

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C. 20429

FORM 8-K

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

April 25, 2019

Date of Report (Date of earliest event reported)

TOWNE BANK

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation)

35095
(FDIC Insurance Cert. No.)

54-1910608
(IRS Employer Identification
No.)

5716 High Street, Portsmouth, Virginia
(Address of principal executive offices)

23703
(Zip Code)

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

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

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

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

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 April 25, 2019, TowneBank issued a press release announcing its results of operations and financial condition for the first quarter ended March 31, 2019. A copy of the press release announcing the Registrant's results for the first quarter ended March 31, 2019 is attached hereto as Exhibit 99.1 and incorporated by reference herein.

Item 9.01 Financial Statements and Exhibits.

(d) *Exhibits.*

The following exhibits are filed herewith:

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press release, dated April 25, 2019

SIGNATURES

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

TowneBank
(Registrant)

Date: April 25, 2019

By: /s/ William B. Littreal
William B. Littreal
Senior Executive Vice President
and Chief Financial Officer

News Release

FOR IMMEDIATE RELEASE

TOWNEBANK REPORTS FIRST QUARTER 2019 EARNINGS

Suffolk, VA, April 25, 2019 - TowneBank (the “Company”) (NASDAQ: TOWN) today reported earnings for the quarter ended March 31, 2019, of \$31.41 million, or \$0.44 per diluted share, compared to \$24.71 million or \$0.36 per diluted share for the quarter ended March 31, 2018. Excluding acquisition-related expenses, earnings for the quarter ended March 31, 2019 were \$31.77 million (non-GAAP), or \$0.44 (non-GAAP) per diluted share, compared to \$31.79 million (non-GAAP), or \$0.46 (non-GAAP) per diluted share for the quarter ended March 31, 2018.

“As we celebrate our twentieth anniversary since the founding of TowneBank, our consistent financial performance continues to enable us to invest in building a solid pathway to the future through our expansion of our North Carolina and Virginia franchise," said G. Robert Aston, Jr., Executive Chairman.

Highlights for the First Quarter of 2019 Compared to the First Quarter of 2018:

- Total revenues were \$133.85 million, an increase of \$7.58 million, or 6.0%.
- Loans held for investment were \$8.11 billion, an increase of \$0.64 billion, or 8.50%, from March 31, 2018, and \$0.09 billion, or 1.09%, from December 31, 2018, or 4.41% on an annualized basis.
- Total deposits were \$8.73 billion, an increase of \$0.91 billion, or 11.58%.
- Noninterest bearing deposits increased by 12.41%, to \$2.81 billion, representing 32.23% of total deposits.
- Annualized return on common shareholders' equity was 8.30% and annualized return on average tangible common shareholders' equity was 13.39% (non-GAAP).
- Net interest margin for the quarter was 3.54% and taxable equivalent net interest margin was 3.57% (non-GAAP).
- Effective tax rate of 20.72% in the quarter compared to 19.74% in the first quarter of 2018.

“Deposit growth was robust in the first quarter. We continue to add to our production teams in North Carolina. In addition to 11 member-facing hires in Greensboro and Greenville, North Carolina where we have added over \$80 million in new deposits, we have added Jack Clayton in Raleigh as President of Business Strategies for North Carolina. Jack is a 40-year veteran of Wells Fargo where he led the central and northeastern North Carolina regions. His proven ability to recruit talent from the national banks and his extensive business contacts will enhance our already strong double-digit growth in North Carolina,” said J. Morgan Davis, President and Chief Executive Officer.

Quarterly Net Interest Income Compared to the First Quarter of 2018:

- Net interest income was \$87.47 million compared to \$76.34 million at March 31, 2018.
- Taxable equivalent net interest margin was 3.57%, including accretion of 11 basis points, compared to 3.54%, including accretion of 15 basis points, for 2018.
- Total cost of deposits increased to 0.93% from 0.53% at March 31, 2018.
- Average interest-earning assets totaled \$10.02 billion at March 31, 2019 compared to \$8.81 billion at March 31, 2018, an increase of 13.73%.
- Average loans held for investment represented 80.16% of average earning assets at March 31, 2019 compared to 78.95% at March 31, 2018.
- Average interest-bearing liabilities totaled \$6.82 billion, an increase of \$0.79 billion from prior year.
- Management periodically reviews the cost of funds charged to TowneBank Mortgage to fund its operations. Effective January 1, 2019, the line moved a floating-rate structure tied to Federal Home Loan Bank rates. As a result of the funding change, interest income declined in the Realty Segment. All intercompany transaction are eliminated in the Banking Segment.

Quarterly Provision for Loan Losses:

- Recorded a provision for loan losses of \$1.44 million compared to \$1.95 million one year ago and \$2.29 million in the prior quarter.
- Net charge-offs were \$0.23 million compared to \$0.35 million one year prior. The ratio of net charge-offs to average loans on an annualized basis was 0.01% compared to 0.02% in both the prior quarter and the first quarter of 2018.
- The allowance for loan losses represented 0.66% of total loans compared to 0.65% at December 31, 2018 and 0.63% at March 31, 2018. Loan loss reserve as a percentage of total loans, excluding purchased loans, decreased to 0.81%, from 0.82% at December 31, 2018 and 0.86% at March 31,

2018. The allowance for loan losses was 9.36 times nonperforming loans compared to 10.97 times at December 31, 2018 and 10.40 times at March 31, 2018.

