

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

**FORM 8-K**

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

October 26, 2017  
Date of Report (Date of earliest event reported)

TOWNE BANK  
(Exact name of registrant as specified in its charter)

<u>Virginia</u> (State or other jurisdiction of incorporation)	<u>35095</u> (FDIC Insurance Cert. No.)	<u>54-1910608</u> (IRS Employer Identification No.)
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<u>5716 High Street Portsmouth, Virginia</u> (Address of principle executive offices)	<u>23703</u> (Zip Code)
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(757) 638-7500  
(Registrant's telephone number, including area code)

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

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

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

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

Emerging growth company ☐

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

## **ITEM 2.02 - RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

On October 26, 2017, TowneBank issued a press release regarding its results of operations and financial condition for the third quarter ended September 30, 2017. A copy of the press release announcing the Registrant's results for the third quarter ended September 30, 2017 is attached hereto as Exhibit 99.1 and incorporated by reference herein.

## **ITEM 9.01 - FINANCIAL STATEMENTS AND EXHIBITS**

Exhibit 99.1: News Release dated October 26, 2017.

## **SIGNATURES**

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

**TOWNE BANK**  
(Registrant)

/s/ Clyde E. McFarland, Jr. \_\_\_\_\_

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

Date: October 26, 2017



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## *News Release*

### **FOR IMMEDIATE RELEASE**

#### **For more information contact:**

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

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

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## **TOWNEBANK REPORTS RECORD THIRD QUARTER EARNINGS**

**Suffolk, VA, October 26, 2017** - TowneBank (the “Bank” or “Company”) (NASDAQ: TOWN) today reported record financial results for the three and nine months ended September 30, 2017. Earnings for the quarter ended September 30, 2017 were \$27.15 million, a 12.30% increase from the \$24.18 million for the same quarter in 2016. Fully diluted earnings per share were \$0.44 per share, up 12.82% from \$0.39 per share in third quarter 2016.

Earnings for the year-to-date period were \$75.33 million compared to \$48.25 million earned in the same period of 2016. Fully diluted earnings per share were \$1.21 compared to \$0.87 for the nine months ended September 30, 2016.

Excluding certain items affecting comparability, earnings for the year-to-date period were \$74.31 million (non-GAAP), or \$1.19 (non-GAAP) per diluted share, compared to the \$61.60 million (non-GAAP), or \$1.12 (non-GAAP) per diluted share, earned in the same period of 2016.

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

“We are pleased to announce another quarter of record earnings, as we saw continued strength in our asset quality metrics and solid improvements in noninterest expenses, while producing a return on average assets of 1.26% and a return on average equity of 9.49%,” said G. Robert Aston, Jr., Chairman and Chief Executive Officer. “In addition, we completed a \$250 million subordinated debt offering in July, which

allowed us to bolster our risk-based capital ratio and reduce our CRE concentration ratio in advance of our anticipated merger with Paragon in first quarter 2018.”

### **Third Quarter 2017 Performance Highlights**

- Total revenues were \$115.34 million, an increase of \$5.91 million, or 5.40% from third quarter 2016
  - Taxable equivalent net interest margin was 3.43%, including accretion of 12 basis points, compared to 3.55%, including accretion of 17 basis points, for 2016
  - Property management fee revenue increased \$3.56 million, or 81.21%
  - Insurance segment total revenue increased 8.02% to \$14.28 million
- Loans held for investment increased \$258.84 million, or 4.58% from September 30, 2016
- Total deposits were \$6.55 billion, an increase of \$401.51 million, or 6.53%, from third quarter 2016
  - Noninterest bearing deposits increased by 12.04%, to \$2.21 billion, representing 33.78% of total deposits
  - Total cost of deposits increased to 0.47% from 0.38% at September 30, 2016
- Issued \$250.0 million of fixed to variable rate 10-year subordinated notes at a fixed rate of 4.50% for the first five years
  - Issuance resulted in a reduction of 12 basis points to net interest margin
  - Treated as Tier 2 capital for regulatory purposes at September 30, 2017
- Asset quality showed continued strength
  - Nonperforming assets declined to \$33.89 million, or 0.39% of total assets compared to \$34.22 million, or 0.44%, at September 30, 2016
  - Nonperforming loans were 0.15% of period end loans
  - Foreclosed property decreased to \$21.50 million
- The Bank remained well-capitalized
  - Common equity tier 1 capital ratio of 12.36%
  - Tier 1 leverage capital ratio of 10.14%

- Tier 1 risk-based capital ratio of 12.40%
- Total risk-based capital ratio of 16.71%
- Book value increased to \$18.04
- Tangible book value increased to \$13.08

### **Third Quarter 2017 Earnings Compared to Third Quarter 2016**

Net income for the third quarter was \$27.15 million, or \$0.44 per diluted share, versus \$24.18 million, or \$0.39 per diluted share, in 2016, reflecting growth in net interest income and noninterest income as compared to the prior year period.

#### ***Net Interest Income***

Net interest income increased to \$65.92 million, a \$3.32 million, or 5.30%, increase from the third quarter of 2016. The primary driver was the growth in average earning assets, which increased \$621.75 million, or 8.77%, while tax-equivalent net interest margin decreased to 3.43% in the current quarter from 3.55% in third quarter 2016. The subordinated note issuance in July 2017 resulted in additional interest expense of \$2.37 million in third quarter 2017 and a temporary reduction of 12 basis points to net interest margin, subject to the leveraging of the proceeds into earning assets. Accretion income added \$2.36 million, or 12 basis points, to margin in the current quarter as compared to \$2.63 million, or 17 basis points, in the third quarter of 2016.

#### ***Noninterest Income***

Noninterest income was \$49.42 million for the third quarter of 2017, an increase of \$2.60 million, or 5.54%, from the third quarter of 2016. Residential mortgage banking income decreased \$2.34 million, or 10.93%, from the third quarter of 2016 primarily due to lower production volumes. Mortgage production was \$0.95 billion in third quarter 2017, which was \$299.02 million lower than third quarter 2016 production of \$1.25 billion. Insurance commissions and other title fees increased \$0.86 million, or 7.62%, primarily due to the acquisition of an insurance agency in August 2017, combined with organic growth in property and casualty and employee benefits lines of business. Additionally, real estate brokerage and property management income increased \$3.40 million, or 51.08%, from the third quarter of 2016 primarily due to our acquisition of a resort property management company at Deep Creek Lake, Maryland (“Deep Creek”) in second quarter 2017.

### ***Noninterest Expense***

Noninterest expense increased by \$3.25 million, or 4.59%, from the comparative quarter of 2016. The primary driver was an increase of \$2.97 million in salaries and benefits expense primarily due to the addition of staff related to the Deep Creek and insurance agency acquisitions, combined with higher personnel costs in our Banking and Insurance segments. Also contributing was an increase in furniture and equipment expenses of \$0.51 million, primarily related to equipment lease and maintenance expense. Partially offsetting the increase was a reduction in acquisition-related expenses of \$0.50 million, and advertising and marketing expenses of \$0.31 million.

### **Third Quarter 2017 Earnings Compared to Second Quarter 2017**

Net income for the third quarter was \$27.15 million, or \$0.44 per diluted share, versus \$26.21 million, or \$0.42 per diluted share, in second quarter 2017, reflecting a decrease in the provision for loan losses and a lowering of noninterest expenses in third quarter 2017.

### **Performance Highlights**

- Total revenues were \$115.34 million compared to \$119.60 million in the second quarter of 2017
  - Taxable equivalent net interest margin was 3.43%, including accretion of 12 basis points, compared to 3.84%, including accretion of 31 basis points, in the second quarter of 2017
  - Property management fee revenue increased \$2.65 million, or 49.99%
  - Noninterest expense decreased \$3.93 million, or 5.03%
- Total loans held for investment decreased slightly to \$5.91 billion
- Total deposits were \$6.55 billion, a slight decrease of 0.72%, from June 30, 2017
  - Average noninterest bearing deposits increased by \$92.10 million, or 4.42%
- Issued \$250.0 million of fixed to variable rate 10-year subordinated notes at a fixed rate of 4.50% for the first five years
  - Issuance resulted in a reduction of 12 basis points to net interest margin

### ***Net Interest Income***

On a linked quarter basis, net interest income decreased by \$3.33 million, or 4.81%, in third quarter 2017 versus second quarter 2017, while tax-equivalent net interest margin was 3.43% versus 3.84% for the

second quarter of 2017. The decrease in net interest income was primarily due to a one-time adjustment to accretion income of a \$3.89 million, or 21 basis points, in second quarter 2017, combined with slightly higher time deposit costs and interest expense on the newly issued subordinated notes. Accretion income added \$2.36 million, or 12 basis points, to margin in the current quarter, as compared to \$5.57 million, or 31 basis points, in the linked quarter.

### ***Noninterest Income***

In comparison to the second quarter of 2017, noninterest income decreased \$0.93 million, or 1.84%. The decrease was driven by residential mortgage banking income, which declined by \$2.51 million, or 11.61%, due to a decrease in mortgage production of \$130.87 million, from \$1.08 billion in second quarter 2017 to \$947.66 million in third quarter 2017. Additionally, insurance commissions declined due to a decrease in employee benefits insurance bonus income, combined with a seasonal decrease in travel insurance. Partially offsetting the decrease from the linked quarter was real estate brokerage and property management income, which was higher by \$2.41 million, or 31.63%, due to a seasonal increase in resort property management fees.

### ***Noninterest Expense***

Noninterest expense decreased by \$3.93 million, or 5.03%, from the second quarter of 2017. The primary reductions in expenses were salaries and benefits expense of \$1.37 million, acquisition-related expenses of \$0.82 million, and advertising and marketing expenses of \$0.97 million. Salaries and benefits expenses were lower primarily due to a reduction in the accrual of expenses related to our profit sharing plan, which is linked to the achievement of certain performance thresholds and targeted levels of earnings.

