by the Committee to avoid a charge to earnings for financial accounting purposes and in accordance with Rule 16b-3.

11. Nontransferability of Awards.

(a) Limited Transferability of Awards. In general, Awards, by their terms, shall not be transferable by the Participant except by will or by the laws of descent and distribution or except as described below, without prior written approval from the Committee.

(b) Permissible Transfers for Nonstatutory Options. Notwithstanding the provisions of (a) and subject to federal and state securities laws, the Committee may on a case by case basis grant or amend Nonstatutory Stock Options that permit a Participant to transfer the Options to one or more immediate family members, to a trust for the benefit of immediate family members, or to a partnership, limited liability company, or other entity the only partners, members, or interest-holders of which are among the Participant's immediate family members. Consideration may not be paid for the transfer of Options. The transferee of an Option shall be subject to all conditions applicable to the Option prior to its transfer. The agreement granting the Option shall set forth the transfer conditions and restrictions. The Committee may impose on any transferable Option and on stock issued upon the exercise of an Option such limitations and conditions as the Committee deems appropriate in its sole discretion.

12. Termination, Amendment and Modification.

(a) Termination, Amendment and Modification of the Plan. If not sooner terminated by the Board, this Plan shall terminate at the close of business on April 30, 2027. The Board may at any time terminate, suspend, amend or modify the Plan. Such amendment or modification may be without shareholder approval, except to the extent that such shareholder approval is required by the Code, pursuant to the rules under Section 16 of the Act, by any national securities exchange or system on which shares of Company Stock is then listed or reported, by any regulatory body having jurisdiction with respect thereto, or under any other applicable laws, rules or regulations.

(b) Amendments to Awards. Subject to the terms and provisions and within the limitations of the Plan, the Committee may waive any conditions or rights under, amend any terms of or alter, suspend, discontinue, cancel or terminate, any outstanding Award on either a prospective or retroactive basis; provided that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would adversely affect the rights of any Participant or any holder or Beneficiary of any outstanding Award shall not be effective without the consent of the affected Participant, holder or Beneficiary.

(c) No Option Repricing. Notwithstanding any provision of the Plan to the contrary, neither the Committee nor the Board shall have the right or authority, without obtaining shareholder approval, to amend or modify the exercise price of any outstanding Option, or to cancel an outstanding Option, at a time when the exercise price is greater than the Fair Market Value of the Company Stock in exchange for cash, another Award, or other securities, except in connection with a corporate transaction involving the Company in accordance with Sections 13 (a Change in Capital Structure) or 15 (a Change in Control).

13. Change in Capital Structure.

(a) Effect of Change in Capital Structure. In the event of changes in the outstanding shares of Company Stock or in the capital structure of the Company by reason of any stock or extraordinary cash dividend, stock split, reverse stock split, an extraordinary corporate transaction such as any recapitalization, reorganization, merger, spin-off of a subsidiary, or other relevant change in capitalization occurring after the Date of Grant of any Award, the number and kind of shares of stock or securities of the Company to be issued under the Plan (under outstanding Awards and Awards to be granted in the future), including the per Participant maximums provided for in Section 3(d), the exercise price of Options, and other relevant provisions shall be equitably adjusted by the Committee as to the number, price or kind of consideration subject to such Awards to the extent necessary to preserve the economic intent of such Award. If the adjustment would produce fractional shares with respect to any Award, the Committee may adjust appropriately the number of shares covered by the Award so as to eliminate the fractional shares. Further, with respect to Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code, any adjustments or substitutions will not cause the Company to be denied a tax deduction on account of Section 162(m) of the Code.

(b) Authority. Notwithstanding anything in the Plan to the contrary, the Committee may take the foregoing actions without the consent of any Participant, and the Committee's determination shall be conclusive and binding on all persons for all purposes. The Committee shall make its determinations consistent with Rule 16b-3 and the applicable provisions of the Code.

14. Termination of Employment. The Committee shall have the full power and authority to determine the terms and conditions that shall apply to any Award upon the termination of employment of a Participant, and may provide such terms and conditions in the Award Agreement or in such rules and policies as it may prescribe.