Quarterly Noninterest Income Compared to the First Quarter of 2018:

- Total noninterest income was \$46.38 million compared to \$49.93 million in 2018. The increase in insurance commissions and other title fees of \$2.21 million was offset by decreases in residential mortgage banking income of \$4.10 million and real estate brokerage of \$1.16 million.
- Residential mortgage banking income was \$13.51 million compared to \$17.60 million in first quarter 2018. Loan volume in the current quarter was \$513.53 million, with purchase loan activity comprising 86.08%, compared to first quarter 2018 loan volume of \$662.45 million, and 80.86% purchase loan activity. Lower volumes and continued pressure on gain on sale margin contributed to the decline in revenue, combined with a reduction in mortgage producers in certain markets as the Company repositions itself to enhance future growth and profitability.
- Total Insurance segment revenue increased 17.88% to \$18.50 million in first quarter due to additional commission income from two insurance agency acquisitions in 2018 and one insurance agency acquisition in January 2019.
- Property management fee revenue decreased 11.72%, or \$1.02 million, due to lower reservation levels in the current year, as compared to first quarter 2018.

Quarterly Noninterest Expense Compared to the First Quarter of 2018:

- Total noninterest expense was \$92.12 million compared to \$92.30 million, a decrease of \$0.18 million, or 0.20%. Driving the decrease was a reduction in acquisition-related expenses of \$8.32 million, which was partially offset by increases of \$2.08 million in salary and benefits expense, \$1.05 million in outside processing expenses, \$0.78 million in charitable contributions, and \$0.71 million in professional fees.
- Noninterest expense included operational expenses of insurance agencies acquired subsequent to first quarter 2018 of \$2.41 million.

Quarterly Income Taxes Compared to the First Quarter of 2018:

- Income tax expense was \$8.21 million compared to \$6.08 million, one year prior. This represents an effective tax rate of 20.72% compared to 19.74% in the first quarter of 2018.

Investment Securities:

- Total investment securities were \$1.20 billion compared to \$1.19 billion at December 31, 2018 and \$1.34 billion at March 31, 2018. The weighted average duration of the portfolio at March 31, 2019 was 3.30 years. The carrying value of the available-for-sale portfolio included \$2.22 million of net unrealized losses compared to \$11.91 million at December 31, 2018 and \$17.95 million in net unrealized losses at March 31, 2018. The decrease in net unrealized losses was primarily due to interest rate fluctuations. During the first quarter of 2019, we sold \$100.08 million in available-for-sale securities at a loss of \$0.78 million, in order to position our portfolio for better yield, going forward. The carrying value of the held-to-maturity portfolio does not reflect \$1.04 million in net unrealized gains compared to \$0.67 million in net unrealized gains at December 31, 2018 and \$0.88 million in net unrealized gains at March 31, 2018.

Loans and Asset Quality:

- Total loans held for investment were \$8.11 billion at March 31, 2019 compared to \$8.02 billion at December 31, 2018 and \$7.47 billion at March 31, 2018.
- Nonperforming assets declined to \$24.99 million, or 0.22% of total assets, compared to \$28.48 million, or 0.27%, at March 31, 2018.
- Nonperforming loans were 0.07% of period end loans.
- Foreclosed property decreased to \$17.07 million from \$21.73 million at March 31, 2018.

Deposits and Borrowings:

- Total deposits were \$8.73 billion compared to \$8.37 billion at December 31, 2018, and \$7.83 billion at March 31, 2018.
- Total loans to total deposits were 92.83% compared to 95.79% at December 31, 2018 and 95.46% at March 31, 2018.
- Non-interest bearing deposits were 32.23% of total deposits at March 31, 2019 compared to 31.33% at December 31, 2018 and 31.99% at March 31, 2018.
- Total borrowings were \$1.03 billion compared to \$1.09 billion and \$1.18 billion at December 31, 2018 and March 31, 2018, respectively.

Capital:

- Common equity tier 1 capital ratio of 11.49%.
- Tier 1 leverage capital ratio of 9.92%.

- Tier 1 risk-based capital ratio of 11.52%.
- Total risk-based capital ratio of 14.79%.
- Book value was \$21.40 compared to \$21.05 at December 31, 2018 and \$19.90 at March 31, 2018.
- Tangible book value was \$14.46 compared to \$14.26 at December 31, 2018 and \$13.34 at March 31, 2018.

About TowneBank:

As one of the top community banks in Virginia and North Carolina, TowneBank operates 41 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 Raleigh, Cary, Charlotte, Moyock, Greenville, Grandy, Camden County, Southern Shores, Corolla and Nags Head in North Carolina. TowneBank 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 \$11.57 billion as of March 31, 2019, TowneBank is one of the largest banks headquartered in Virginia.

Non-GAAP Financial Measures:

This press release contains financial information determined by methods other than in accordance with GAAP. The Company's management uses these non-GAAP financial measures in 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; and other risk factors detailed from time to time in filings made by TowneBank with the Federal Deposit Insurance Corporation. TowneBank undertakes no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.