**Noninterest Income**

	% Change				
	Q3	Q3	Q2	Q3 17 vs.	Q3 17 vs.
(dollars in thousands)	2017	2016	2017	Q3 16	Q2 17
Residential mortgage banking income, net	\$ 19,087	\$ 21,430	\$ 21,594	(10.93)%	(11.61)%
Insurance commissions and other title fees and income, net	12,116	11,258	12,902	7.62 %	(6.09)%
Real estate brokerage and property management, net	10,042	6,647	7,629	51.08 %	31.63 %
Service charges on deposit accounts	2,670	2,552	2,644	4.62 %	0.98 %
Credit card merchant fees, net	1,388	1,365	1,298	1.68 %	6.93 %
Bank owned life insurance	1,425	1,264	1,421	12.74 %	0.28 %
Other income	2,688	2,305	2,856	16.62 %	(5.88)%
Subtotal before loss on investment securities	49,416	46,821	50,344	5.54 %	(1.84)%
Net loss on investment securities	—	—	(1)	N/M	(100.00)%
Total noninterest income	<u>\$ 49,416</u>	<u>\$ 46,821</u>	<u>\$ 50,343</u>	<u>5.54 %</u>	<u>(1.84)%</u>

**Noninterest Expense**

	% Change				
	Q3	Q3	Q2	Q3 17 vs.	Q3 17 vs.
(dollars in thousands)	2017	2016	2017	Q3 16	Q2 17
Salaries and benefits	\$ 43,467	\$ 40,497	\$ 44,834	7.33 %	(3.05)%
Occupancy expense	6,635	6,656	6,658	(0.32)%	(0.35)%
Furniture and equipment	3,710	3,199	3,563	15.97 %	4.13 %
Acquisition-related expenses	466	969	1,281	(51.91)%	(63.62)%
Other expenses	19,908	19,612	21,783	1.51 %	(8.61)%
Total noninterest expense	<u>\$ 74,186</u>	<u>\$ 70,933</u>	<u>\$ 78,119</u>	<u>4.59 %</u>	<u>(5.03)%</u>

**Segment Results**

	\$ Change				
(in thousands)	Q3	Q3	Q2	Q3 17 vs.	Q3 17 vs.
Segment Net Income (Loss)	2017	2016	2017	Q3 16	Q2 17
Banking	\$ 22,569	\$ 18,276	\$ 21,546	\$ 4,293	\$ 1,023
Realty	3,445	4,815	3,204	(1,370)	241
Insurance	1,136	1,085	1,463	51	(327)
Total net income	<u>\$ 27,150</u>	<u>\$ 24,176</u>	<u>\$ 26,213</u>	<u>\$ 2,974</u>	<u>\$ 937</u>

**Third Quarter 2017 Compared to Third Quarter 2016****Banking**

Net income for the three months ended September 30, 2017 for the Banking segment was \$22.57 million, increasing \$4.29 million from comparative 2016, as net interest income climbed by \$4.18 million primarily due to an increase in earning assets, partially offset by interest expense related to the issuance of subordinated notes in July 2017. Also contributing to the variance was a decrease in the provision for loan losses of



\$0.99 million and an increase in noninterest income of \$0.70 million, which included increases in wealth management income, service charges and bank-owned life insurance income. Additionally, noninterest expenses declined by \$0.12 million, as the decreases in acquisition-related expenses and marketing costs were partially offset by increases in personnel costs.

### ***Realty***

For the three months ended September 30, 2017, the Realty segment net income was \$3.45 million as compared to \$4.82 million in third quarter 2016. The variance was driven by increased noninterest expenses of \$2.42 million, including an increase in personnel costs of \$1.22 million, primarily due to the Deep Creek acquisition. Additionally, lower production volumes led to a decrease in residential mortgage banking income. The decrease was mostly offset by an increase in property management fees of \$3.56 million, or 81.21%, also related to the Deep Creek acquisition. Additionally, net interest and other income decreased by \$0.72 million, as the reduction in production volume led to lower average mortgage loans held for sale.

### ***Insurance***

The Insurance segment had net income of \$1.14 million for the three months ended September 30, 2017, an increase of \$0.05 million compared to third quarter 2016. The increase in net income was primarily driven by growth in property and casualty insurance and employee benefit insurance lines, partially offset by an increase in operating costs.

## **Third Quarter 2017 Compared to Second Quarter 2017**

### ***Banking***

Earnings increased by \$1.02 million, or 4.75%, from the second quarter of 2017 as noninterest expense decreased by \$3.43 million and the provision for loan losses saw a decrease of \$0.62 million. The decrease in noninterest expense was driven by decreases in personnel costs of \$1.88 million, advertising and marketing expenses of \$0.58 million, and acquisition-related expenses of \$0.58 million. These factors were partially offset by a decrease in net interest income of \$3.34 million due to a combination of a decrease in accretion of purchase accounting marks and increased interest expense related to the issuance of subordinated notes in July 2017.

## ***Realty***

Net income in the Realty segment increased by \$0.24 million from the linked quarter ended June 30, 2017. The increase was primarily a result of a seasonal increase in our resort property management businesses, which saw an increase in property management fee income of \$2.65 million. The increase was partially offset by decreases in our residential mortgage banking and real estate brokerage lines of business.

## ***Insurance***

Net income decreased \$0.33 million from the second quarter of 2017 driven by a reduction in contingency and bonus revenue of \$0.77 million related to bonus income received by our employee benefits lines in second quarter 2017. Additionally, commissions from travel insurance saw a seasonal decrease of \$0.19 million, but were offset by an increases in property and casualty commissions of \$0.50 million.

## **Balance Sheet**

At September 30, 2017, total Bank assets reached \$8.61 billion, an increase of \$784.65 million, or 10.02%, over September 30, 2016.

## **Loans**

	<b>Q3</b>	<b>Q3</b>	<b>Q2</b>	<b>% Change</b>	
<i>(dollars in thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>Q3 17 vs. Q3 16</b>	<b>Q3 17 vs. Q2 17</b>
Construction and land development	\$ 880,655	\$ 820,453	\$ 888,566	7.34 %	(0.89)%
Commercial real estate - investment related properties	1,336,277	1,283,619	1,339,270	4.10 %	(0.22)%
Commercial real estate - owner occupied	966,986	905,870	956,333	6.75 %	1.11 %
Multifamily real estate	185,323	206,623	206,894	(10.31)%	(10.43)%
1-4 family residential real estate	1,239,886	1,208,001	1,227,389	2.64 %	1.02 %
Commercial and industrial business loans	1,084,555	1,033,797	1,110,822	4.91 %	(2.36)%
Consumer loans and other	216,797	193,279	219,787	12.17 %	(1.36)%
Total	<u>\$ 5,910,479</u>	<u>\$ 5,651,642</u>	<u>\$ 5,949,061</u>	<u>4.58 %</u>	<u>(0.65)%</u>

The Bank's loan portfolio ended the period at \$5.91 billion representing an increase of 4.58%, or \$258.84 million, from the prior year, and a decrease of \$38.58 million, or 0.65%, from June 30, 2017.

## Deposits

	% Change				
	Q3	Q3	Q2	Q3 17 vs.	Q3 17 vs.
(dollars in thousands)	2017	2016	2017	Q3 16	Q2 17
Noninterest-bearing demand	\$ 2,212,047	\$ 1,974,395	\$ 2,219,406	12.04%	(0.33)%
Interest-bearing:					
Demand and money market accounts	2,253,746	2,207,962	2,292,978	2.07%	(1.71)%
Savings	320,028	315,477	318,714	1.44%	0.41 %
Certificates of deposits	1,762,641	1,649,113	1,764,671	6.88%	(0.12)%
Total	<u>\$ 6,548,462</u>	<u>\$ 6,146,947</u>	<u>\$ 6,595,769</u>	<u>6.53%</u>	<u>(0.72)%</u>

The Bank continued to experience solid deposit growth with total deposits increasing to \$6.55 billion, up \$401.51 million, or 6.53%, from September 30, 2016. The Bank saw continued growth in noninterest-bearing demand deposits, which ended the quarter at \$2.21 billion, a 12.04% increase from the prior year. Noninterest-bearing deposits represented 33.78% of total deposits at September 30, 2017.

## Capital Ratios

	Q3	Q3	Q2
	2017	2016	2017
Common Equity Tier 1	12.36%	11.74%	11.98%
Tier 1	12.40%	11.81%	12.03%
Total	16.71%	12.42%	12.68%
Tier 1 Leverage Ratio	10.14%	10.18%	10.43%

The Bank's total equity at September 30, 2017 rose to \$1.14 billion, an increase of \$61.97 million, or 5.74%, from September 30, 2016. Total risk-based capital remained strong as common equity Tier 1, Tier 1 capital, total risk-based capital, and Tier 1 leverage capital ratios were 12.36%, 12.40%, 16.71%, 10.14%, respectively. All ratios exceed the current regulatory standards for well capitalized status.

## Asset Quality

<i>(in thousands)</i>	<b>9/30/2017</b>	<b>6/30/2017</b>	<b>3/31/2017</b>	<b>12/31/2016</b>	<b>9/30/2016</b>
Nonperforming loans	\$ 8,768	\$ 9,645	\$ 11,538	\$ 13,099	\$ 11,337
Former bank premises	3,619	2,798	2,798	3,494	—
Foreclosed property	21,504	23,249	21,473	21,011	22,884
Total nonperforming assets	<u>\$ 33,891</u>	<u>\$ 35,692</u>	<u>\$ 35,809</u>	<u>\$ 37,604</u>	<u>\$ 34,221</u>
Quarterly net loans charged off	\$ 429	\$ 384	\$ 1,347	\$ 485	\$ 649
Year-to-date net loans charged off	\$ 2,160	\$ 1,731	\$ 1,347	\$ 1,715	\$ 1,230

<i>(dollars in thousands)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>Q2 2017</b>	<b>Change Q3 17 vs. Q3 16</b>	<b>Q3 17 vs. Q2 17</b>
Total loans 90 days past due and still accruing	\$ 74	\$ —	\$ 206	\$ 74	\$ (132)
Total loans 30-89 days past due	\$ 5,888	\$ 6,707	\$ 4,193	\$ (819)	\$ 1,695
Allowance for loan losses	\$ 44,398	\$ 40,655	\$ 44,131	\$ 3,743	\$ 267
Total performing TDRs	\$ 22,280	\$ 28,345	\$ 24,663	\$ (6,065)	\$ (2,383)
Nonperforming loans to period end loans	0.15%	0.20%	0.16%	(0.05)	(0.01)
Nonperforming assets to period end assets	0.39%	0.44%	0.42%	(0.05)	(0.03)
Allowance for loan losses to period end loans	0.75%	0.72%	0.74%	0.03	0.01
Allowance for loan losses (originated) to originated period end loans	0.86%	0.91%	0.86%	(0.05)	—
Net charge-offs to average loans (annualized)	0.03%	0.05%	0.03%	(0.02)	—
Ratio of allowance for loan losses to nonperforming loans	5.06x	3.59x	4.58x	1.47x	0.48x

Continued strength in credit quality contributed to the Bank's financial results as net charge-offs totaled \$0.43 million in the third quarter of 2017 compared to \$0.65 million in the third quarter of 2016 and \$0.38 million in the linked quarter. Total nonperforming assets were \$33.89 million, or 0.39%, of Bank assets at September 30, 2017, compared to \$34.22 million, or 0.44%, at September 30, 2016, and \$35.69 million, or 0.42%, at June 30, 2017. The allowance for loan losses was \$44.40 million, an increase from \$40.66 million at September 30, 2016 and \$44.13 million at June 30, 2017.