15. Change in Control.

(a) Effect of a Change in Control of the Company. In the event of a Change in Control of the Company, the Committee, as constituted before such Change in Control, may take such actions with respect to any outstanding Award, either at the time the Award is made or any time thereafter, as the Committee deems appropriate, including the following:

(i) Cause any such Award then outstanding to be assumed, or new rights substituted for the Award, by the acquiring or surviving corporation in such Change in Control, or if such Awards are not assumed or substituted for new Awards, provide for the purchase, settlement or cancellation of any such Award by the Company for an amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of a Participant's rights had such Award been currently exercisable or payable; and

(ii) Make adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Change in Control and to retain the economic value of the Award.

(b) Acceleration Principles in the Event of a Change in Control. Each outstanding Award shall be vested, earned or become exercisable to the extent provided in the applicable Award Agreement in the event a Participant is terminated without Cause or the Participant resigns for Good Reason within two (2) years after the effective date of the Change in Control, unless otherwise provided in such Award Agreement.

(c) Successors. The obligations of the Company under the Plan and any Award Agreements shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to all or substantially all of the assets and business of the Company and its Affiliates, taken as a whole.

16. Electronic Transmissions and Records. Subject to limitations under applicable law, the Committee (and its delegee) is authorized in its discretion to issue Awards and/or to deliver and accept notices, elections, consents, designations and/or other forms of communication to or from Participants by electronic or similar means, including, without limitation, transmissions through e-mail or specialized

software and other permissible methods, on such basis and for such purposes as it determines from time to time, and all such communications will be deemed to be "written" for purposes of the Plan.

17. Compliance with Code Section 409A. This Plan is intended to provide compensation that is exempt from or that complies with Code Section 409A and guidance thereunder ("Section 409A"), and the Plan's terms and the terms of any Award Agreement shall be administered and construed in a manner that is compliant with or exempt from the application of Section 409A, as appropriate. For purposes of Section 409A, each payment under this Plan shall be deemed to be a separate payment.

Notwithstanding any provision of this Plan or an Award Agreement to the contrary, to the extent that any payment is subject to Section 409A, if the Participant is a "specified employee" within the meaning of Section 409A as of the date of the Participant's termination of employment and the Company determines, in good faith, that immediate payment of any amounts or benefits under this Plan would cause a violation of Section 409A, then any amounts or benefits payable under this Plan upon the Participant's "separation from service" within the meaning of Section 409A which (i) are subject to the provisions of Section 409A; (ii) are not otherwise exempt from Section 409A; and (iii) would otherwise be payable during the first six-month period following such separation from service, shall be paid on the first business day next following the earlier of (1) the date that is six months and one day following the Participant's separation from service or (2) the date of the Participant's death.

18. Tax Consequences. Nothing in this Plan or an Award Agreement shall constitute a representation by the Company to a Participant regarding the tax consequences of any Award received by a Participant under this Plan. Although the Company may endeavor to (i) qualify an Award for favorable federal tax treatment or (ii) avoid adverse tax treatment (e.g., under Section 409A), the Company makes no representation to that effect and expressly disavows any covenant to maintain favorable tax treatment. The Company shall be unconstrained in its corporate activities without regard to the potential negative tax impact on holders of Awards under this Plan.

19. Clawback. Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement (including but not limited to Section 954 of the Dodd-Frank Act), will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company or any Affiliate pursuant to any such law, government regulation or stock exchange listing requirement). This section shall not limit the Company's right to revoke or cancel an Award or take other action against a Participant for any other reason, including but not limited to misconduct.

20. Interpretation and Governing Law. The terms of this Plan and Awards granted pursuant to the Plan shall be governed, construed and administered in accordance with the laws of the Commonwealth of Virginia, excluding any choice of law rules or principles that might otherwise refer construction or interpretation of any provision of the Plan or an Agreement to the substantive law of another jurisdiction. The Plan and Awards are subject to all present and future applicable provisions of the Code and, to the extent applicable, they are subject to all present and future rulings of the Securities and Exchange Commission with respect to Rule 16b-3. If any provision of the Plan or an Award conflicts with any such Code provision or ruling, the Committee shall cause the Plan to be amended, and shall modify the Award, so as to comply, or if for any reason amendments cannot be made, that provision of the Plan or the Award shall be void and of no effect.