Media contact:

G. Robert Aston, Jr., Executive Chairman, 757-638-6780

J. Morgan Davis, President and Chief Executive Officer, 757-673-1673

Investor contact:

William B. Littreal, Chief Financial Officer, 757-638-6813

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

	Three Months Ended				
	March 31,	December 31,	September 30,	June 30,	March 31,
	2019	2018	2018	2018	2018
Income and Performance Ratios:					
Total Revenue	\$ 133,854	\$ 131,417	\$ 137,914	\$ 137,058	\$ 126,276
Net income	32,082	36,440	39,252	36,138	25,943
Net income attributable to TowneBank	31,409	35,990	38,293	34,804	24,705
Net income per common share - diluted	0.44	0.50	0.53	0.48	0.36
Book value per common share	21.40	21.05	20.54	20.22	19.90
Tangible book value per share ^(non-GAAP)	14.46	14.26	13.83	13.50	13.34
Return on average assets	1.14%	1.28%	1.40%	1.32%	1.02%
Return on average assets - tangible ^(non-GAAP)	1.29%	1.43%	1.56%	1.48%	1.15%
Return on average equity	8.24%	9.44%	10.21%	9.55%	7.39%
Return on average equity - tangible ^(non-GAAP)	13.24%	14.91%	16.08%	15.19%	11.64%
Return on average common equity	8.30%	9.53%	10.30%	9.62%	7.45%
Return on average common equity - tangible ^(non-GAAP)	13.39%	15.11%	16.30%	15.36%	11.77%
Noninterest income as a percentage of total revenue	34.65%	32.12%	35.69%	36.65%	39.54%
Regulatory Capital Ratios (1):					
Common equity tier 1	11.49%	11.51%	11.53%	11.33%	11.65%
Tier 1	11.52%	11.54%	11.57%	11.36%	11.68%
Total	14.79%	14.83%	14.90%	14.71%	15.27%
Tier 1 leverage ratio	9.92%	9.87%	9.98%	10.00%	9.97%
Asset Quality:					
Allowance for loan losses to nonperforming loans	9.36x	10.97x	7.25x	12.64x	10.40x
Allowance for loan losses to period end loans	0.66%	0.65%	0.64%	0.64%	0.63%
Allowance for loan losses to period end loans excluding purchased loans	0.81%	0.82%	0.82%	0.84%	0.86%
Nonperforming loans to period end loans	0.07%	0.06%	0.09%	0.05%	0.06%
Nonperforming assets to period end assets	0.22%	0.22%	0.25%	0.24%	0.27%
Net charge-offs to average loans (annualized)	0.01%	0.02%	0.03%	0.01%	0.02%
Nonperforming loans	\$ 5,697	\$ 4,749	\$ 6,926	\$ 3,919	\$ 4,495
Former bank premises	2,223	2,253	2,253	2,253	2,253
Foreclosed property	17,070	17,163	18,153	20,133	21,731
Total nonperforming assets	\$ 24,990	\$ 24,165	\$ 27,332	\$ 26,305	\$ 28,479
Loans past due 90 days and still accruing interest	\$ 117	\$ 394	\$ 153	\$ 22	\$ 199
Allowance for loan losses	\$ 53,303	\$ 52,094	\$ 50,236	\$ 49,535	\$ 46,735
Mortgage Banking:					
Loans originated, mortgage	\$ 366,643	\$ 407,787	\$ 561,543	\$ 667,189	\$ 477,147
Loans originated, joint venture	146,884	192,280	249,956	283,933	185,306
Total loans originated	\$ 513,527	\$ 600,067	\$ 811,499	\$ 951,122	\$ 662,453
Number of loans originated	1,977	2,304	3,068	3,687	2,601
Number of originators	240	293	303	324	324
Purchase %	86.08%	88.64%	89.72%	91.23%	80.86%
Loans sold	\$ 473,068	\$ 694,341	\$ 852,205	\$ 825,313	\$ 677,114
Realized gain on sales and fees as a % of loans closed	3.58%	3.37%	3.36%	3.30%	3.59%
Other Ratios:					
Net interest margin	3.54%	3.53%	3.62%	3.69%	3.51%
Net interest margin-fully tax equivalent ^(nonGAAP)	3.57%	3.55%	3.64%	3.71%	3.54%
Average earning assets/total average assets	89.50%	89.91%	89.69%	89.61%	89.45%
Average loans/average deposits	95.83%	95.32%	97.55%	97.79%	95.89%
Average noninterest deposits/total average deposits	31.39%	31.90%	32.61%	32.28%	31.75%
Period end equity/period end total assets	13.53%	13.78%	13.49%	13.63%	13.65%
Efficiency ratio	68.43%	62.65%	64.00%	65.10%	73.10%

(1) Current reporting period regulatory capital ratios are preliminary

TOWNEBANK
Selected Data (unaudited)
(dollars in thousands)

Investment Securities

			% Change		
	Q1 2019	Q1 2018	Q4 2018	Q1 19 vs. Q1 18	Q1 19 vs. Q4 18
<i>Available-for-sale securities, at fair value</i>					
U.S. agency securities	\$ 260,152	\$ 428,952	\$ 358,542	(39.35)%	(27.44)%
U.S. Treasury notes	2,229	301,442	1,246	(99.26)%	78.89 %
Municipal securities	107,278	56,655	87,308	89.35 %	22.87 %
Trust preferred and other corporate securities	32,439	24,570	30,992	32.03 %	4.67 %
Mortgage-backed securities issued by GSE	697,679	425,560	617,251	63.94 %	13.03 %
Total	<u>\$ 1,099,777</u>	<u>\$ 1,237,179</u>	<u>\$ 1,095,339</u>	<u>(11.11)%</u>	<u>0.41 %</u>

Held-to-maturity securities, at amortized cost

Municipal securities	\$ 34,472	\$ 36,056	\$ 34,488	(4.39)%	(0.05)%
Trust preferred corporate securities	500	500	500	— %	— %
Mortgage-backed securities issued by GSE	14,715	18,727	15,610	(21.42)%	(5.73)%
Total	<u>\$ 49,687</u>	<u>\$ 55,283</u>	<u>\$ 50,598</u>	<u>(10.12)%</u>	<u>(1.80)%</u>