**About TowneBank:**

As one of the top community banks in Virginia and North Carolina, TowneBank operates 37 banking offices serving Chesapeake, Chesterfield County, Glen Allen, Hampton, James City County, Mechanicsville, Newport News, Norfolk, Portsmouth, Richmond, Suffolk, Virginia Beach, Williamsburg, and York County in Virginia, along with Moyock, Grandy, Camden County, Southern Shores, Corolla and Nags Head in North Carolina. Towne also offers a full range of financial services through its controlled divisions and subsidiaries that include Towne Investment Group, Towne Wealth Management, Towne Insurance Agency, Towne Benefits, TowneBank Mortgage, TowneBank Commercial Mortgage, Berkshire Hathaway HomeServices Towne Realty, Towne 1031 Exchange, LLC, and Towne Vacations. Local decision-making is a hallmark of its hometown banking strategy that is delivered through the leadership of each group's President and Board of Directors. With total assets of \$8.61 billion as of September 30, 2017, TowneBank is one of the largest banks headquartered in Virginia.

On April 27, 2017, TowneBank announced the signing of a definitive agreement to acquire Paragon Commercial Corporation ("Paragon") and its wholly-owned bank subsidiary, Paragon Commercial Bank. Founded in Raleigh, North Carolina in 1999, Paragon Commercial Bank provides banking services through highly responsive professionals, an extensive courier service, online and mobile technologies, free worldwide ATM access and a select number of strategically placed offices in Raleigh, Cary and Charlotte, North Carolina. Pending customary regulatory and shareholder approvals, the merger is scheduled to close in January 2018. Based on financial data as of June 30, 2017, the combined company would have total assets of \$10.1 billion, gross loans of \$7.3 billion and total deposits of \$7.8 billion.

**Non-GAAP Financial Measures:**

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

to non-GAAP disclosures are included as tables at the end of this release.

### **Forward-Looking Statements:**

Certain statements contained in this release constitute forward-looking statements within the meaning of U.S. federal securities laws. These forward-looking statements speak only as of the date of this release, are based on current expectations, and involve a number of assumptions. These include statements regarding TowneBank's future economic performance, financial condition, prospects, growth, strategies and expectations, and objectives of management, and are generally identified by the use of words such as "believe," "expect," "intend," "anticipate," "estimate," or "project" or similar expressions. TowneBank intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of these safe harbor provisions. You should not place undue reliance on forward-looking statements, which are subject to assumptions that are subject to change. TowneBank's ability to predict results, or the actual effect of future plans or strategies, is inherently uncertain. These forward-looking statements are subject to a number of factors and uncertainties that could cause actual results to differ from those indicated or implied in the forward-looking statements and such differences may be material. Factors which could have a material effect on the operations and future prospects of TowneBank include but are not limited to: changes in interest rates, general economic and business conditions; legislative/regulatory changes; the monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System; the quality and composition of TowneBank's loan and securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in TowneBank's market area; implementation of new technologies and the ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; changes in accounting principles, policies and guidelines; TowneBank's ability to complete and successfully integrate the business of Paragon Commercial Bank in the expected timeframe, if at all, and to achieve expected revenue synergies and cost savings from the merger; and other risk factors detailed from time to time in filings made by TowneBank with the Federal Deposit Insurance Corporation (the "FDIC"). TowneBank undertakes no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.

### **Additional Information About the Merger and Where to Find It:**

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval. In connection with the merger, Paragon will file with the

Securities and Exchange Commission (“SEC”) a preliminary proxy statement. Paragon will deliver a definitive proxy statement/prospectus to its stockholders seeking approval of the merger and related matters. In addition, each of TowneBank and Paragon may file other relevant documents concerning the proposed merger with the FDIC and SEC.

Paragon, TowneBank and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from Paragon’s stockholders in connection with the proposed merger. Information about the directors and executive officers of Paragon and TowneBank and other persons who may be deemed participants in the solicitation, including their interests in the merger, will be included in the definitive proxy statement/prospectus when it becomes available. Additional information about Paragon’s executive officers and directors can be found in Paragon’s final prospectus filed with the SEC on June 17, 2016. Additional information regarding TowneBank’s executive officers and directors can be found in TowneBank’s definitive proxy statement in connection with its 2017 Annual Meeting of Stockholders filed with the FDIC on April 21, 2017. You may obtain free copies of each document from Paragon by directing a request by telephone or mail to Paragon Commercial Corporation, 3535 Glenwood Avenue, Raleigh, North Carolina 27612, Attention: Investor Relations (telephone: (919) 788-7770), or by accessing Paragon’s website at <https://www.paragonbank.com> under “About Us-Investor Relations.” You may obtain free copies of each document from TowneBank by directing a request by telephone or mail to TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23425, Attention: Investor Relations (telephone: (757) 638-6794), or by accessing TowneBank’s website at <https://townebank.com> under “Investor Relations.” The information on TowneBank’s and Paragon’s websites is not, and shall not be deemed to be, a part of this release or incorporated into other filings either company makes with the FDIC or SEC. ###

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

Three Months Ended September 30,	2017	2016	Increase/ (Decrease)	% Increase/ (Decrease)
<b>Results of Operations:</b>				
Net interest income	\$ 65,923	\$ 62,605	\$ 3,318	5.30 %
Noninterest income	49,416	46,821	2,595	5.54 %
Total Revenue	115,339	109,426	5,913	5.40 %
Acquisition-related expenses	466	969	(503)	(51.91)%
Noninterest expenses, excluding acquisition-related expenses	73,720	69,964	3,756	5.37 %
Provision for loan losses	696	1,686	(990)	(58.72)%
Income before income tax and noncontrolling interest	40,457	36,807	3,650	9.92 %
Provision for income tax expense	11,862	10,974	888	8.09 %
Net income	28,595	25,833	2,762	10.69 %
Net income attributable to noncontrolling interest	(1,445)	(1,657)	212	(12.79)%
Net income attributable to TowneBank	27,150	24,176	2,974	12.30 %
Net income available to common shareholders	27,150	24,176	2,974	12.30 %
Net income per common share - basic	0.44	0.39	0.05	12.82 %
Net income per common share - diluted	0.44	0.39	0.05	12.82 %
<b>Period End Data:</b>				
Total assets	\$ 8,614,794	\$ 7,830,142	\$ 784,652	10.02 %
Total assets - tangible	8,304,142	7,525,817	778,325	10.34 %
Earning assets	7,785,167	7,033,535	751,632	10.69 %
Loans (net of unearned income)	5,910,479	5,651,642	258,837	4.58 %
Allowance for loan losses	44,398	40,655	3,743	9.21 %
Goodwill and other intangibles	310,652	304,325	6,327	2.08 %
Nonperforming assets	33,891	34,221	(330)	(0.96)%
Noninterest bearing deposits	2,212,047	1,974,395	237,652	12.04 %
Interest bearing deposits	4,336,415	4,172,552	163,863	3.93 %
Total deposits	6,548,462	6,146,947	401,515	6.53 %
Total equity	1,140,852	1,078,878	61,974	5.74 %
Total equity - tangible	830,199	774,553	55,646	7.18 %
Common equity	1,129,588	1,067,193	62,395	5.85 %
Common equity - tangible	818,936	762,868	56,068	7.35 %
Book value per common share	18.04	17.11	0.93	5.44 %
Book value per common share - tangible	13.08	12.23	0.85	6.95 %
<b>Daily Average Balances:</b>				
Total assets	\$ 8,570,019	\$ 7,991,213	\$ 578,806	7.24 %
Total assets - tangible	8,259,587	7,689,122	570,465	7.42 %
Earning assets	7,710,245	7,088,493	621,752	8.77 %
Loans (net of unearned income), excluding nonaccrual loans	5,897,169	5,583,711	313,458	5.61 %
Allowance for loan losses	44,198	40,004	4,194	10.48 %
Goodwill and other intangibles	310,432	302,091	8,341	2.76 %
Noninterest bearing deposits	2,173,920	1,959,025	214,895	10.97 %
Interest bearing deposits	4,365,820	4,219,316	146,504	3.47 %
Total deposits	6,539,740	6,178,341	361,399	5.85 %
Total equity	1,135,218	1,075,023	60,195	5.60 %
Total equity - tangible	824,787	772,932	51,855	6.71 %
Common equity	1,124,173	1,064,179	59,994	5.64 %
Common equity - tangible	813,741	762,088	51,653	6.78 %
<b>Key Ratios:</b>				
Return on average assets	1.26%	1.20%	0.06 %	5.00 %
Return on average assets - tangible	1.37%	1.32%	0.05 %	3.79 %
Return on average equity	9.49%	8.95%	0.54 %	6.03 %
Return on average equity - tangible	13.67%	13.09%	0.58 %	4.43 %
Return on average common equity	9.58%	9.04%	0.54 %	5.97 %
Return on average common equity - tangible	13.86%	13.27%	0.59 %	4.45 %
Net interest margin-fully tax equivalent (1)	3.43%	3.55%	(0.12)%	(3.38)%
Net interest margin	3.39%	3.51%	(0.12)%	(3.42)%
Average earning assets/total average assets	89.97%	88.70%	1.27 %	1.43 %
Average loans/average deposits	90.17%	90.38%	(0.21)%	(0.23)%
Average noninterest deposits/total average deposits	33.24%	31.71%	1.53 %	4.82 %
Allowance for loan losses/period end loans	0.75%	0.72%	0.03 %	4.17 %
Nonperforming assets to period end assets	0.39%	0.44%	(0.05)%	(11.36)%
Period end equity/period end total assets	13.24%	13.78%	(0.54)%	(3.92)%
Efficiency ratio	64.32%	64.82%	(0.50)%	(0.77)%