21. Banking Statutory and Regulatory Provisions. The Plan and all Awards granted under the Plan shall be subject to any condition, limitation, or prohibition under any Virginia or federal statutory or regulatory policy or rule to which the Company or any Affiliate is subject.

22. No Employment or Other Service Rights. Nothing in the Plan or any instrument executed or Award granted under the Plan shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an employee with or without notice and with or without Cause or (ii) the service of a director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of Virginia in the case of the Company or the corporate law of the jurisdiction in which an Affiliate is incorporated, as the case may be. Further, the grant of an Award shall not obligate the Company or any Affiliate to pay an employee any particular amount of remuneration or to make further grants to the employee at any time thereafter.

23. Forfeiture Events. The Committee may specify in an Award agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions of an Award. Such events may include, without limitation, breach of non-competition, non-solicitation, confidentiality, or other restrictive covenants that are contained in the Award agreement or otherwise applicable to the Participant, a termination of the Participant's employment or service for Cause, or other conduct by the Participant that is detrimental to the business or reputation of the Company and/or its Affiliates.

24. Deferral of Awards. The Committee may establish one or more programs under the Plan to permit selected Participants the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Participant to payment or receipt of shares of Common Stock or other consideration under an Award. The Committee may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Committee deems advisable for the administration of any such deferral program.

25. Non-Uniform Treatment. The Committee shall be entitled to make non-uniform and selective determinations, amendments and adjustments, and to enter into non-uniform and selective Award agreements.

26. Beneficiary Designation. A Participant may designate a Beneficiary to receive any Options that may be exercised after death or to receive any other Award that may be paid after his death, as provided for in the Award Agreement. Such designation and any change or revocation of such designation shall be made in writing in the form and manner prescribed by the Committee (or its delegee). In the event that the designated Beneficiary dies prior to the Participant, or in the event that no Beneficiary has been designated, any Awards that may be exercised or paid following the Participant's death shall be transferred or paid in accordance with the Participant's will or the laws of descent and distribution.

27. Creditors. The interests of any Participant under the Plan or any Award Agreement are not subject to the claims of creditors and may not, in any way, be assigned, alienated, or encumbered.

28. Unfunded Status of the Plan. The Plan is intended to constitute an “unfunded” plan for incentive and deferred compensation. With respect to any payments as to which a Participant has a fixed and vested interest but which are not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general unsecured creditor of the Company.

Exhibit (10.2)

TOWNEBANK

ANNUAL INCENTIVE COMPENSATION PLAN

I. Plan Objective

This Annual Incentive Compensation Plan (the “Plan”) is intended as an incentive to increase the profitability of TowneBank and its affiliates (collectively, the “Company”) by providing an opportunity for key employees designated by the Compensation Committee, whose efforts are deemed to have a direct impact on the earnings of the Company, to earn incentive awards for outstanding achievement and performance and thereby participate in the overall profitability of the Company.

The Company intends for the incentive awards payable to certain executive officers under this Plan to be performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”).

II. Administration

The Plan will be administered by the Compensation Committee of the Board of Directors of the Company (the “Committee”). The Committee shall have full authority to interpret and administer the Plan and establish rules and regulations for the administration of the Plan. All incentive arrangements and performance goals and objectives shall be evaluated on an annual basis by the Committee and the Company’s Chief Risk Officer to ensure a proper balance is maintained between Company risk and individual reward in addition to a reasonable allocation between short term and long term payment awards. The Committee in its sole and absolute discretion reserves the right to reduce or fully eliminate any incentive payments that it deems necessary to protect the best interests of the Company and its shareholders. Any decision made or action taken by the Committee in connection with the administration of the Plan shall be final, binding and conclusive. No member of the Committee shall be liable for any action, determination or decision made in good faith with respect to the Plan or any Award paid under it.

III. Eligibility

The participants in the Plan (collectively, the “Participants” or individually, a “Participant”) shall be those key employees of the Company who are designated each year as Participants by the Committee. Such designation shall be made during the first 90 days of each calendar year. Participation in the Plan in any one calendar year does not guarantee that an employee will be selected to participate in the Plan in any following calendar year.