Loans Held For Investment

			% Change		
	Q1 2019	Q1 2018	Q4 2018	Q1 19 vs. Q1 18	Q1 19 vs. Q4 18
Real estate-construction and development	\$ 1,111,360	\$ 996,159	\$ 1,067,239	11.56 %	4.13 %
Commercial real estate - investment related properties	1,951,292	1,853,737	1,978,592	5.26 %	(1.38)%
Commercial real estate - owner occupied	1,279,039	1,164,923	1,262,748	9.80 %	1.29 %
Real estate-multifamily	255,649	297,085	260,987	(13.95)%	(2.05)%
Real estate-residential 1-4 family	1,637,579	1,566,449	1,626,896	4.54 %	0.66 %
Commercial and industrial business	1,547,623	1,328,357	1,510,364	16.51 %	2.47 %
Consumer and other loans	322,828	263,441	311,407	22.54 %	3.67 %
Total	<u>\$ 8,105,370</u>	<u>\$ 7,470,151</u>	<u>\$ 8,018,233</u>	<u>8.50 %</u>	<u>1.09 %</u>

Deposits

			% Change		
	Q1 2019	Q1 2018	Q4 2018	Q1 19 vs. Q1 18	Q1 19 vs. Q4 18
Noninterest-bearing demand	\$ 2,813,857	\$ 2,503,246	\$ 2,622,761	12.41 %	7.29 %
Interest-bearing:					
Demand and money market accounts	3,290,907	3,001,256	3,223,215	9.65 %	2.10 %
Savings	285,790	309,077	286,684	(7.53)%	(0.31)%
Certificates of deposits	2,341,134	2,011,843	2,237,762	16.37 %	4.62 %
Total	<u>\$ 8,731,688</u>	<u>\$ 7,825,422</u>	<u>\$ 8,370,422</u>	<u>11.58 %</u>	<u>4.32 %</u>

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

	Discount Accretion (Premium Amortization)		
	For the three months ended		
	June 30, 2019	September 30, 2019	December 31, 2019
Assets:			
Investment Securities	\$ (75)	\$ (74)	\$ (75)
Loans	1,837	1,773	1,716
Liabilities:			
Deposits	54	51	47
Total estimated effect on net interest income	<u>\$ 1,708</u>	<u>\$ 1,648</u>	<u>\$ 1,594</u>

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.

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

	Three Months Ended March 31, 2019			Three Months Ended December 31, 2018			Three Months Ended March 31, 2018		
	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	\$ 8,030,994	\$ 100,146	5.06%	\$ 7,923,978	\$ 99,895	5.00%	\$ 6,954,777	\$ 81,911	4.78%
Taxable investment securities	1,036,645	7,529	2.91%	1,101,892	7,515	2.73%	902,292	5,041	2.23%
Tax-exempt investment	79,310	765	3.86%	80,656	747	3.70%	73,037	672	3.68%
Total securities	1,115,955	8,294	2.97%	1,182,548	8,262	2.73%	975,329	5,713	2.34%
Interest-bearing deposits	693,365	3,998	2.34%	652,131	3,559	2.17%	640,349	2,362	1.50%
Loans held for sale	178,475	2,003	4.49%	266,058	3,176	4.77%	239,103	2,379	3.98%
Total earning assets	10,018,789	114,441	4.63%	10,024,715	114,892	4.55%	8,809,558	92,365	4.25%
Less: allowance for loan losses	(52,844)			(50,792)			(46,199)		
Total nonearning assets	1,228,808			1,176,037			1,085,005		
Total assets	<u>\$ 11,194,753</u>			<u>\$ 11,149,960</u>			<u>\$ 9,848,364</u>		
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	\$ 3,174,157	\$ 6,240	0.80%	\$ 3,122,973	\$ 5,670	0.72%	\$ 2,774,347	\$ 2,969	0.43%
Savings	285,499	1,027	1.46%	293,135	1,022	1.38%	308,539	876	1.15%
Certificates of deposit	2,290,056	11,907	2.11%	2,245,039	10,803	1.91%	1,866,889	5,641	1.23%
Total interest-bearing deposits	5,749,712	19,174	1.35%	5,661,147	17,495	1.23%	4,949,775	9,486	0.78%
Borrowings	821,889	4,221	2.05%	920,389	4,643	1.97%	820,967	2,878	1.40%
Subordinated debt, net	247,913	2,962	4.78%	247,769	2,961	4.78%	259,205	3,158	4.87%
Total interest-bearing liabilities	6,819,514	26,357	1.57%	6,829,305	25,099	1.46%	6,029,947	15,522	1.04%
Demand deposits	2,630,813			2,651,495			2,303,125		
Other noninterest-bearing liabilities	198,527			157,238			160,308		
Total liabilities	9,648,854			9,638,038			8,493,380		
Shareholders' equity	1,545,899			1,511,922			1,354,984		
Total liabilities and equity	<u>\$ 11,194,753</u>			<u>\$ 11,149,960</u>			<u>\$ 9,848,364</u>		
Net interest income (tax-equivalent basis)		\$ 88,084			\$ 89,793			\$ 76,843	
Reconciliation of Non-GAAP Financial Measures									
Tax-equivalent basis adjustment		(611)			(585)			(499)	
Net interest income (GAAP)		<u>\$ 87,473</u>			<u>\$ 89,208</u>			<u>\$ 76,344</u>	
Interest rate spread (1)			3.06%			3.09%			3.21%
Interest expense as a percent of average earning assets			1.07%			0.99%			0.71%
Net interest margin (tax equivalent basis) (2)			3.57%			3.55%			3.54%
Total cost of deposits			0.93%			0.83%			0.53%