(1) Presented on a tax-equivalent basis



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

Nine Months Ended September 30,	2017	2016	Increase/ (Decrease)	% Increase/ (Decrease)
<b>Results of Operations:</b>				
Net interest income	\$ 195,456	\$ 156,724	\$ 38,732	24.71 %
Noninterest income	144,645	115,704	28,941	25.01 %
Total Revenue	340,101	272,428	67,673	24.84 %
Acquisition-related expenses	1,743	19,817	(18,074)	(91.20)%
Noninterest expenses, excluding acquisition-related expenses	220,810	175,175	45,635	26.05 %
Provision for loan losses	4,557	3,526	1,031	29.24 %
Income before income tax and noncontrolling interest	112,991	73,910	39,081	52.88 %
Provision for income tax expense	33,488	21,538	11,950	55.48 %
Net income	79,503	52,372	27,131	51.80 %
Net income attributable to noncontrolling interest	(4,173)	(4,118)	(55)	1.34 %
Net income attributable to TowneBank	75,330	48,254	27,076	56.11 %
Net income available to common shareholders	75,330	48,254	27,076	56.11 %
Net income per common share - basic	1.21	0.88	0.33	37.50 %
Net income per common share - diluted	1.21	0.87	0.34	39.08 %
<b>Period End Data:</b>				
Total assets	\$ 8,614,794	\$ 7,830,142	\$ 784,652	10.02 %
Total assets - tangible	8,304,142	7,525,817	778,325	10.34 %
Earning assets	7,785,167	7,033,535	751,632	10.69 %
Loans (net of unearned income)	5,910,479	5,651,642	258,837	4.58 %
Allowance for loan losses	44,398	40,655	3,743	9.21 %
Goodwill and other intangibles	310,652	304,325	6,327	2.08 %
Nonperforming assets	33,891	34,221	(330)	(0.96)%
Noninterest bearing deposits	2,212,047	1,974,395	237,652	12.04 %
Interest bearing deposits	4,336,415	4,172,552	163,863	3.93 %
Total deposits	6,548,462	6,146,947	401,515	6.53 %
Total equity	1,140,852	1,078,878	61,974	5.74 %
Total equity - tangible	830,199	774,553	55,646	7.18 %
Common equity	1,129,588	1,067,193	62,395	5.85 %
Common equity - tangible	818,936	762,869	56,067	7.35 %
Book value per common share	18.04	17.11	0.93	5.44 %
Book value per common share - tangible	13.08	12.23	0.85	6.95 %
<b>Daily Average Balances:</b>				
Total assets	\$ 8,252,534	\$ 6,949,985	\$1,302,549	18.74 %
Total assets - tangible	7,945,700	6,722,029	1,223,671	18.20 %
Earning assets	7,434,268	6,211,263	1,223,005	19.69 %
Loans (net of unearned income), excluding nonaccrual loans	5,895,560	4,936,641	958,919	19.42 %
Allowance for loan losses	43,442	38,996	4,446	11.40 %
Goodwill and other intangibles	306,834	227,956	78,878	34.60 %
Noninterest bearing deposits	2,072,000	1,638,902	433,098	26.43 %
Interest bearing deposits	4,219,049	3,756,169	462,880	12.32 %
Total deposits	6,291,048	5,395,071	895,977	16.61 %
Total equity	1,114,725	922,272	192,453	20.87 %
Total equity - tangible	807,891	694,316	113,575	16.36 %
Common equity	1,103,590	912,502	191,088	20.94 %
Common equity - tangible	796,756	684,546	112,210	16.39 %
<b>Key Ratios:</b>				
Return on average assets	1.22%	0.93%	0.29 %	31.18 %
Return on average assets - tangible	1.33%	1.01%	0.32 %	31.68 %
Return on average equity	9.04%	6.99%	2.05 %	29.33 %
Return on average equity - tangible	13.09%	9.80%	3.29 %	33.57 %
Return on average common equity	9.13%	7.06%	2.07 %	29.32 %
Return on average common equity - tangible	13.28%	9.94%	3.34 %	33.60 %
Net interest margin-fully tax equivalent (1)	3.55%	3.41%	0.14 %	4.11 %
Net interest margin	3.52%	3.37%	0.15 %	4.45 %
Average earning assets/total average assets	90.08%	89.37%	0.71 %	0.79 %
Average loans/average deposits	93.71%	91.50%	2.21 %	2.42 %
Average noninterest deposits/total average deposits	32.94%	30.38%	2.56 %	8.43 %
Allowance for loan losses/period end loans	0.75%	0.72%	0.03 %	4.17 %
Nonperforming assets to period end assets	0.39%	0.44%	(0.05)%	(11.36)%
Period end equity/period end total assets	13.24%	13.78%	(0.54)%	(3.92)%
Efficiency ratio	65.44%	71.58%	(6.14)%	(8.58)%

(1) Presented on a tax-equivalent basis

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

	September 30, 2017	June 30, 2017	Increase/ (Decrease)	% Increase/ (Decrease)
<b>Three Months Ended</b>				
<b>Results of Operations:</b>				
Net interest income	\$ 65,923	\$ 69,253	\$ (3,330)	(4.81)%
Noninterest income	49,416	50,343	(927)	(1.84)%
Total Revenue	115,339	119,596	(4,257)	(3.56)%
Acquisition-related expenses	466	1,281	(815)	(63.62)%
Noninterest expenses, excluding acquisition-related expenses	73,720	76,838	(3,118)	(4.06)%
Provision for loan losses	696	1,320	(624)	(47.27)%
Income before income tax and noncontrolling interest	40,457	40,157	300	0.75 %
Provision for income tax expense	11,862	12,240	(378)	(3.09)%
Net income	28,595	27,917	678	2.43 %
Net income attributable to noncontrolling interest	(1,445)	(1,704)	259	(15.20)%
Net income attributable to TowneBank	27,150	26,213	937	3.57 %
Net income available to common shareholders	27,150	26,213	937	3.57 %
Net income per common share - basic	0.44	0.42	0.02	4.76 %
Net income per common share - diluted	0.44	0.42	0.02	4.76 %
<b>Period End Data:</b>				
Total assets	\$ 8,614,794	\$ 8,427,042	\$ 187,752	2.23 %
Total assets - tangible	8,304,142	8,118,730	185,412	2.28 %
Earning assets	7,785,167	7,590,796	194,371	2.56 %
Loans (net of unearned income)	5,910,479	5,949,061	(38,582)	(0.65)%
Allowance for loan losses	44,398	44,131	267	0.61 %
Goodwill and other intangibles	310,652	308,312	2,340	0.76 %
Nonperforming assets	33,891	35,692	(1,801)	(5.05)%
Noninterest bearing deposits	2,212,047	2,219,406	(7,359)	(0.33)%
Interest bearing deposits	4,336,415	4,376,363	(39,948)	(0.91)%
Total deposits	6,548,462	6,595,769	(47,307)	(0.72)%
Total equity	1,140,852	1,122,998	17,854	1.59 %
Total equity - tangible	830,199	814,686	15,513	1.90 %
Common equity	1,129,588	1,110,681	18,907	1.70 %
Common equity - tangible	818,936	802,369	16,567	2.06 %
Book value per common share	18.04	17.74	0.30	1.69 %
Book value per common share - tangible	13.08	12.81	0.27	2.11 %
<b>Daily Average Balances:</b>				
Total assets	\$ 8,570,019	\$ 8,180,959	\$ 389,060	4.76 %
Total assets - tangible	8,259,587	7,873,036	386,551	4.91 %
Earning assets	7,710,245	7,318,667	391,578	5.35 %
Loans (net of unearned income), excluding nonaccrual loans	5,897,169	5,926,336	(29,167)	(0.49)%
Allowance for loan losses	44,198	43,501	697	1.60 %
Goodwill and other intangibles	310,432	307,923	2,509	0.81 %
Noninterest bearing deposits	2,173,920	2,081,819	92,101	4.42 %
Interest bearing deposits	4,365,820	4,186,319	179,501	4.29 %
Total deposits	6,539,740	6,268,138	271,602	4.33 %
Total equity	1,135,218	1,115,008	20,210	1.81 %
Total equity - tangible	824,787	807,085	17,702	2.19 %
Common equity	1,124,173	1,103,813	20,360	1.84 %
Common equity - tangible	813,741	795,891	17,850	2.24 %
<b>Key Ratios:</b>				
Return on average assets	1.26%	1.29%	(0.03)%	(2.33)%
Return on average assets - tangible	1.37%	1.40%	(0.03)%	(2.14)%
Return on average equity	9.49%	9.43%	0.06 %	0.64 %
Return on average equity - tangible	13.67%	13.67%	— %	— %
Return on average common equity	9.58%	9.53%	0.05 %	0.52 %
Return on average common equity - tangible	13.86%	13.87%	(0.01)%	(0.07)%
Net interest margin-fully tax equivalent (1)	3.43%	3.84%	(0.41)%	(10.68)%
Net interest margin	3.39%	3.80%	(0.41)%	(10.79)%
Average earning assets/total average assets	89.97%	89.46%	0.51 %	0.57 %
Average loans/average deposits	90.17%	94.55%	(4.38)%	(4.63)%
Average noninterest deposits/total average deposits	33.24%	33.21%	0.03 %	0.09 %
Allowance for loan losses/period end loans	0.75%	0.74%	0.01 %	1.35 %
Nonperforming assets to period end assets	0.39%	0.42%	(0.03)%	(7.14)%
Period end equity/period end total assets	13.24%	13.33%	(0.09)%	(0.68)%
Efficiency ratio	64.32%	65.32%	(1.00)%	(1.53)%

