

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C. 20429

FORM 8-K

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

July 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 July 25, 2019, TowneBank issued a press release announcing its results of operations and financial condition for the second quarter ended June 30, 2019. A copy of the press release announcing the Registrant's results for the second quarter ended June 30, 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 July 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: July 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 SECOND QUARTER 2019 EARNINGS

Suffolk, VA, July 25, 2019 - TowneBank (the “Company”) (NASDAQ: TOWN) today reported earnings for the quarter ended June 30, 2019 of \$34.64 million, or \$0.48 per diluted share, compared to \$34.80 million, or \$0.48 per diluted share, for the quarter ended June 30, 2018.

“Our second quarter performance was highlighted by record top-line revenues coupled with strong deposit growth. We also continued to strategically invest in recruiting, technology, enhanced services, and infrastructure to support future growth,” said G. Robert Aston, Jr., Executive Chairman.

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

- Total revenues were \$144.54 million, an increase of \$7.48 million, or 5.46%.
- Loans held for investment increased \$351.77 million, or 4.52%, from June 30, 2018, and \$21.36 million, or 0.26%, from March 31, 2019, or 1.06% on an annualized basis.
- Total deposits were \$9.27 billion, an increase of \$1.28 billion, or 15.99%, compared to prior year and \$0.54 billion, or 6.15% from March 31, 2019, or 24.67% on an annualized basis. In comparison to June 30, 2018, total deposits increased 11.70% in our Hampton Roads region, 28.14% in our Richmond region, and 23.39% in our North Carolina region.
- Noninterest bearing deposits increased by 13.60%, to \$2.95 billion, representing 31.83% of total deposits. Compared to the linked quarter, noninterest bearing deposits increased 4.86%, or 19.49% on an annualized basis.
- Annualized return on common shareholders' equity of 8.89% and annualized return on average tangible common shareholders' equity of 14.05% (non-GAAP).
- Net interest margin for the quarter was 3.49% and taxable equivalent net interest margin was 3.52% (non-GAAP).
- Effective tax rate of 20.47% in the quarter compared to 19.89% in the second quarter of 2018.

“In addition to recruiting Jack Clayton as President of Business Strategies for North Carolina in the first quarter of 2019, we continued to build our production teams in Raleigh, Greensboro, and Charlotte adding Private Bankers and Treasury expertise. We announced that Charity Volman has been appointed President of TowneBank’s newly formed Corporate Banking Group. Joining her team are Karen Priest, Laura Morgan, and Brian Woodell, who served with her at her former bank. In addition, Shane Stevens, was recently appointed Director of Merchant and Treasury Services. Each of these individuals brings a wealth of experience and talent to our HomeTowne Banking platform,” stated J. Morgan Davis, President and Chief Executive Officer.

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

- Net interest income was \$89.82 million compared to \$86.82 million at June 30, 2018.
- Taxable equivalent net interest margin (non-GAAP) was 3.52%, including accretion of 11 basis points, compared to 3.71%, including accretion of 23 basis points, for 2018.
- Average loans held for investment, with an average yield of 5.08%, represented 78.27% of average earning assets at June 30, 2019 compared to an average yield of 4.97% and 79.99% of average earning assets in the second quarter of 2018.
- Total cost of deposits increased to 0.99% from 0.60% at June 30, 2018.
- Average interest-earning assets totaled \$10.32 billion at June 30, 2019 compared to \$9.44 billion at June 30, 2018, an increase of 9.26%.
- Average interest-bearing liabilities totaled \$6.95 billion, an increase of \$0.55 billion from prior year.

Quarterly Provision for Loan Losses:

- Recorded a provision for loan losses of \$2.82 million compared to \$3.06 million one year ago and \$1.44 million in the linked quarter.
- Net charge-offs were \$1.60 million compared to \$0.26 million one year prior. The ratio of net charge-offs to average loans on an annualized basis was 0.08% compared to 0.01% in the prior quarter and 0.01% in the second quarter of 2018. This increase was primarily attributable to the charge-off of one credit relationship.
- The allowance for loan losses represented 0.67% of total loans compared to 0.66% at March 31, 2019 and 0.64% at June 30, 2018. Loan loss reserve as a percentage of total loans, excluding purchased loans, was 0.81% at June 30, 2019, and March 31, 2019, compared to 0.84% at June 30, 2018. The allowance for loan losses was 3.00 times nonperforming loans compared to 9.36 times at March 31, 2019 and 12.64 times at June 30, 2018.