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

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

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

	March 31, 2019	December 31, 2018
	(unaudited)	(audited)
ASSETS		
Cash and due from banks	\$ 879,299	\$ 665,029
Interest-bearing deposits in financial institutions	21,001	21,667
Total Cash and Cash Equivalents	900,300	686,696
Securities available for sale, at fair value	1,099,777	1,095,339
Securities held to maturity, at amortized cost	49,687	50,598
Other securities	5,022	4,797
Federal Home Loan Bank stock, at amortized cost	41,464	43,229
Total Securities	1,195,950	1,193,963
Mortgage loans held for sale	247,021	220,986
Loans, net of unearned income and deferred costs	8,105,370	8,018,233
Less: allowance for loan losses	(53,303)	(52,094)
Net Loans	8,052,067	7,966,139
Premises and equipment, net	227,458	211,796
Goodwill	442,881	433,658
Other intangible assets, net	61,333	58,752
Bank-owned life insurance policies	238,977	237,371
Other assets	202,276	153,669
TOTAL ASSETS	\$ 11,568,263	\$ 11,163,030
LIABILITIES AND EQUITY		
Deposits:		
Noninterest-bearing demand	\$ 2,813,857	\$ 2,622,761
Interest-bearing:		
Demand and money market accounts	3,290,907	3,223,215
Savings	285,790	286,684
Certificates of deposit	2,341,134	2,237,762
Total Deposits	8,731,688	8,370,422
Advances from the Federal Home Loan Bank	739,160	799,315
Subordinated debt, net	248,010	247,861
Repurchase agreements and other borrowings	44,775	47,156
Total Borrowings	1,031,945	1,094,332
Other liabilities	238,974	159,856
TOTAL LIABILITIES	10,002,607	9,624,610
Preferred stock		
Authorized and unissued shares - 2,000,000	—	—
Common stock, \$1.667 par: 150,000,000 shares authorized		
72,613,754 and 72,465,923 shares issued at		
March 31, 2019 and December 31, 2018, respectively	121,047	120,801
Capital surplus	1,035,563	1,034,676
Retained earnings	399,030	379,239
Common stock issued to deferred compensation trust, at cost		
768,274 and 769,200 shares at		
March 31, 2019 and December 31, 2018, respectively	(14,067)	(13,955)
Deferred compensation trust	14,067	13,955
Accumulated other comprehensive loss	(1,792)	(9,190)
TOTAL SHAREHOLDERS' EQUITY	1,553,848	1,525,526
Noncontrolling interest	11,808	12,894
TOTAL EQUITY	1,565,656	1,538,420
TOTAL LIABILITIES AND EQUITY	\$ 11,568,263	\$ 11,163,030

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

	Three Months Ended	
	March 31,	
	2019	2018
INTEREST INCOME:		
Loans, including fees	\$ 99,695	\$ 81,533
Investment securities	8,134	5,592
Interest-bearing deposits in financial institutions and federal funds sold	3,998	2,362
Mortgage loans held for sale	2,003	2,379
Total interest income	113,830	91,866
INTEREST EXPENSE:		
Deposits	19,174	9,486
Advances from the Federal Home Loan Bank	4,153	2,838
Subordinated capital debentures	2,962	3,158
Repurchase agreements and other borrowings, net of capitalized interest	68	40
Total interest expense	26,357	15,522
Net interest income	87,473	76,344
PROVISION FOR LOAN LOSSES		
	1,438	1,953
Net interest income after provision for loan losses	86,035	74,391
NONINTEREST INCOME:		
Residential mortgage banking income, net	13,508	17,604
Insurance commissions and other title fees and income, net	15,582	13,372
Real estate brokerage and property management income, net	9,268	10,429
Service charges on deposit accounts	2,861	2,883
Credit card merchant fees, net	1,183	1,168
Bank owned life insurance	1,598	1,532
Other income	3,157	2,941
Gain/(loss) on investment securities	(776)	3
Total noninterest income	46,381	49,932
NONINTEREST EXPENSE:		
Salaries and employee benefits	52,860	50,784
Occupancy	8,251	6,477
Furniture and equipment	3,371	3,698
Other expenses	27,641	31,344
Total noninterest expense	92,123	92,303
Income before income tax expense and noncontrolling interest	40,293	32,020
Provision for income tax expense	8,211	6,077
Net income	\$ 32,082	\$ 25,943
Net income attributable to noncontrolling interest	(673)	(1,238)
Net income attributable to TowneBank	\$ 31,409	\$ 24,705
Per common share information		
Basic earnings	\$ 0.44	\$ 0.36
Diluted earnings	\$ 0.44	\$ 0.36
Cash dividends declared	\$ 0.16	\$ 0.14