IV. Establishment of Performance Goals

(a) Performance Criteria. Performance will be measured based upon one or more objective criteria for each calendar year for which a Participant's performance is measured for purposes of receiving an Award (the "Plan Year"). Criteria will be measured over the Plan Year or a specified portion thereof. Within 90 days after the beginning of a Plan Year (or such shorter period as may be required by the Code), the Committee shall specify in writing the performance criteria that will apply to the Participant during the Plan Year, as well as any applicable matrices, schedules, or formulae applicable to weighting of such criteria in determining performance.

(b) Types of Performance. The performance goals established by the Committee shall be based on one or more performance measures that apply to the Company as a whole ("Corporate Performance"), the Participant's business unit/function performance ("Business Unit/Function Performance"), or the Participant alone ("Individual Performance"), or any combination of Corporate Performance, Business Unit/Function Performance or Individual Performance. If a Participant's performance goals are based on a combination of Corporate Performance, Business Unit/Function Performance or Individual Performance, the Committee shall weigh the importance of each type of performance that applies to such Participant by assigning a percentage to it, provided that such weighted percentage shall in no event exceed 100%.

The performance measures on which performance goals are based may be stated with respect to one or more of: (1) stock value or increases in stock value, (2) earnings per share and/or earnings per share growth, (3) earnings and/or earnings growth (before or after one or more of taxes, interest, depreciation and/or amortization), (4) total shareholder return, (5) operating revenue or operating cash flow, (6) tangible book value or tangible book value growth, tangible book value per share or growth in tangible book value per share, (7) return on equity, tangible equity, assets, capital and/or investment, (8) net revenue or net revenue growth, (9) gross profit or gross profit growth, (10) deposits, loan and/or equity levels or growth thereof, (11) working capital targets, (12) cost control measures, (13) regulatory compliance and regulatory examination results, (14) gross, operating or other margins, (15) efficiency ratio (as generally recognized and used for bank financial reporting and analysis), (16) interest income, (17) non-interest income, (18) credit quality, (19) net charge-offs and/or non-performing assets (excluding such loans or classes of loans as may be designated for exclusion), (20) customer satisfaction and quality control measures, (21) satisfactory internal or external audits, (22) maintenance or improvement of regulatory or financial ratings, (23) achievement of balance sheet or income statement objectives, (24) budget and expense management, (25) assets under management or growth thereof, (26) achievement of risk management objectives, (27) achievement of strategic performance objectives, (28) implementation, management or completion of critical projects or processes, (29) achievement of merger or acquisition objectives, (30) pre-tax income, (31) net income, (32) return on average assets, (33) expense management, (34) regulatory ratings, (35) growth, (36) market share, (37) pre-tax profits, (38) annual pre-tax profit contribution, (39) process improvement, (40) sales, and (41) expense management.

(c) Performance Goals. Using any applicable matrices, schedules, or formulae applicable to weighting of the performance measures, the Committee will develop, in writing, performance goals for the Participants for a Plan Year, no later than 90 days after the start of the Plan Year in which they would apply (or such shorter period as may be required by the Code). The Committee shall have the right to use different performance measures for different Participants. When the Committee sets the performance goals for a Participant, the Committee shall establish the general, objective rules which will be used to determine the extent, if any, that a Participant's performance goals have been met and the specific, objective rules, if any, regarding any exceptions to the use of such general rules, and any such specific, objective rules may be designed as the Committee deems appropriate to take into account any extraordinary or one-time or other non-recurring items of income or expense or gain or loss or any events, transactions or other circumstances that the Committee deems relevant in light of the nature of the performance goals set for the Participant or the assumptions made by the Committee regarding such goals.

(d) Incentive Pools. The Committee may establish for any Plan Year separate incentive pools for certain of the Business Units/Functions of the Company or one or more incentive pools based on such organizational and other factors as the Committee shall deem relevant. At or near the start of the applicable Plan Year, the Committee shall: (i) determine the number of incentive pools and target amount of each incentive pool for the Plan Year; (ii) specify the relevant performance goals and the methodology to determine the actual amount of each incentive pool; and (iii) identify the Participants eligible to receive a share of each incentive pool. To the extent an award that may be earned by a Participant under an incentive pool is intended to satisfy Section 162(m) of the Code, such incentive pool shall be structured in accordance therewith.