Quarterly Noninterest Income Compared to the Second Quarter of 2018:

- Total noninterest income was \$54.72 million compared to \$50.24 million in 2018, an increase of \$4.48 million, or 8.92%. Residential mortgage banking income was relatively flat in the quarter, while insurance commissions and other title fees increased \$2.13 million, real estate brokerage and property management income increased \$1.93 million, and service charges on deposit accounts increased \$0.22 million. Credit card merchant fees declined \$0.78 million.
- Credit card merchant fee income was roughly \$0.90 million below normal seasonal levels in second quarter 2019 due to the impact of converting to a new processing platform that will allow us to provide additional services and capabilities.
- Residential mortgage banking income was \$18.57 million compared to \$18.75 million in second quarter 2018. Loan volume in the current quarter was \$821.13 million, with purchase activity comprising 84.97% of that volume. Loan volume in second quarter 2018 was \$951.12 million, with purchase activity of 91.23%. Lower volumes led to the decline in revenue.
- Total Insurance segment revenue increased 14.95% to \$20.20 million in the second quarter due primarily to additional commission income from insurance agencies that were acquired in November 2018 and January 2019.
- Property management fee revenue increased 45.89%, or \$1.88 million, as compared to second quarter 2018 due to increases in reservation levels.

Quarterly Noninterest Expense Compared to the Second Quarter of 2018:

- Total noninterest expense was \$96.56 million compared to \$89.22 million in 2018, an increase of \$7.34 million, or 8.22%. This reflects increases of \$3.94 million in salary and benefits expense, \$1.29 million in professional fees, \$0.86 million in occupancy expense, and \$0.76 million in outside data processing expenses.
- The increase in salary and benefits expense was attributable to the continued expansion of our functional support teams to enable us to enhance Company infrastructure and meet increased regulatory expectations related to exceeding \$10 billion in assets, as well as keep pace with our growth and changing industry standards. Specific areas of focus include: information technology, risk and compliance, accounting, and internal audit.
- In the wake of the May 2019 tragedy in Virginia Beach, Towne's contribution of \$0.50 million to "VBStrong" was included in other expenses.

- Noninterest expense included operational expenses of \$1.60 million related to insurance agencies acquired subsequent to second quarter 2018.

Quarterly Income Taxes Compared to the Second Quarter of 2018:

- Income tax expense was \$8.92 million compared to \$8.64 million one year prior. This represents an effective tax rate of 20.47% compared to 19.89% in the second quarter of 2018.

Consolidated Balance Sheet June 30, 2019 Compared to June 30, 2018

- Total assets were \$11.94 billion for the quarter ended June 30, 2019 compared to \$11.16 billion at December 31, 2018 and \$10.83 billion at June 30, 2018. This increase was driven primarily by growth in cash and cash equivalents, available for sale securities, and loans held for investment. Year-over-year, other assets increased \$41.40 million due to the adoption of the leasing standard.
- Loans held for investment increased \$0.11 billion, or 1.35%, or 2.73% on an annualized basis, compared to year end 2018, and \$0.35 billion, or 4.52% compared to June 30, 2018.
- Total liabilities were \$10.34 billion at June 30, 2019, an increase of \$0.71 billion, or 7.39%, compared to December 31, 2018 and \$0.98 billion, or 10.49%, compared to June 30, 2018. Total deposits increased \$0.90 billion over December 31, 2018 and \$1.28 billion over June 30, 2018. Total borrowings declined \$0.26 billion from December 31, 2018 and \$0.34 billion from June 30, 2018.

Investment Securities:

- Total investment securities were \$1.35 billion compared to \$1.20 billion at March 31, 2019 and \$1.16 billion at June 30, 2018. The weighted average duration of the portfolio at June 30, 2019 was 3.1 years. The carrying value of the available-for-sale portfolio included \$19.66 million of net unrealized gains compared to \$2.22 million at March 31, 2019 and \$20.60 million in net unrealized losses at June 30, 2018. The increase in net unrealized gains was primarily due to interest rate fluctuations. The carrying value of the held-to-maturity portfolio does not reflect \$1.58 million in net unrealized gains compared to \$1.04 million in net unrealized gains at March 31, 2019 and \$0.64 million in net unrealized gains at June 30, 2018.