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

	March 31,	December 31,	September 30,	June 30,	March 31,
	2019	2018	2018	2018	2018
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)
ASSETS					
Cash and due from banks	\$ 879,299	\$ 665,029	\$ 688,584	\$ 440,054	\$ 479,453
Interest-bearing deposits in financial institutions	21,001	21,667	20,910	17,749	17,728
Total Cash and Cash Equivalents	900,300	686,696	709,494	457,803	497,181
Securities available for sale, at fair value	1,099,777	1,095,339	1,051,773	1,057,663	1,237,179
Securities held to maturity, at amortized cost	49,687	50,598	52,002	53,954	55,283
Other securities	5,022	4,797	5,519	5,206	5,002
Federal Home Loan Bank stock, at amortized cost	41,464	43,229	46,393	46,393	46,400
Total Securities	1,195,950	1,193,963	1,155,687	1,163,216	1,343,864
Mortgage loans held for sale	247,021	220,986	333,354	396,185	293,731
Loans, net of unearned income and deferred costs	8,105,370	8,018,233	7,881,692	7,774,956	7,470,151
Less: allowance for loan losses	(53,303)	(52,094)	(50,236)	(49,535)	(46,735)
Net Loans	8,052,067	7,966,139	7,831,456	7,725,421	7,423,416
Premises and equipment, net	227,458	211,796	210,724	207,997	207,126
Goodwill	442,881	433,658	427,117	425,625	416,789
Other intangible assets, net	61,333	58,752	58,165	60,669	57,493
Bank-owned life insurance policies	238,977	237,371	235,348	233,682	232,039
Other assets	202,276	153,669	159,887	161,055	148,776
TOTAL ASSETS	\$ 11,568,263	\$ 11,163,030	\$ 11,121,232	\$ 10,831,653	\$ 10,620,415
LIABILITIES AND EQUITY					
Deposits:					
Noninterest-bearing demand	\$ 2,813,857	\$ 2,622,761	\$ 2,671,558	\$ 2,597,320	\$ 2,503,246
Interest-bearing:					
Demand and money market accounts	3,290,907	3,223,215	3,096,317	3,017,767	3,001,256
Savings	285,790	286,684	298,368	305,334	309,077
Certificates of deposit	2,341,134	2,237,762	2,233,188	2,070,790	2,011,843
Total Deposits	8,731,688	8,370,422	8,299,431	7,991,211	7,825,422
Advances from the Federal Home Loan Bank	739,160	799,315	873,469	873,622	873,773
Subordinated debt, net	248,010	247,861	247,712	247,563	257,723
Repurchase agreements and other borrowings	44,775	47,156	45,591	50,981	52,509
Total Borrowings	1,031,945	1,094,332	1,166,772	1,172,166	1,184,005
Other liabilities	238,974	159,856	155,205	191,490	161,638
TOTAL LIABILITIES	10,002,607	9,624,610	9,621,408	9,354,867	9,171,065
Preferred stock					
Authorized shares - 2,000,000	—	—	—	—	—
Common stock, \$1.667 par value	121,047	120,801	120,613	120,615	120,472
Capital surplus	1,035,563	1,034,676	1,032,863	1,031,965	1,028,985
Retained earnings	399,030	379,239	354,842	328,125	304,896
Common stock issued to deferred compensation trust, at cost	(14,067)	(13,955)	(13,780)	(13,500)	(12,612)
Deferred compensation trust	14,067	13,955	13,780	13,500	12,612
Accumulated other comprehensive loss	(1,792)	(9,190)	(22,348)	(17,944)	(15,873)
TOTAL SHAREHOLDERS' EQUITY	1,553,848	1,525,526	1,485,970	1,462,761	1,438,480
Noncontrolling interest	11,808	12,894	13,854	14,025	10,870
TOTAL EQUITY	1,565,656	1,538,420	1,499,824	1,476,786	1,449,350
TOTAL LIABILITIES AND EQUITY	\$ 11,568,263	\$ 11,163,030	\$ 11,121,232	\$ 10,831,653	\$ 10,620,415

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

	Three Months Ended				
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
INTEREST INCOME:					
Loans, including fees	\$ 99,695	\$ 99,446	\$ 97,215	\$ 93,150	\$ 81,533
Investment securities	8,134	8,126	7,019	6,390	5,592
Interest-bearing deposits in financial institutions and federal funds sold	3,998	3,559	2,148	2,159	2,362
Mortgage loans held for sale	2,003	3,176	4,012	3,557	2,379
Total interest income	113,830	114,307	110,394	105,256	91,866
INTEREST EXPENSE:					
Deposits	19,174	17,495	14,540	11,620	9,486
Advances from the Federal Home Loan Bank	4,153	4,585	4,153	3,764	2,838
Subordinated capital debentures	2,962	2,961	2,962	2,986	3,158
Repurchase agreements and other borrowings	68	58	42	63	40
Total interest expense	26,357	25,099	21,697	18,433	15,522
Net interest income	87,473	89,208	88,697	86,823	76,344
PROVISION FOR LOAN LOSSES	1,438	2,292	1,241	3,056	1,953
Net interest income after provision for loan losses	86,035	86,916	87,456	83,767	74,391
NONINTEREST INCOME:					
Residential mortgage banking income, net	13,508	12,951	15,804	18,745	17,604
Insurance commissions and other title fees and income, net	15,582	13,212	14,493	15,087	13,372
Real estate brokerage and property management income, net	9,268	5,982	8,542	6,910	10,429
Service charges on deposit accounts	2,861	2,928	3,028	2,969	2,883
Credit card merchant fees, net	1,183	1,298	1,563	1,443	1,168
Bank owned life insurance	1,598	2,014	1,657	1,633	1,532
Other income	3,157	3,824	4,130	3,448	2,941
Gain/(loss) on investment securities	(776)	—	—	—	3
Total noninterest income	46,381	42,209	49,217	50,235	49,932
NONINTEREST EXPENSE:					
Salaries and employee benefits	52,860	50,233	50,497	50,324	50,784
Occupancy expense	8,251	7,352	7,013	6,802	6,477
Furniture and equipment	3,371	3,587	3,646	3,546	3,698
Other expenses	27,641	21,165	27,106	28,549	31,344
Total noninterest expense	92,123	82,337	88,262	89,221	92,303
Income before income tax expense and noncontrolling interest	40,293	46,788	48,411	44,781	32,020
Provision for income tax expense	8,211	10,348	9,159	8,643	6,077
Net income	32,082	36,440	39,252	36,138	25,943
Net income attributable to noncontrolling interest	(673)	(450)	(959)	(1,334)	(1,238)
Net income attributable to TowneBank	\$ 31,409	\$ 35,990	\$ 38,293	\$ 34,804	\$ 24,705
Per common share information					
Basic earnings	\$ 0.44	\$ 0.50	\$ 0.53	\$ 0.48	\$ 0.36
Diluted earnings	\$ 0.44	\$ 0.50	\$ 0.53	\$ 0.48	\$ 0.36
Basic weighted average shares outstanding	71,992,330	71,905,956	71,875,085	71,787,980	68,983,745
Diluted weighted average shares outstanding	72,099,558	\$ 72,043,369	72,044,355	71,949,590	69,156,809
Cash dividends declared	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.14