(1) Presented on a tax-equivalent basis

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

	Three Months Ended September 30, 2017			Three Months Ended June 30, 2017			Three Months Ended September 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
<b>Assets:</b>									
Loans (net of unearned income and deferred costs), excluding nonaccrual loans	\$5,897,169	\$ 69,679	4.69%	\$5,926,336	\$ 72,167	4.88%	\$5,583,711	\$ 65,245	4.65%
Taxable investment securities	582,747	2,717	1.86%	597,231	2,801	1.88%	687,480	2,702	1.57%
Tax-exempt investment securities	47,087	360	3.06%	48,560	370	3.05%	53,180	396	2.98%
Interest-bearing deposits	870,480	2,745	1.25%	455,489	1,188	1.05%	287,672	(36)	(0.05)%
Loans held for sale	312,762	3,081	3.94%	291,051	2,879	3.96%	476,450	4,138	3.47%
Total earning assets	7,710,245	78,582	4.04%	7,318,667	79,405	4.35%	7,088,493	72,445	4.07%
Less: allowance for loan losses	(44,198)			(43,501)			(40,004)		
Total nonearning assets	903,972			905,793			942,724		
Total assets	<u>\$8,570,019</u>			<u>\$8,180,959</u>			<u>\$7,991,213</u>		
<b>Liabilities and Equity:</b>									
Interest-bearing deposits									
Demand and money market	\$2,284,995	\$ 2,107	0.37%	\$2,235,869	\$ 1,957	0.35%	\$2,216,987	\$ 1,674	0.30%
Savings	320,891	862	1.07%	318,323	815	1.03%	318,193	723	0.90%
Certificates of deposit	1,759,934	4,841	1.09%	1,632,127	4,105	1.01%	1,684,136	3,512	0.83%
Total interest-bearing deposits	4,365,820	7,810	0.71%	4,186,319	6,877	0.66%	4,219,316	5,909	0.56%
Borrowings	554,147	1,770	1.25%	641,748	2,551	1.57%	523,018	3,309	2.48%
Subordinated capital debentures	204,146	2,368	4.64%	—	—	—	—	—	—
Total interest-bearing liabilities	5,124,113	11,948	0.93%	4,828,067	9,428	0.78%	4,742,334	9,218	0.77%
Demand deposits	2,173,920			2,081,819			1,959,025		
Other noninterest-bearing liabilities	136,768			156,065			214,831		
Total liabilities	7,434,801			7,065,951			6,916,190		
Shareholders' equity	<u>1,135,218</u>			<u>1,115,008</u>			<u>1,075,023</u>		
Total liabilities and equity	<u>\$8,570,019</u>			<u>\$8,180,959</u>			<u>\$7,991,213</u>		
Net interest income (tax-equivalent basis)		\$ 66,634			\$ 69,977			\$ 63,227	
<b>Reconciliation of Non-GAAP Financial Measures</b>									
Tax-equivalent basis adjustment		(711)			(724)			(622)	
Net interest income (GAAP)		<u>\$ 65,923</u>			<u>\$ 69,253</u>			<u>\$ 62,605</u>	
Interest rate spread (1)			3.11%			3.57%			3.30%
Interest expense as a percent of average earning assets			0.61%			0.52%			0.52%
Net interest margin (tax equivalent basis) (2)			3.43%			3.84%			3.55%
Total cost of deposits			0.47%			0.44%			0.38%

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

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

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

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2017 Compared with September 30, 2016		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Increase (Decrease)	Change due to	
								Rate	Volume
<b>Assets:</b>									
Loans (net of unearned income and deferred costs), excluding nonaccrual loans	\$5,895,560	\$ 206,825	4.69%	\$4,936,641	\$168,257	4.55%	\$ 38,568	\$ 5,195	\$ 33,373
Taxable investment securities	602,272	8,360	1.85%	704,532	8,492	1.61%	(132)	1,192	(1,324)
Tax-exempt investment securities	48,701	1,106	3.03%	52,854	1,211	3.05%	(105)	(11)	(94)
Interest-bearing deposits	623,670	4,819	1.03%	280,900	658	0.31%	4,161	2,719	1,442
Loans held for sale	264,065	7,687	3.88%	236,336	6,124	3.45%	1,563	802	761
Total earning assets	7,434,268	228,797	4.11%	6,211,263	184,742	3.97%	44,055	9,897	34,158
Less: allowance for loan losses	(43,442)			(38,996)					
Total nonearning assets	861,708			777,718					
Total assets	<u>\$8,252,534</u>			<u>\$6,949,985</u>					
<b>Liabilities and Equity:</b>									
Interest-bearing deposits									
Demand and money market	\$2,264,636	\$ 5,929	0.35%	\$1,938,818	\$ 4,300	0.30%	\$ 1,629	\$ 846	\$ 783
Savings	319,847	2,435	1.02%	306,644	2,132	0.93%	303	209	94
Certificates of deposit	1,634,566	12,326	1.01%	1,510,707	9,957	0.88%	2,369	1,514	855
Total interest-bearing deposits	4,219,049	20,690	0.66%	3,756,169	16,389	0.58%	4,301	2,569	1,732
Borrowings	639,180	8,125	1.68%	488,132	9,685	2.61%	(1,560)	(4,035)	2,475
Subordinated debentures	68,796	2,368	4.59%	—	—	—	2,368	—	2,368
Total interest-bearing liabilities	4,927,025	31,183	0.85%	4,244,301	26,074	0.82%	5,109	(1,466)	6,575
Demand deposits	2,072,000			1,638,902					
Other noninterest-bearing liabilities	138,784			144,510					
Total liabilities	7,137,809			6,027,713					
Shareholders' equity	1,114,725			922,272					
Total liabilities and equity	<u>\$8,252,534</u>			<u>\$6,949,985</u>					
Net interest income (tax-equivalent basis)		\$ 197,614			\$158,668		\$ 38,946	\$ 11,363	\$ 27,583
<b>Reconciliation of Non-GAAP Financial Measures</b>									
Tax-equivalent basis adjustment		(2,158)			(1,944)		(214)		
Net interest income (GAAP)		<u>\$ 195,456</u>			<u>\$156,724</u>		<u>\$ 38,732</u>		
Interest rate spread (1)			3.27%			3.15%			
Interest expense as a percent of average earning assets			0.56%			0.56%			
Net interest margin (tax equivalent basis) (2)			3.55%			3.41%			
Total cost of deposits			0.44%			0.41%			

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

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

**TOWNEBANK**  
**Consolidated Balance Sheets**  
(dollars in thousands, except share data)

	<b>September 30,</b>		<b>December 31,</b>
	<b>2017</b>	<b>2016</b>	<b>2016</b>
	(unaudited)	(unaudited)	(audited)
<b>ASSETS</b>			
Cash and due from banks	\$ 647,728	\$ 147,887	\$ 130,967
Interest-bearing deposits in financial institutions	5,055	6,891	5,581
<b>Total Cash and Cash Equivalents</b>	<b>652,783</b>	<b>154,778</b>	<b>136,548</b>
Securities available for sale, at fair value	831,483	704,418	812,974
Securities held to maturity, at amortized cost	62,487	70,304	66,490
Federal Home Loan Bank stock, at amortized cost	29,586	24,888	35,937
<b>Total Securities</b>	<b>923,556</b>	<b>799,610</b>	<b>915,401</b>
Mortgage loans held for sale	318,595	439,608	314,046
Loans, net of unearned income and deferred costs:			
Real estate-residential 1-4 family	1,239,886	1,208,001	1,215,823
Real estate-commercial	2,303,263	2,189,489	2,251,312
Real estate-construction and development	880,655	820,453	826,027
Real estate-multi-family	185,323	206,623	222,791
Commercial	1,084,555	1,033,797	1,089,539
Consumer and other loans	216,797	193,279	201,729
Loans, net of unearned income and deferred costs	5,910,479	5,651,642	5,807,221
Less: allowance for loan losses	(44,398)	(40,655)	(42,001)
<b>Net Loans</b>	<b>5,866,081</b>	<b>5,610,987</b>	<b>5,765,220</b>
Premises and equipment, net	196,975	202,955	198,568
Goodwill	270,901	264,578	264,910
Other intangible assets, net	39,751	39,747	37,856
Bank-owned life insurance policies	193,823	163,385	189,499
Other assets	152,329	154,494	151,867
<b>TOTAL ASSETS</b>	<b>\$ 8,614,794</b>	<b>\$ 7,830,142</b>	<b>\$ 7,973,915</b>
<b>LIABILITIES AND EQUITY</b>			
Deposits:			
Noninterest-bearing demand	\$ 2,212,047	\$ 1,974,395	\$ 1,947,312
Interest-bearing:			
Demand and money market accounts	2,253,746	2,207,962	2,263,894
Savings	320,028	315,477	319,611
Certificates of deposit	1,762,641	1,649,113	1,504,380
<b>Total Deposits</b>	<b>6,548,462</b>	<b>6,146,947</b>	<b>6,035,197</b>
Advances from the Federal Home Loan Bank	527,072	427,655	687,511
Subordinated debt, net	247,128	—	—
Repurchase agreements and other borrowings	23,195	31,927	32,540
<b>Total Borrowings</b>	<b>797,395</b>	<b>459,582</b>	<b>720,051</b>
Other liabilities	128,086	144,735	132,109
<b>TOTAL LIABILITIES</b>	<b>7,473,943</b>	<b>6,751,264</b>	<b>6,887,357</b>
Preferred stock			
Authorized and unissued shares - 2,000,000	—	—	—
Common stock, \$1.667 par: 90,000,000 shares authorized			
62,619,857; 62,387,564; and 62,492,168 shares issued at			
September 30, 2017 and 2016 and December 31, 2016,	104,387	104,000	104,174
Capital surplus	748,444	743,223	745,411
Retained earnings	279,165	218,631	229,503
Common stock issued to deferred compensation trust, at cost			
723,304; 683,833; and 692,431 shares at			
September 30, 2017 and 2016 and December 31, 2016,	(12,304)	(10,969)	(11,168)
Deferred compensation trust	12,304	10,969	11,168
Accumulated other comprehensive income (loss)	(2,408)	1,339	(3,986)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,129,588</b>	<b>1,067,193</b>	<b>1,075,102</b>
Noncontrolling interest	11,263	11,685	11,456
<b>TOTAL EQUITY</b>	<b>1,140,851</b>	<b>1,078,878</b>	<b>1,086,558</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 8,614,794</b>	<b>\$ 7,830,142</b>	<b>\$ 7,973,915</b>