Loans and Asset Quality:

- Total loans held for investment were \$8.13 billion at June 30, 2019 compared to \$8.11 billion at March 31, 2019 and \$7.77 billion at June 30, 2018.

- Nonperforming assets were \$34.23 million, or 0.29% of total assets, compared to \$26.31 million, or 0.24%, at June 30, 2018. This increase was primarily driven by a single commercial relationship of approximately \$10 million.
- Nonperforming loans were 0.22% of period end loans.
- Foreclosed property decreased to \$14.52 million from \$20.13 million at June 30, 2018.

Deposits and Borrowings:

- Total deposits were \$9.27 billion compared to \$8.73 billion at March 31, 2019 and \$7.99 billion at June 30, 2018.
- Total loans to deposits were 87.68% compared to 92.83% at March 31, 2019 and 97.29% at June 30, 2018.
- Non-interest bearing deposits were 31.83% of total deposits at June 30, 2019 compared to 32.23% at March 31, 2019 and 32.50% at June 30, 2018.
- Total borrowings were \$0.84 billion compared to \$1.03 billion and \$1.17 billion at March 31, 2019 and June 30, 2018, respectively.

Capital:

- Common equity tier 1 capital ratio of 11.58%.
- Tier 1 leverage capital ratio of 9.86%.
- Tier 1 risk-based capital ratio of 11.62%.
- Total risk-based capital ratio of 14.85%.
- Book value was \$21.95 compared to \$21.40 at March 31, 2019 and \$20.22 at June 30, 2018.
- Tangible book value (non-GAAP) was \$15.05 compared to \$14.46 at March 31, 2019 and \$13.50 at June 30, 2018.

Outlook:

Management reforecasts on a quarterly basis and anticipates:

- Annualized loan growth to be in the low-to-mid single digits for the remainder of 2019.
- Our quarterly noninterest expense run rate will range between \$93 - \$94 million for the remainder of 2019.