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

	Three Months Ended			Increase/(Decrease)	
	March 31,		December 31,	2019 over 2018	
	2019	2018	2018	Amount	Percent
Revenue					
Net interest income	\$ 86,400	\$ 74,042	\$ 86,433	\$ 12,358	16.69 %
Noninterest income					
Service charges on deposit accounts	2,861	2,883	2,928	(22)	(0.76)%
Credit card merchant fees	1,183	1,168	1,298	15	1.28 %
Other income	3,927	3,956	4,660	(29)	(0.73)%
Subtotal	7,971	8,007	8,886	(36)	(0.45)%
Gain/(loss) on investment securities	(776)	3	—	(779)	N/M
Total noninterest income	7,195	8,010	8,886	(815)	(10.17)%
Total revenue	93,595	82,052	95,319	11,543	14.07 %
Provision for loan losses	1,438	1,953	2,292	(515)	(26.37)%
Expenses					
Salaries and employee benefits	31,087	30,202	28,100	885	2.93 %
Occupancy expense	5,244	4,016	4,789	1,228	30.58 %
Furniture and equipment	2,367	2,532	2,426	(165)	(6.52)%
Amortization of intangibles	1,366	1,221	1,428	145	11.88 %
Other expenses	16,181	20,748	9,759	(4,567)	(22.01)%
Total expenses	56,245	58,719	46,502	(2,474)	(4.21)%
Income before income tax, corporate allocation and noncontrolling interest	35,912	21,380	46,525	14,532	67.97 %
Corporate allocation	452	456	367	(4)	(0.88)%
Income before income tax provision and noncontrolling interest	36,364	21,836	46,892	14,528	66.53 %
Provision for income tax expense	7,192	3,881	10,252	3,311	85.31 %
Net income	29,172	17,955	36,640	11,217	62.47 %
Noncontrolling interest	2	(2)	4	4	N/M
Net income attributable to TowneBank	\$ 29,174	\$ 17,953	\$ 36,644	\$ 11,221	62.50 %
Efficiency ratio	59.60%	71.57%	48.79%	(11.97)%	(16.72)%

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

	Three Months Ended			Increase/(Decrease)	
	March 31,		December 31,	2019 over 2018	
	2019	2018	2018	Amount	Percent
Revenue					
Residential mortgage brokerage income, net	\$ 13,756	\$ 17,661	\$ 13,472	\$ (3,905)	(22.11)%
Real estate brokerage income, net	1,561	1,698	2,183	(137)	(8.07)%
Title insurance and settlement fees	368	315	458	53	16.83 %
Property management fees, net	7,708	8,731	3,799	(1,023)	(11.72)%
Income from unconsolidated subsidiary	94	94	54	—	— %
Net interest and other income	1,372	2,546	3,210	(1,174)	(46.11)%
Total revenue	24,859	31,045	23,176	(6,186)	(19.93)%
Expenses					
Salaries and employee benefits	12,895	13,877	14,308	(982)	(7.08)%
Occupancy expense	2,345	1,894	1,928	451	23.81 %
Furniture and equipment	768	980	930	(212)	(21.63)%
Amortization of intangible assets	725	672	767	53	7.89 %
Other expenses	6,241	6,294	6,419	(53)	(0.84)%
Total expenses	22,974	23,717	24,352	(743)	(3.13)%
Income/(loss) before income tax, corporate allocation and noncontrolling interest	1,885	7,328	(1,176)	(5,443)	(74.28)%
Corporate allocation	(263)	(289)	(238)	26	(9.00)%
Income before income tax provision and noncontrolling interest	1,622	7,039	(1,414)	(5,417)	(76.96)%
Provision for income tax expense	551	1,559	(86)	(1,008)	(64.66)%
Net income/(loss)	1,071	5,480	(1,328)	(4,409)	(80.46)%
Noncontrolling interest	(252)	(622)	(130)	370	(59.49)%
Net income/(loss) attributable to TowneBank	\$ 819	\$ 4,858	\$ (1,458)	\$ (4,039)	(83.14)%
Efficiency ratio	92.42%	76.40%	105.07%	16.02%	20.97 %