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>INTEREST INCOME:</b>				
Loans, including fees	\$ 68,969	\$ 64,623	\$ 204,667	\$ 166,313
Investment securities	3,076	3,099	9,466	9,703
Interest-bearing deposits in financial institutions and federal funds sold	2,745	(36)	4,819	658
Mortgage loans held for sale	3,081	4,137	7,687	6,124
<b>Total interest income</b>	<b>77,871</b>	<b>71,823</b>	<b>226,639</b>	<b>182,798</b>
<b>INTEREST EXPENSE:</b>				
Deposits	7,810	5,909	20,690	16,389
Advances from the Federal Home Loan Bank	1,750	3,276	8,044	9,606
Subordinated capital debentures	2,368	—	2,368	—
Repurchase agreements and other borrowings, net of capitalized interest	20	33	81	79
<b>Total interest expense</b>	<b>11,948</b>	<b>9,218</b>	<b>31,183</b>	<b>26,074</b>
<b>Net interest income</b>	<b>65,923</b>	<b>62,605</b>	<b>195,456</b>	<b>156,724</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>696</b>	<b>1,686</b>	<b>4,557</b>	<b>3,526</b>
<b>Net interest income after provision for loan losses</b>	<b>65,227</b>	<b>60,919</b>	<b>190,899</b>	<b>153,198</b>
<b>NONINTEREST INCOME:</b>				
Residential mortgage banking income, net	19,087	21,430	58,314	40,696
Insurance commissions and other title fees and income, net	12,116	11,258	39,818	36,918
Real estate brokerage and property management income, net	10,042	6,647	22,664	17,591
Service charges on deposit accounts	2,670	2,552	7,785	7,012
Credit card merchant fees, net	1,388	1,365	3,804	3,373
Bank owned life insurance	1,425	1,264	4,321	3,616
Other income	2,688	2,305	7,940	6,498
Loss on investment securities	—	—	(1)	—
<b>Total noninterest income</b>	<b>49,416</b>	<b>46,821</b>	<b>144,645</b>	<b>115,704</b>
<b>NONINTEREST EXPENSE:</b>				
Salaries and employee benefits	43,467	40,497	128,509	100,776
Occupancy	6,635	6,656	19,977	16,831
Furniture and equipment	3,710	3,199	10,616	7,937
Other expenses	20,374	20,581	63,451	69,448
<b>Total noninterest expense</b>	<b>74,186</b>	<b>70,933</b>	<b>222,553</b>	<b>194,992</b>
<b>Income before income tax expense &amp; noncontrolling interest</b>	<b>40,457</b>	<b>36,807</b>	<b>112,991</b>	<b>73,910</b>
<b>Provision for income tax expense</b>	<b>11,862</b>	<b>10,974</b>	<b>33,488</b>	<b>21,538</b>
<b>Net income</b>	<b>\$ 28,595</b>	<b>\$ 25,833</b>	<b>\$ 79,503</b>	<b>\$ 52,372</b>
<b>Net income attributable to noncontrolling interest</b>	<b>(1,445)</b>	<b>(1,657)</b>	<b>(4,173)</b>	<b>(4,118)</b>
<b>Net income attributable to TowneBank</b>	<b>\$ 27,150</b>	<b>\$ 24,176</b>	<b>\$ 75,330</b>	<b>\$ 48,254</b>
<b>Net income available to common shareholders</b>	<b>\$ 27,150</b>	<b>\$ 24,176</b>	<b>\$ 75,330</b>	<b>\$ 48,254</b>
<b>Per common share information</b>				
Basic earnings	\$ 0.44	\$ 0.39	\$ 1.21	\$ 0.88
Diluted earnings	\$ 0.44	\$ 0.39	\$ 1.21	\$ 0.87
Cash dividends declared	\$ 0.14	\$ 0.13	\$ 0.41	\$ 0.38

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Net income</b>	\$ 28,595	\$ 25,833	\$ 79,503	\$ 52,372
<b>Other comprehensive income (loss)</b>				
<b>Unrealized gains on securities</b>				
Unrealized holding gains (losses) arising during the period	(305)	(516)	2,428	6,294
Deferred tax benefit (expense)	106	180	(851)	(2,203)
Realized losses reclassified into earnings	—	—	1	—
Net unrealized gains (losses)	(199)	(336)	1,578	4,091
<b>Pension and postretirement benefit plans</b>				
Actuarial gain (loss)	143	—	(252)	109
Deferred tax benefit (expense)	(49)	—	90	(38)
Amortization of prior service costs	41	110	133	263
Deferred tax expense	(14)	(38)	(46)	(91)
Amortization of actuarial (gain) loss	39	(2)	117	(2)
Deferred tax benefit (expense)	(14)	1	(42)	1
Change in retirement plans, net of tax	146	71	—	242
<b>Other comprehensive income (loss), net of tax</b>	(53)	(265)	1,578	4,333
<b>Comprehensive income</b>	<u>\$ 28,542</u>	<u>\$ 25,568</u>	<u>\$ 81,081</u>	<u>\$ 56,705</u>

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

	September 30, 2017 (unaudited)	June 30, 2017 (unaudited)	March 31, 2017 (unaudited)	December 31, 2016 (audited)	September 30, 2016 (unaudited)
<b>ASSETS</b>					
Cash and due from banks	\$ 647,728	\$ 468,455	\$ 420,192	\$ 130,967	\$ 147,887
Interest-bearing deposits in financial institutions	5,055	5,071	5,335	5,581	6,891
<b>Total Cash and Cash Equivalents</b>	<b>652,783</b>	<b>473,526</b>	<b>425,527</b>	<b>136,548</b>	<b>154,778</b>
Securities available for sale, at fair value	831,483	700,354	720,667	812,974	704,418
Securities held to maturity, at amortized cost	62,487	63,937	65,117	66,490	70,304
Federal Home Loan Bank stock, at amortized cost	29,586	29,586	36,402	35,937	24,888
<b>Total Securities</b>	<b>923,556</b>	<b>793,877</b>	<b>822,186</b>	<b>915,401</b>	<b>799,610</b>
Mortgage loans held for sale	318,595	388,523	214,047	314,046	439,451
Loans, net of unearned income and deferred costs:	5,910,479	5,949,061	5,913,080	5,807,221	5,651,642
Less: allowance for loan losses	(44,398)	(44,131)	(43,195)	(42,001)	(40,655)
<b>Net Loans</b>	<b>5,866,081</b>	<b>5,904,930</b>	<b>5,869,885</b>	<b>5,765,220</b>	<b>5,610,987</b>
Premises and equipment, net	196,975	199,926	198,664	198,568	202,955
Goodwill	270,901	268,246	264,910	264,910	264,578
Other intangible assets, net	39,751	40,066	37,052	37,856	39,747
Bank-owned life insurance policies	193,823	192,339	190,917	189,499	163,385
Other assets	152,329	165,609	151,598	151,867	154,651
<b>TOTAL ASSETS</b>	<b>\$ 8,614,794</b>	<b>\$ 8,427,042</b>	<b>\$ 8,174,786</b>	<b>\$ 7,973,915</b>	<b>\$ 7,830,142</b>
<b>LIABILITIES AND EQUITY</b>					
Deposits:					
Noninterest-bearing demand	\$ 2,212,047	\$ 2,219,406	\$ 2,052,598	\$ 1,947,312	\$ 1,974,395
Interest-bearing:					
Demand and money market accounts	2,253,746	2,292,978	2,270,025	2,263,894	2,207,962
Savings	320,028	318,714	320,104	319,611	315,477
Certificates of deposit	1,762,641	1,764,671	1,548,045	1,504,380	1,649,113
<b>Total Deposits</b>	<b>6,548,462</b>	<b>6,595,769</b>	<b>6,190,772</b>	<b>6,035,197</b>	<b>6,146,947</b>
Advances from the Federal Home Loan Bank	527,072	527,219	687,366	687,511	427,655
Subordinated debt, net	247,128	—	—	—	—
Repurchase agreements and other borrowings	23,195	28,571	35,318	32,540	31,927
<b>Total Borrowings</b>	<b>797,395</b>	<b>555,790</b>	<b>722,684</b>	<b>720,051</b>	<b>459,582</b>
Other liabilities	128,086	152,485	160,085	132,109	144,735
<b>TOTAL LIABILITIES</b>	<b>7,473,943</b>	<b>7,304,044</b>	<b>7,073,541</b>	<b>6,887,357</b>	<b>6,751,264</b>
Preferred stock					
Authorized shares - 2,000,000	—	—	—	—	—
Common stock, \$1.667 par value	104,387	104,386	104,307	104,174	104,000
Capital surplus	748,444	747,867	746,289	745,411	743,223
Retained earnings	279,165	260,783	243,337	229,503	218,631
Common stock issued to deferred compensation trust, at cost	(12,304)	(11,492)	(11,294)	(11,168)	(10,969)
Deferred compensation trust	12,304	11,492	11,294	11,168	10,969
Accumulated other comprehensive income (loss)	(2,408)	(2,355)	(4,173)	(3,986)	1,339
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,129,588</b>	<b>1,110,681</b>	<b>1,089,760</b>	<b>1,075,102</b>	<b>1,067,193</b>
Noncontrolling interest	11,263	12,317	11,485	11,456	11,685
<b>TOTAL EQUITY</b>	<b>1,140,851</b>	<b>1,122,998</b>	<b>1,101,245</b>	<b>1,086,558</b>	<b>1,078,878</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 8,614,794</b>	<b>\$ 8,427,042</b>	<b>\$ 8,174,786</b>	<b>\$ 7,973,915</b>	<b>\$ 7,830,142</b>