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, Greenville, Moyock, 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 \$11.94 billion as of June 30, 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				
	June 30,	March 31,	December 31,	September 30,	June 30,
	2019	2019	2018	2018	2018
Income and Performance Ratios:					
Total Revenue	\$ 144,537	\$ 133,854	\$ 131,417	\$ 137,914	\$ 137,058
Net income	36,242	32,082	36,440	39,252	36,138
Net income attributable to TowneBank	34,638	31,409	35,990	38,293	34,804
Net income per common share - diluted	0.48	0.44	0.50	0.53	0.48
Book value per common share	21.95	21.40	21.05	20.54	20.22
Book value per common share - tangible ^(non-GAAP)	15.05	14.46	14.26	13.83	13.50
Return on average assets	1.20%	1.14%	1.28%	1.40%	1.32%
Return on average assets - tangible ^(non-GAAP)	1.35%	1.29%	1.43%	1.56%	1.48%
Return on average equity	8.83%	8.24%	9.44%	10.21%	9.55%
Return on average equity - tangible ^(non-GAAP)	13.90%	13.24%	14.91%	16.08%	15.19%
Return on average common equity	8.89%	8.30%	9.53%	10.30%	9.62%
Return on average common equity - tangible ^(non-GAAP)	14.05%	13.39%	15.11%	16.30%	15.36%
Noninterest income as a percentage of total revenue	37.86%	34.65%	32.12%	35.69%	36.65%
Regulatory Capital Ratios (1):					
Common equity tier 1	11.58%	11.49%	11.51%	11.53%	11.33%
Tier 1	11.62%	11.52%	11.54%	11.57%	11.36%
Total	14.85%	14.79%	14.83%	14.90%	14.71%
Tier 1 leverage ratio	9.86%	9.92%	9.87%	9.98%	10.00%
Asset Quality:					
Allowance for loan losses to nonperforming loans	3.00x	9.36x	10.97x	7.25x	12.64x
Allowance for loan losses to period end loans	0.67%	0.66%	0.65%	0.64%	0.64%
Allowance for loan losses to period end loans excluding purchased loans	0.81%	0.81%	0.82%	0.82%	0.84%
Nonperforming loans to period end loans	0.22%	0.07%	0.06%	0.09%	0.05%
Nonperforming assets to period end assets	0.29%	0.22%	0.22%	0.25%	0.24%
Net charge-offs to average loans (annualized)	0.08%	0.01%	0.02%	0.03%	0.01%
Nonperforming loans	\$ 18,202	\$ 5,696	\$ 4,749	\$ 6,926	\$ 3,919
Former bank premises	1,510	2,223	2,253	2,253	2,253
Foreclosed property	14,517	17,071	17,163	18,153	20,133
Total nonperforming assets	<u>\$ 34,229</u>	<u>\$ 24,990</u>	<u>\$ 24,165</u>	<u>\$ 27,332</u>	<u>\$ 26,305</u>
Loans past due 90 days and still accruing interest	<u>\$ 415</u>	<u>\$ 117</u>	<u>\$ 394</u>	<u>\$ 153</u>	<u>\$ 22</u>
Allowance for loan losses	\$ 54,527	\$ 53,303	\$ 52,094	\$ 50,236	\$ 49,535
Mortgage Banking:					
Loans originated, mortgage	\$ 574,638	\$ 366,643	\$ 407,787	\$ 561,543	\$ 667,189
Loans originated, joint venture	246,491	146,884	192,280	249,956	283,933
Total loans originated	<u>\$ 821,129</u>	<u>\$ 513,527</u>	<u>\$ 600,067</u>	<u>\$ 811,499</u>	<u>\$ 951,122</u>
Number of loans originated	3,121	1,977	2,304	3,068	3,687
Number of originators	234	240	293	303	324
Purchase %	84.97%	86.08%	88.64%	89.72%	91.23%
Loans sold	\$ 694,832	\$ 473,068	\$ 694,341	\$ 852,205	\$ 825,313
Gross realized gain on sales and fees as a % of loans originated	3.43%	3.58%	3.37%	3.36%	3.30%
Other Ratios:					
Net interest margin	3.49%	3.54%	3.53%	3.62%	3.69%
Net interest margin-fully tax equivalent ^(nonGAAP)	3.52%	3.57%	3.55%	3.64%	3.71%
Average earning assets/total average assets	89.46%	89.50%	89.91%	89.69%	89.61%
Average loans/average deposits	91.60%	95.83%	95.32%	97.55%	97.79%
Average noninterest deposits/total average deposits	31.63%	31.39%	31.90%	32.61%	32.28%
Period end equity/period end total assets	13.45%	13.53%	13.78%	13.49%	13.63%
Efficiency ratio	66.80%	68.43%	62.65%	64.00%	65.10%

(1) Current reporting period regulatory capital ratios are preliminary

TOWNEBANK
Selected Data (unaudited)
(dollars in thousands)

Investment Securities

			% Change		
	Q2 2019	Q2 2018	Q1 2019	Q2 19 vs. Q2 18	Q2 19 vs. Q1 19
<i>Available-for-sale securities, at fair value</i>					
U.S. agency securities	\$ 261,960	\$ 426,118	\$ 260,152	(38.52)%	0.69 %
U.S. Treasury notes	2,241	101,224	2,229	(97.79)%	0.54 %
Municipal securities	167,466	55,465	107,278	201.93 %	56.10 %
Trust preferred and other corporate securities	43,799	30,718	35,003	42.58 %	25.13 %
Mortgage-backed securities issued by GSE	785,355	444,138	695,115	76.83 %	12.98 %
Total	<u>\$ 1,260,821</u>	<u>\$ 1,057,663</u>	<u>\$ 1,099,777</u>	<u>19.21 %</u>	<u>14.64 %</u>

Held-to-maturity securities, at amortized cost

Municipal securities	\$ 34,458	\$ 36,039	\$ 34,472	(4.39)%	(0.04)%
Trust preferred corporate securities	2,393	500	500	378.60 %	378.60 %
Mortgage-backed securities issued by GSE	13,723	17,415	14,715	(21.20)%	(6.74)%
Total	<u>\$ 50,574</u>	<u>\$ 53,954</u>	<u>\$ 49,687</u>	<u>(6.26)%</u>	<u>1.79 %</u>