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

	Three Months Ended			Increase/(Decrease)	
	March 31,		December 31,	2019 over 2018	
	2019	2018	2018	Amount	Percent
Commission and fee income					
Property and casualty	\$ 11,873	\$ 9,356	\$ 9,770	\$ 2,517	26.90 %
Employee benefits	3,506	3,196	3,625	310	9.70 %
Travel insurance	1,289	1,768	1,095	(479)	(27.09)%
Specialized benefit services	170	169	168	1	0.59 %
Total commissions and fees	16,838	14,489	14,658	2,349	16.21 %
Contingency and bonus revenue	1,585	1,133	1,185	452	39.89 %
Other income	75	70	79	5	7.14 %
Total revenue	18,498	15,692	15,922	2,806	17.88 %
Employee commission expense	3,098	2,513	3,000	585	23.28 %
Revenue, net of commission expense	15,400	13,179	12,922	2,221	16.85 %
Salaries and employee benefits	8,878	6,705	7,825	2,173	32.41 %
Occupancy expense	662	567	635	95	16.75 %
Furniture and equipment	236	185	231	51	27.57 %
Amortization of intangible assets	1,101	702	928	399	56.84 %
Other expenses	2,027	1,708	1,865	319	18.68 %
Total operating expenses	12,904	9,867	11,484	3,037	30.78 %
Income before income tax, corporate allocation and noncontrolling interest	2,496	3,312	1,438	(816)	(24.64)%
Corporate allocation	(189)	(167)	(128)	(22)	13.17 %
Income before income tax provision and noncontrolling interest	2,307	3,145	1,310	(838)	(26.65)%
Provision for income tax expense	468	637	182	(169)	(26.53)%
Net income	1,839	2,508	1,128	(669)	(26.67)%
Noncontrolling interest	(423)	(614)	(324)	191	(31.11)%
Net income attributable to TowneBank	\$ 1,416	\$ 1,894	\$ 804	\$ (478)	(25.24)%
Provision for income taxes	468	637	182	(169)	(26.53)%
Depreciation, amortization and interest expense	1,333	906	1,152	427	47.13 %
EBITDA	\$ 3,217	\$ 3,437	\$ 2,138	\$ (220)	(6.40)%
Efficiency ratio	83.79%	74.87%	88.87%	8.92%	11.91 %

TOWNEBANK
Reconciliation of Non-GAAP Financial Measures

	Three Months Ended		
	March 31, 2019	March 31, 2018	December 2018
Return on average assets (GAAP)	1.14%	1.02%	1.28%
Impact of excluding average goodwill and other intangibles and amortization	0.15%	0.13%	0.15%
Return on average tangible assets (non-GAAP)	1.29%	1.15%	1.43%
Return on average equity (GAAP)	8.24%	7.39%	9.44%
Impact of excluding average goodwill and other intangibles and amortization	5.00%	4.25%	5.47%
Return on average tangible equity (non-GAAP)	13.24%	11.64%	14.91%
Return on average common equity (GAAP)	8.30%	7.45%	9.53%
Impact of excluding average goodwill and other intangibles and amortization	5.09%	4.32%	5.58%
Return on average tangible common equity (non-GAAP)	13.39%	11.77%	15.11%
Book value (GAAP)	\$ 21.40	\$ 19.90	\$ 21.05
Impact of excluding average goodwill and other intangibles and amortization	(6.94)	(6.56)	(6.79)
Tangible book value (non-GAAP)	\$ 14.46	\$ 13.34	\$ 14.26

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

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

	Three Months Ended				
	March 31, 2018	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Net income (GAAP)	\$ 31,409	\$ 35,990	\$ 38,293	\$ 34,804	\$ 24,705
Acquisition-related expenses	411	(1,518)	424	797	8,726
Income tax expense -tax reform legislation	—	696	—	—	—
Income tax expense (benefit) - other items	(52)	355	(44)	(93)	(1,639)
Income tax expense (benefit)	(52)	1,051	(44)	(93)	(1,639)
Total charges, net of taxes	359	(467)	380	704	7,087
Operating earnings, excluding certain items affecting comparability (non-GAAP)	<u>\$ 31,768</u>	<u>\$ 35,523</u>	<u>\$ 38,673</u>	<u>\$ 35,508</u>	<u>\$ 31,792</u>
Weighted average diluted shares	72,099,558	72,043,369	72,044,355	71,949,590	69,156,809
Diluted EPS (GAAP)	\$ 0.44	\$ 0.50	\$ 0.53	\$ 0.48	\$ 0.36
Diluted EPS, excluding certain items affecting comparability (non-GAAP)	\$ 0.44	\$ 0.49	\$ 0.54	\$ 0.49	\$ 0.46
Average assets	\$ 11,194,753	\$ 11,149,960	\$ 10,844,570	\$ 10,536,847	\$ 9,848,364
Average tangible equity	\$ 1,039,630	\$ 1,022,982	\$ 1,003,151	\$ 981,607	\$ 932,161
Return on average assets, excluding certain items affecting comparability (non-GAAP)	1.15%	1.26%	1.41%	1.35%	1.31%
Return on average tangible equity, excluding certain items affecting comparability (non-GAAP)	13.38%	14.73%	16.23%	15.48%	14.72%
Return on average common tangible equity, excluding certain items affecting comparability (non-GAAP)	13.53%	14.93%	16.45%	15.66%	14.89%
Efficiency ratio, excluding certain items affecting comparability (non-GAAP)	68.12%	63.81%	63.69%	64.52%	66.19%