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

	Three Months Ended				
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
<b>INTEREST INCOME:</b>					
Loans, including fees	\$ 68,969	\$ 71,443	\$ 64,255	\$ 65,151	\$ 64,623
Investment securities	3,076	3,171	3,218	3,152	3,099
Interest-bearing deposits in financial institutions and federal funds sold	2,745	1,188	887	487	(36)
Mortgage loans held for sale	3,081	2,879	1,727	3,028	4,137
<b>Total Interest Income</b>	<b>77,871</b>	<b>78,681</b>	<b>70,087</b>	<b>71,818</b>	<b>71,823</b>
<b>INTEREST EXPENSE:</b>					
Deposits	7,810	6,877	6,003	5,928	5,909
Advances from the Federal Home Loan Bank	1,750	2,521	3,772	3,546	3,276
Subordinated capital debentures	2,368	—	—	—	—
Repurchase agreements and other borrowings	20	30	31	193	33
<b>Total Interest Expense</b>	<b>11,948</b>	<b>9,428</b>	<b>9,806</b>	<b>9,667</b>	<b>9,218</b>
<b>Net Interest Income</b>	<b>65,923</b>	<b>69,253</b>	<b>60,281</b>	<b>62,151</b>	<b>62,605</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>696</b>	<b>1,320</b>	<b>2,541</b>	<b>1,831</b>	<b>1,686</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>65,227</b>	<b>67,933</b>	<b>57,740</b>	<b>60,320</b>	<b>60,919</b>
<b>NONINTEREST INCOME:</b>					
Residential mortgage banking income, net	19,087	21,594	17,632	18,096	21,430
Insurance commissions and other title fees and income, net	12,116	12,902	14,800	9,823	11,258
Real estate brokerage and property management income, net	10,042	7,629	4,993	2,925	6,647
Service charges on deposit accounts	2,670	2,644	2,472	2,535	2,552
Credit card merchant fees, net	1,388	1,298	1,118	1,135	1,365
Bank owned life insurance	1,425	1,421	1,474	2,377	1,264
Other income	2,688	2,856	2,397	2,621	2,305
Net gain (loss) on investment securities	—	(1)	—	6	—
<b>Total Noninterest Income</b>	<b>49,416</b>	<b>50,343</b>	<b>44,886</b>	<b>39,518</b>	<b>46,821</b>
<b>NONINTEREST EXPENSE:</b>					
Salaries and employee benefits	43,467	44,834	40,208	43,071	40,497
Occupancy expense	6,635	6,658	6,684	6,885	6,656
Furniture and equipment	3,710	3,563	3,343	3,378	3,199
Other expenses	20,374	23,064	20,013	19,500	20,581
<b>Total Noninterest Expense</b>	<b>74,186</b>	<b>78,119</b>	<b>70,248</b>	<b>72,834</b>	<b>70,933</b>
<b>Income before income tax expense and noncontrolling interest</b>	<b>40,457</b>	<b>40,157</b>	<b>32,378</b>	<b>27,004</b>	<b>36,807</b>
<b>Provision for income tax expense</b>	<b>11,862</b>	<b>12,240</b>	<b>9,386</b>	<b>7,160</b>	<b>10,974</b>
<b>Net income</b>	<b>28,595</b>	<b>27,917</b>	<b>22,992</b>	<b>19,844</b>	<b>25,833</b>
<b>Net income attributable to noncontrolling interest</b>	<b>(1,445)</b>	<b>(1,704)</b>	<b>(1,024)</b>	<b>(848)</b>	<b>(1,657)</b>
<b>Net income attributable to TowneBank</b>	<b>\$ 27,150</b>	<b>\$ 26,213</b>	<b>\$ 21,968</b>	<b>\$ 18,996</b>	<b>\$ 24,176</b>
<b>Net income available to common shareholders</b>	<b>\$ 27,150</b>	<b>\$ 26,213</b>	<b>\$ 21,968</b>	<b>\$ 18,996</b>	<b>\$ 24,176</b>
<b>Per common share information</b>					
Basic earnings	\$ 0.44	\$ 0.42	\$ 0.35	\$ 0.31	\$ 0.39
Diluted earnings	\$ 0.44	\$ 0.42	\$ 0.35	\$ 0.31	\$ 0.39
Basic weighted average shares outstanding	62,210,834	62,145,045	62,075,983	61,963,948	61,908,316
Diluted weighted average shares outstanding	62,410,591	62,364,260	62,262,789	62,175,705	62,067,832
Cash dividends declared	\$ 0.14	\$ 0.14	\$ 0.13	\$ 0.13	\$ 0.13

**TOWNEBANK**  
**Banking Segment Financial Information**  
(dollars in thousands)

	Three Months Ended			Increase/(Decrease)			
				September 30, 2017		September 30, 2017	
	September 30,		June 30, 2017	September 30, 2016		June 30, 2017	
	2017	2016		Amount	Percent	Amount	Percent
Revenue							
Net interest income	\$ 63,094	\$ 58,919	\$ 66,434	\$ 4,175	7.09 %	\$ (3,340)	(5.03)%
Service charges on deposit accounts	2,670	2,552	2,644	118	4.62 %	26	0.98 %
Credit card merchant fees	1,388	1,365	1,297	23	1.68 %	91	7.02 %
Other income	3,259	2,701	3,362	558	20.66 %	(103)	(3.06)%
Total noninterest income	7,317	6,618	7,303	699	10.56 %	14	0.19 %
Total revenue	70,411	65,537	73,737	4,874	7.44 %	(3,326)	(4.51)%
Provision for loan losses	696	1,686	1,320	(990)	(58.72)%	(624)	(47.27)%
Expenses							
Salaries and employee benefits	21,643	20,509	23,519	1,134	5.53 %	(1,876)	(7.98)%
Occupancy expense	3,992	4,197	3,828	(205)	(4.88)%	164	4.28 %
Furniture and equipment	2,434	2,358	2,372	76	3.22 %	62	2.61 %
Advertising and marketing	624	922	1,207	(298)	(32.32)%	(583)	(48.30)%
Charitable contributions	1,380	919	1,647	461	50.16 %	(267)	(16.21)%
Outside processing	1,113	1,280	1,112	(167)	(13.05)%	1	0.09 %
Foreclosed property expenses	186	157	141	29	18.47 %	45	31.91 %
FDIC and other insurance	953	1,224	1,131	(271)	(22.14)%	(178)	(15.74)%
Professional fees	750	965	748	(215)	(22.28)%	2	0.27 %
Telephone and postage	922	962	963	(40)	(4.16)%	(41)	(4.26)%
Other expenses	4,550	5,178	5,305	(628)	(12.13)%	(755)	(14.23)%
Total expenses	38,547	38,671	41,973	(124)	(0.32)%	(3,426)	(8.16)%
Income before income tax, corporate allocation and noncontrolling interest	31,168	25,180	30,444	5,988	23.78 %	724	2.38 %
Corporate allocation	400	439	410	(39)	(8.88)%	(10)	(2.44)%
Income before income tax provision and noncontrolling interest	31,568	25,619	30,854	5,949	23.22 %	714	2.31 %
Provision for income tax expense	9,002	7,325	9,307	1,677	22.89 %	(305)	(3.28)%
Net income	22,566	18,294	21,547	4,272	23.35 %	1,019	4.73 %
Noncontrolling interest	3	(18)	(1)	21	N/M	4	N/M
Net income attributable to TowneBank	\$ 22,569	\$ 18,276	\$ 21,546	\$ 4,293	23.49 %	\$ 1,023	4.75 %
Efficiency ratio	54.75%	59.01%	56.92%	(4.26)%	(7.22)%	(2.17)%	(3.81)%

**TOWNEBANK**  
**Banking Segment Financial Information**  
(dollars in thousands)

	Nine Months Ended September 30,		Increase/(Decrease) 2017 over 2016	
	2017	2016	Amount	Percent
Net interest income	\$ 187,972	\$ 151,630	\$ 36,342	23.97 %
Service charges on deposit accounts	7,785	7,012	773	11.02 %
Credit card merchant fees	3,804	3,373	431	12.78 %
Other income	9,728	7,377	2,351	31.87 %
Total noninterest income	21,317	17,762	3,555	20.01 %
Total revenue	209,289	169,392	39,897	23.55 %
Provision for loan losses	4,557	3,526	1,031	29.24 %
Salaries and employee benefits	65,503	55,140	10,363	18.79 %
Occupancy expense	11,947	11,261	686	6.09 %
Furniture and equipment	7,080	6,070	1,010	16.64 %
Advertising and marketing	2,873	2,729	144	5.28 %
Charitable contributions	4,340	3,182	1,158	36.39 %
Outside processing	3,379	3,052	327	10.71 %
Foreclosed property expenses	457	727	(270)	(37.14)%
FDIC and other insurance	3,071	3,395	(324)	(9.54)%
Professional fees	2,779	2,900	(121)	(4.17)%
Telephone and postage	2,790	2,423	367	15.15 %
Other expenses	14,651	29,949	(15,298)	(51.08)%
Total expenses	118,870	120,828	(1,958)	(1.62)%
Income before income tax and corporate allocation	85,862	45,038	40,824	90.64 %
Corporate allocation	1,295	1,054	241	22.87 %
Income before income tax provision and noncontrolling interest	87,157	46,092	41,065	89.09 %
Provision for income tax expense	25,074	12,377	12,697	102.59 %
Net income	62,083	33,715	28,368	84.14 %
Noncontrolling interest	—	(18)	18	(100.00)%
Net income attributable to TowneBank	\$ 62,083	\$ 33,697	\$ 28,386	84.24 %
Efficiency ratio	56.80%	71.33%	(14.53)%	(20.37)%

**TOWNEBANK**  
**Realty Segment Financial Information**  
(dollars in thousands)

	Three Months Ended			Increase/(Decrease)			
				September 30, 2017		September 30, 2017	
	September 30,		June 30,	September 30, 2016		June 30, 2017	
	2017	2016	2017	Amount	Percent	Amount	Percent
Revenue							
Residential mortgage brokerage income, net	\$ 19,196	\$ 21,692	\$ 21,730	\$ (2,496)	(11.51)%	\$ (2,534)	(11.66)%
Real estate brokerage income, net	2,103	2,267	2,337	(164)	(7.23)%	(234)	(10.01)%
Title insurance and settlement fees	509	562	582	(53)	(9.43)%	(73)	(12.54)%
Property management fees, net	7,939	4,381	5,293	3,558	81.21 %	2,646	49.99 %
Income from unconsolidated subsidiary	214	283	250	(69)	(24.38)%	(36)	(14.40)%
Net interest and other income	3,242	3,964	3,229	(722)	(18.21)%	13	0.40 %
Total revenue	33,203	33,149	33,421	54	0.16 %	(218)	(0.65)%
Expenses							
Salaries and employee benefits	15,421	14,198	15,220	1,223	8.61 %	201	1.32 %
Occupancy expense	2,045	1,922	2,269	123	6.40 %	(224)	(9.87)%
Furniture and equipment	1,036	762	999	274	35.96 %	37	3.70 %
Amortization of intangible assets	718	559	718	159	28.44 %	—	— %
Other expenses	6,967	6,325	7,495	642	10.15 %	(528)	(7.04)%
Total expenses	26,187	23,766	26,701	2,421	10.19 %	(514)	(1.93)%
Income before income tax, corporate allocation and noncontrolling interest	7,016	9,383	6,720	(2,367)	(25.23)%	296	4.40 %
Corporate allocation	(267)	(278)	(266)	11	(3.96)%	(1)	0.38 %
Income before income tax provision and noncontrolling interest	6,749	9,105	6,454	(2,356)	(25.88)%	295	4.57 %
Provision for income tax expense	2,115	2,921	1,889	(806)	(27.59)%	226	11.96 %
Net income	4,634	6,184	4,565	(1,550)	(25.06)%	69	1.51 %
Noncontrolling interest	(1,189)	(1,369)	(1,361)	180	(13.15)%	172	(12.64)%
Net income attributable to TowneBank	\$ 3,445	\$ 4,815	\$ 3,204	\$ (1,370)	(28.45)%	\$ 241	7.52 %
Efficiency ratio	78.87%	71.69%	79.89%	7.18%	10.02 %	(1.02)%	(1.28)%