V. Awards

An Award to a Participant will generally be based on a percentage of the Participant's base salary and shall be established by the Committee. The percentage of base salary which constitutes an Award may increase as salary grade or level of responsibility increases. An Award will not be based on a percentage of the Participant's base salary in cases where the principal portion of a Participant's compensation is not his or her base salary. In these cases, the Award may be based other factors, such as a percentage of the financial performance of a particular Business Unit/Function.

The Committee shall, in its sole discretion, adjust the Award for each Participant based upon that Participant's over achievement or under achievement in terms of the achievement of the performance goals that apply to the Participant; provided that an Award intended to satisfy Section 162(m) of the Code may be adjusted only in accordance therewith.

An employee who is selected as a Participant after the beginning of a Plan Year or a Participant who retires or who dies prior to the end of such Plan Year will be eligible to receive a pro rata share of an Award based on the number of months of participation during any portion of such Plan Year if, in the sole discretion of the Committee, such an award is merited and, for an Award intended to satisfy Section 162(m) of the Code of a Participant who retires, only as permitted by Code Section 162(m). A Participant whose employment is otherwise terminated prior to the end of such Plan Year will not be eligible for an Award.

VI. Determination and Timing of Awards

At the end of each Plan Year, the Committee shall certify the extent, if any, to which the measures established in accordance with Section IV have been met. All Awards to Participants will be made by the Committee in its sole discretion. Awards will be paid for a particular Plan Year as promptly as practicable after the certifications described above have been made by the Committee. The Company intends that payment will be made within 2 ½ months of the end of the Plan Year. In the event that payments are not made within 2 ½ months of the end of the Plan Year, or otherwise constitute deferred compensation under Section 409A of the Code, it is the Company's intent that this Plan be administered and construed in a manner consistent with Section 409A of the Code.

VII. Method of Payment of Awards

(a) Payments of Awards. Except as otherwise provided in this Plan, Awards for each Participant will be paid in one of the manners set forth in (a)(i) or (a)(ii) or a combination thereof, as determined on a case-by-case basis in the sole discretion of the Committee. Awards are subject to forfeiture until paid, as provided below. In no event will the value of any Award to a Participant for any Plan Year that is based on a percentage of his or her base salary exceed three times their base salary for the Plan Year. In all cases, the value of any Award to Participant for any Plan Year will not exceed $3.0 million.

(i) Cash. The Committee may, in its sole discretion, pay any Award in cash. Awards paid in cash will be paid at the time described in Section VI above unless the Committee has approved a request by a Participant to defer receipt of any Award in accordance with Section VII(b) below.

(ii) Stock Options, Stock Awards, Restricted Stock, Restricted Stock Units. The Committee may, in its sole discretion, pay any Award through the grant of stock options, stock awards, restricted stock, or restricted stock units under the TowneBank 2008 Stock Incentive Plan, as amended, the TowneBank 2017 Stock Incentive Plan, or any successor stock incentive plan approved by the stockholders (the "Stock Incentive Plan"). Any Award issued in the form of stock options, stock awards, restricted stock, or restricted stock units shall be subject to the terms and conditions of the Stock Incentive Plan.

(b) Deferral of Payment of Award. Subject to the requirements of Section 409A of the Code, an Award paid in cash may be deferred under the TowneBank Deferred Compensation Plan (or any successor plan) if the Committee has, not later than the grant of an Award, received and, in its sole discretion, approved a request by a Participant to defer receipt of an Award.

(c) Taxes. Any tax required to be withheld by any government authority shall be deducted from each Award.

(d) Offset for Monies Owed. Any payments made under this Plan may be offset for any monies that the Committee determines are owed to the Company or any affiliate.

VIII. Termination of Employment

(a) Termination for Reasons Other Than Death, Disability or Retirement. If a Participant's employment with the Company is terminated for any reason other than death, disability or retirement during a Plan Year, he shall forfeit his right to receive any Award under this Plan, except that the Committee may elect, in its sole and absolute discretion, to pay an Award to such Participant based on his performance and base salary for that portion of the Plan Year during which he was employed. For Awards intended to satisfy Section 162(m) of the Code, any Award or pro-rated Award will be paid only based on attainment of applicable performance goals as certified by the Committee.

(b) Termination Due to Death, Disability or Retirement. If a Participant's employment with the Company is terminated during a Plan Year by reason of death, disability or retirement, and the Participant has been actively employed by the Company for a minimum of 6 calendar months during such Plan Year, he shall be eligible for an Award based on his performance and base compensation for that portion of the calendar year in which he was employed. The determination and payment of such Award shall be made by the Committee at the end of such Plan Year. If a Participant shall terminate employment during the Plan Year for any reason with less than 6 calendar months of employment, he shall forfeit his right to receive any Award under this Plan, except that the Committee may elect, in its sole and absolute discretion, to pay an Award to such Participant based on his performance and base salary for that portion of the calendar year during which he was employed. For Awards intended to satisfy Section 162(m) of the Code for a Participate who terminates due to retirement, any Award or pro-rated Award will be paid only based on attainment of applicable performance goals as certified by the Committee.

IX. Amendment and Termination

The Committee may amend, modify, suspend, reinstate or terminate this Plan in whole or in part at any time or from time to time; provided, however, that no such action will adversely affect any right or obligation with respect to any Award theretofore made.

X. Change in Control

If there is a Change in Control as defined in this Section X at any time during a Plan Year, (1) the Committee promptly shall determine the Award which would have been payable to each Participant under the Plan for such Plan Year if he had continued for work for the Company for such entire year and all performance goals established under Section IV had been met in full for such Plan Year by multiplying his target percentage by his base salary as in effect on the date of such Change in Control and (2) each such Participant's nonforfeitable interest in his Award thereafter shall be determined by multiplying such Award by a fraction, the numerator of which shall be the number of full, calendar months he is an employee of the Company during such Plan Year and the denominator is 12 or the number of full calendar months the Plan is in effect during such Plan Year, whichever is less. The payment of a Participant's nonforfeitable interest in his Award under this Section X shall be made in cash as soon as practicable after his employment by the Company terminates or as soon as practicable after the end of such Plan Year, whichever comes first.

A Change in Control for purposes of this Section X shall be deemed to have occurred if any one of the conditions in paragraphs (i) - (iv) have been satisfied at any time after the Award is granted:

(i) The acquisition by any Person (as defined below) of beneficial ownership of 30% or more of the then outstanding shares of common stock of the Company;

(ii) Individuals who constitute the Board of Directors of the Company on the effective date of this Plan (the "Incumbent Board") cease to constitute a majority of the Board of Directors of the Company, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company;

(iii) Consummation by the Company of a reorganization, merger, share exchange or consolidation (a "Reorganization"), provided that a Reorganization will not constitute a Change in Control if, upon consummation of the Reorganization, each of the following conditions is satisfied:

(1) more than 50% of the then outstanding shares of common stock of the corporation resulting from the Reorganization is beneficially owned by all or substantially all of the shareholders of the Company immediately prior to the Reorganization in substantially the same proportions, relative to each other, as their ownership existed in the Company immediately prior to the Reorganization; and

(2) at least a majority of the members of the board of directors of the corporation resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization.

(iv) The sale, transfer or assignment of all or substantially all of the assets of the Company and its affiliates to a third party.

For purposes of this Section X, "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934), other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliate, and "beneficial ownership" has the meaning given the term in Rule 13d-3 under the Securities Exchange Act of 1934.

XI. Miscellaneous

(a) No Implied Contract. Nothing contained in this Plan shall be construed as conferring upon any Participant the right or imposing upon him the obligation to continue in the employment of the Company, nor shall it be construed as imposing upon the Company the obligation to continue to employ the Participant.

(b) Non-assignability. Awards under the Plan shall not be subject to anticipation, alienation, pledge, transfer or assignment by any person entitled thereto, except by designation of a beneficiary or by will or the laws of descent and distribution.

(c) No Trust. The obligation of the Company to make payments hereunder shall constitute a liability of the Company to the Participants. Such payments shall be made from the general funds of the Company, and the Company shall not be required to establish or maintain any special or separate fund, or otherwise to segregate assets to assure that such payments shall be made, and neither the Participants nor their beneficiaries shall have any interest in any particular assets of the Company by reason of its obligations hereunder. Nothing contained in this Plan shall create or be construed as creating a trust of any kind or any other fiduciary relationship between the Company and the Participants or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

(d) Facility of Payments. If a Participant or any other person entitled to receive an Award under this Plan shall, at the time payment of any such amount is due, be incapacitated so that such recipient cannot legally receive or acknowledge receipt of the payment, then the Committee, in its sole and absolute discretion, may direct that the payment be made to the legal guardian, attorney-in-fact or person with whom such recipient is residing, and such payment shall be in full satisfaction of the Company's obligation under the Plan with respect to such amount.