**TOWNEBANK**  
**Realty Segment Financial Information**  
(dollars in thousands)

	Nine Months Ended September 30,		Increase/(Decrease) 2017 over 2016	
	2017	2016	Amount	Percent
Residential mortgage banking income, net	\$ 58,701	\$ 41,492	\$ 17,209	41.48 %
Real estate brokerage income, net	5,899	6,072	(173)	(2.85)%
Title insurance and settlement fees	1,446	1,461	(15)	(1.03)%
Property management fees, net	16,765	11,519	5,246	45.54 %
Income from unconsolidated subsidiary	588	663	(75)	(11.31)%
Net interest and other income	8,672	5,895	2,777	47.11 %
Total revenue	92,071	67,102	24,969	37.21 %
Salaries and employee benefits	44,349	28,155	16,194	57.52 %
Occupancy expense	6,277	3,988	2,289	57.40 %
Furniture and equipment	2,904	1,306	1,598	122.36 %
Amortization of intangible assets	1,994	1,264	730	57.75 %
Other expenses	20,441	13,382	7,059	52.75 %
Total expenses	75,965	48,095	27,870	57.95 %
Income before income tax, corporate allocation and noncontrolling interest	16,106	19,007	(2,901)	(15.26)%
Corporate allocation	(841)	(570)	(271)	47.54 %
Income before income tax provision and noncontrolling interest	15,265	18,437	(3,172)	(17.20)%
Provision for income tax	4,631	5,829	(1,198)	(20.55)%
Net income	10,634	12,608	(1,974)	(15.66)%
Noncontrolling interest	(3,061)	(2,994)	(67)	2.24 %
Net income attributable to TowneBank	\$ 7,573	\$ 9,614	\$ (2,041)	(21.23)%
Efficiency ratio	82.51%	71.67%	10.84%	15.12 %

**TOWNEBANK**  
**Insurance Segment Financial Information**  
(dollars in thousands)

	Three Months Ended			Increase/(Decrease)			
	September 30,		June 30,	September 30, 2017		September 30, 2017	
	2017		2017	September 30, 2016		June 30, 2017	
	2017	2016	2017	Amount	Percent	Amount	Percent
Commission and fee income							
Property and casualty	\$ 9,768	\$ 9,052	\$ 9,271	\$ 716	7.91 %	\$ 497	5.36 %
Employee benefits	3,132	2,947	3,280	185	6.28 %	(148)	(4.51)%
Travel insurance	970	926	1,159	44	4.75 %	(189)	(16.31)%
Specialized benefit services	165	154	158	11	7.14 %	7	4.43 %
Total commissions and fees	14,035	13,079	13,868	956	7.31 %	167	1.20 %
Contingency and bonus revenue	180	61	948	119	195.08 %	(768)	(81.01)%
Other income	67	82	76	(15)	(18.29)%	(9)	(11.84)%
Total revenue	14,282	13,222	14,892	1,060	8.02 %	(610)	(4.10)%
Employee commission expense	2,557	2,482	2,454	75	3.02 %	103	4.20 %
Revenue, net of commission expense	11,725	10,740	12,438	985	9.17 %	(713)	(5.73)%
Salaries and employee benefits	6,403	5,790	6,095	613	10.59 %	308	5.05 %
Occupancy expense	599	537	562	62	11.55 %	37	6.58 %
Furniture and equipment	240	78	192	162	207.69 %	48	25.00 %
Amortization of intangible assets	675	706	704	(31)	(4.39)%	(29)	(4.12)%
Other expenses	1,535	1,385	1,892	150	10.83 %	(357)	(18.87)%
Total operating expenses	9,452	8,496	9,445	956	11.25 %	7	0.07 %
Income before income tax, corporate allocation and noncontrolling interest	2,273	2,244	2,993	29	1.29 %	(720)	(24.06)%
Corporate allocation	(133)	(161)	(144)	28	(17.39)%	11	(7.64)%
Income before income tax provision and noncontrolling interest	2,140	2,083	2,849	57	2.74 %	(709)	(24.89)%
Provision for income tax expense	745	728	1,044	17	2.34 %	(299)	(28.64)%
Net income	1,395	1,355	1,805	40	2.95 %	(410)	(22.71)%
Noncontrolling interest	(259)	(270)	(342)	11	(4.07)%	83	(24.27)%
Net income attributable to TowneBank	\$ 1,136	\$ 1,085	\$ 1,463	\$ 51	4.70 %	\$ (327)	(22.35)%
Efficiency ratio	80.61%	79.11%	75.94%	1.50%	1.90 %	4.67%	6.15 %

**TOWNEBANK**  
**Insurance Segment Financial Information**  
(dollars in thousands)

	Nine Months Ended September 30,		Increase/(Decrease) 2017 over 2016	
	2017	2016	Amount	Percent
Net commission and fee income				
Property and casualty	\$ 27,496	\$ 25,930	\$ 1,566	6.04 %
Employee benefits	9,386	8,753	633	7.23 %
Travel insurance	3,756	3,546	210	5.92 %
Specialized benefit services	488	459	29	6.32 %
Total net commissions and fees	41,126	38,688	2,438	6.30 %
Contingency and bonus revenue	4,668	3,941	727	18.45 %
Other income	231	208	23	11.06 %
Total revenues	46,025	42,837	3,188	7.44 %
Employee commission expense	7,284	6,903	381	5.52 %
Revenue, net of commission expense	38,741	35,934	2,807	7.81 %
Salaries and employee benefits	18,658	17,481	1,177	6.73 %
Occupancy expense	1,753	1,582	171	10.81 %
Furniture and equipment	632	562	70	12.46 %
Amortization of intangible assets	2,077	2,083	(6)	(0.29)%
Other expenses	4,598	4,361	237	5.43 %
Total operating expenses	27,718	26,069	1,649	6.33 %
Income before income tax, corporate allocation and noncontrolling interest	11,023	9,865	1,158	11.74 %
Corporate allocation	(454)	(484)	30	(6.20)%
Income before income tax provision and noncontrolling interest	10,569	9,381	1,188	12.66 %
Provision for income tax	3,783	3,332	451	13.54 %
Net income	6,786	6,049	737	12.18 %
Noncontrolling interest	(1,112)	(1,106)	(6)	0.54 %
Net income attributable to TowneBank	\$ 5,674	\$ 4,943	\$ 731	14.79 %
Efficiency ratio	71.55%	72.55%	(1.00)%	(1.38)%

**TOWNEBANK**  
**Reconciliation of Non-GAAP Financial Measures**

	Three Months Ended			Nine Months Ended	
	September 30, 2017	September 30, 2016	June 30, 2017	September 30, 2017	September 30, 2016
Return on average assets (GAAP)	1.26%	1.20%	1.29%	1.22%	0.93%
Impact of excluding average goodwill and other intangibles and amortization	0.11%	0.12%	0.11%	0.11%	0.08%
Return on average tangible assets (non-GAAP)	1.37%	1.32%	1.40%	1.33%	1.01%
Return on average equity (GAAP)	9.49%	8.95%	9.43%	9.04%	6.99%
Impact of excluding average goodwill and other intangibles and amortization	4.18%	4.14%	4.24%	4.05%	2.81%
Return on average tangible equity (non-GAAP)	13.67%	13.09%	13.67%	13.09%	9.80%
Return on average common equity (GAAP)	9.58%	9.04%	9.53%	9.13%	7.06%
Impact of excluding average goodwill and other intangibles and amortization	4.28%	4.23%	4.34%	4.15%	2.88%
Return on average tangible common equity (non-GAAP)	13.86%	13.27%	13.87%	13.28%	9.94%
Book value (GAAP)	\$ 18.04	\$ 17.11	\$ 17.74	\$ 18.04	\$ 17.11
Impact of excluding average goodwill and other intangibles and amortization	4.96	4.88	4.93	4.96	4.88
Tangible book value (non-GAAP)	\$ 13.08	\$ 12.23	\$ 12.81	\$ 13.08	\$ 12.23



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

**Reconcilement of GAAP Earnings to Operating Earnings Excluding Certain Items Affecting Comparability**

	Three Months Ended				
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Net income (GAAP)	\$ 27,150	\$ 26,213	\$ 21,968	\$ 18,996	\$ 24,176
Purchase accounting corrections	—	(3,889)	—	—	—
Acquisition-related expenses	466	1,281	(5)	(707)	969
Total charges	466	(2,608)	(5)	(707)	969
Income tax expense (benefit)	(117)	1,167	75	264	(267)
Total charges, net of taxes	349	(1,441)	70	(443)	702
Operating earnings, excluding certain items affecting comparability (non-GAAP)	\$ 27,499	\$ 24,772	\$ 22,038	\$ 18,553	\$ 24,878
Weighted average diluted shares	62,410,591	62,364,260	62,262,789	62,175,705	62,067,832
Diluted EPS (GAAP)	\$ 0.44	\$ 0.42	\$ 0.35	\$ 0.31	\$ 0.39
Diluted EPS, excluding certain items affecting comparability (non-GAAP)	\$ 0.44	\$ 0.40	\$ 0.35	\$ 0.30	\$ 0.40
Average assets	\$ 8,570,019	\$ 8,180,959	\$ 8,000,366	\$ 7,965,438	\$ 7,991,213
Average tangible equity	\$ 824,787	807,085	\$ 791,433	\$ 783,789	\$ 772,932
Return on average assets, excluding certain items affecting comparability (non-GAAP)	1.27%	1.21%	1.12%	0.93%	1.24%
Return on average tangible equity, excluding certain items affecting comparability (non-GAAP)	13.84%	12.96%	11.91%	10.04%	13.45%
Efficiency ratio, excluding certain items affecting comparability (Non-GAAP)	63.92%	66.41%	66.80%	72.34%	63.94%

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

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

	<b>Nine months ended</b>	
	<b>September 30, 2017</b>	<b>September 30, 2016</b>
Net income (GAAP)	\$ 75,330	\$ 48,254
Purchase accounting adjustments	(3,889)	—
Acquisition-related expenses	1,743	19,817
Total charges	(2,146)	19,817
Income tax expense (benefit)	1,125	(6,476)
Total charges, net of taxes	(1,021)	13,341
Operating earnings, excluding certain items affecting comparability (non-GAAP)	<u>\$ 74,309</u>	<u>\$ 61,595</u>
Weighted average diluted shares	62,368,929	55,238,139
Diluted EPS (GAAP)	\$ 1.21	\$ 0.87
Diluted EPS, excluding certain items affecting comparability (non-GAAP)	\$ 1.19	\$ 1.12
Average assets	\$ 8,252,534	\$ 6,949,985
Average tangible equity	\$ 807,891	\$ 694,316
Return on average assets, excluding certain items affecting comparability (non-GAAP)	1.20%	1.18%
Return on average tangible equity, excluding certain items affecting comparability (non-GAAP)	12.92%	12.36%
Efficiency ratio, excluding certain items affecting comparability (non-GAAP)	65.68%	64.30%