(e) Beneficiary Designation. Each Participant may designate a beneficiary hereunder. Such designation shall be in writing, shall be made in the form and manner prescribed by the Committee, and shall be effective only if filed with the Committee prior to the Participant's death. A Participant may, at any time prior to his death, and without the consent of his beneficiary, change his designation of beneficiary by filing a written notice of such change with the Committee in the form and manner prescribed by the Committee. In the absence of a designated beneficiary, or if the designated beneficiary and any designated contingent beneficiary predecease the Participant, the beneficiary shall be the Participant's surviving spouse, or if the Participant has no surviving spouse, the Participant's estate.

(f) Governing Law. The Plan shall be construed and its provisions enforced and administered in accordance with the laws of the Commonwealth of Virginia.

(g) Clawback. Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement (including but not limited to Section 954 of the Dodd-Frank Act), will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company or any affiliate pursuant to any such law, government regulation or stock exchange listing requirement). This section shall not limit the Company's right to revoke or cancel an Award or take other action against a Participant for any other reason, including but not limited to misconduct.

(h) Forfeiture Events. The Committee may specify that a Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions of an Award. Such events may include, without limitation, breach of non-competition, non-solicitation, confidentiality, or other restrictive covenants that are contained in the Award agreement or otherwise applicable to the Participant, a termination of the Participant's employment or service for cause, or other conduct by the Participant that is detrimental to the business or reputation of the Company and/or its affiliates. The authority described in this Section XI(h) are in addition to, and not a limitation on, the Committee's right to reduce or fully eliminate an incentive payment under Section II or any other provision of this Plan.

(i) Effective Date. This Plan shall be effective as of January 1, 2017, subject to the approval by the shareholders of the Company at the 2017 annual meeting of stockholders. Such approval shall meet the requirements of Section 162(m) of the Code and the regulations thereunder.

Exhibit (31.1)

CERTIFICATIONS

I, G. Robert Aston, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2017 of TowneBank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors, and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2017	/s/ G. Robert Aston, Jr.
Date	G. Robert Aston, Jr. Chairman of the Board/Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to TowneBank and will be retained by TowneBank and furnished to the Federal Deposit Insurance Corporation or its staff upon request.

Exhibit (31.2)

CERTIFICATIONS

I, Clyde E. McFarland, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2017 of TowneBank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors, and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2017	/s/ Clyde E. McFarland, Jr.
Date	Clyde E. McFarland, Jr. Senior Executive Vice President/Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to TowneBank and will be retained by TowneBank and furnished to the Federal Deposit Insurance Corporation or its staff upon request.

Exhibit (32)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. §1350, as adopted by §906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of TowneBank do hereby certify, to such officer's knowledge, that:

1. Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, our financial condition and result of operations as of and for the period covered by the Report.

August 8, 2017	/s/ G. Robert Aston, Jr.
Date	G. Robert Aston, Jr. Chairman of the Board/Chief Executive Officer
August 8, 2017	/s/ Clyde E. McFarland, Jr.
Date	Clyde E. McFarland, Jr. Senior Executive Vice President/Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to TowneBank and will be retained by TowneBank and furnished to the Federal Deposit Insurance Corporation or its staff upon request.

Exhibit (99)

DIXON HUGHES GOODMAN LLP

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of *TowneBank*

We have reviewed the consolidated balance sheets of TowneBank and subsidiaries (the Company) as of June 30, 2017 and 2016, the related consolidated statements of income, comprehensive income, and cash flows for the three and six-month periods ended June 30, 2017 and 2016, and the related consolidated statement of equity for the six months ended June 30, 2017. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards established by the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated balance sheet of TowneBank and subsidiaries as of December 31, 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Dixon Hughes Goodman LLP

Norfolk, Virginia
August 8, 2017