Loans Held For Investment

			% Change		
	Q2 2019	Q2 2018	Q1 2019	Q2 19 vs. Q2 18	Q2 19 vs. Q1 19
Real estate-construction and development	\$ 1,107,762	\$ 989,910	\$ 1,111,360	11.91 %	(0.32)%
Commercial real estate - investment related properties	1,985,990	1,935,013	1,951,292	2.63 %	1.78 %
Commercial real estate - owner occupied	1,288,478	1,227,072	1,279,039	5.00 %	0.74 %
Real estate-multifamily	267,528	288,043	255,649	(7.12)%	4.65 %
Real estate-residential 1-4 family	1,639,547	1,596,264	1,637,579	2.71 %	0.12 %
Commercial and industrial business	1,523,607	1,440,625	1,547,623	5.76 %	(1.55)%
Consumer and other loans	313,817	298,029	322,828	5.30 %	(2.79)%
Total	<u>\$ 8,126,729</u>	<u>\$ 7,774,956</u>	<u>\$ 8,105,370</u>	<u>4.52 %</u>	<u>0.26 %</u>

Deposits

			% Change		
	Q2 2019	Q2 2018	Q1 2019	Q2 19 vs. Q2 18	Q2 19 vs. Q1 19
Noninterest-bearing demand	\$ 2,950,615	\$ 2,597,320	\$ 2,813,857	13.60 %	4.86 %
Interest-bearing:					
Demand and money market accounts	3,409,322	2,987,102	3,290,907	14.13 %	3.60 %
Savings	277,495	305,334	285,790	(9.12)%	(2.90)%
Certificates of deposits	2,631,386	2,101,455	2,341,134	25.22 %	12.40 %
Total	<u>\$ 9,268,818</u>	<u>\$ 7,991,211</u>	<u>\$ 8,731,688</u>	<u>15.99 %</u>	<u>6.15 %</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	
	September 30, 2019	December 31, 2019
Assets:		
Investment Securities	\$ (67)	\$ (65)
Loans	1,467	1,447
Liabilities:		
Deposits	51	47
Total estimated effect on net interest income	<u>\$ 1,349</u>	<u>\$ 1,335</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 June 30, 2019			Three Months Ended March 31, 2019			Three Months Ended June 30, 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	\$ 8,075,054	\$102,366	5.08%	\$ 8,030,994	\$100,146	5.06%	\$ 7,552,983	\$ 93,548	4.97%
Taxable investment securities	1,170,215	8,346	2.85%	1,036,645	7,529	2.91%	987,693	5,787	2.34%
Tax-exempt investment securities	90,942	756	3.33%	79,310	765	3.86%	82,839	719	3.47%
Total securities	1,261,157	9,102	2.89%	1,115,955	8,294	2.97%	1,070,532	6,506	2.43%
Interest-bearing deposits	698,649	4,016	2.31%	693,365	3,998	2.34%	499,349	2,159	1.73%
Loans held for sale	281,775	3,007	4.27%	178,475	2,003	4.49%	319,214	3,557	4.46%
Total earning assets	10,316,635	118,491	4.61%	10,018,789	114,441	4.63%	9,442,078	105,770	4.49%
Less: allowance for loan losses	(53,386)			(52,844)			(47,745)		
Total nonearning assets	1,269,029			1,228,808			1,142,514		
Total assets	<u>\$ 11,532,278</u>			<u>\$ 11,194,753</u>			<u>\$ 10,536,847</u>		
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	\$ 3,312,313	\$ 7,025	0.85%	\$ 3,174,157	\$ 6,240	0.80%	\$ 2,945,897	\$ 3,602	0.49%
Savings	281,221	929	1.33%	285,499	1,027	1.46%	306,937	941	1.23%
Certificates of deposit	2,433,479	13,830	2.28%	2,290,056	11,907	2.11%	1,977,973	7,077	1.43%
Total interest-bearing deposits	6,027,013	21,784	1.45%	5,749,712	19,174	1.35%	5,230,807	11,620	0.89%
Borrowings	678,799	3,318	1.93%	821,889	4,221	2.05%	927,216	3,827	1.65%
Subordinated debt, net	248,064	2,962	4.78%	247,913	2,962	4.78%	249,966	2,986	4.78%
Total interest-bearing liabilities	6,953,876	28,064	1.62%	6,819,514	26,357	1.57%	6,407,989	18,433	1.15%
Demand deposits	2,788,596			2,630,813			2,493,211		
Other noninterest-bearing liabilities	215,951			198,527			173,832		
Total liabilities	9,958,423			9,648,854			9,075,032		
Shareholders' equity	1,573,855			1,545,899			1,461,815		
Total liabilities and equity	<u>\$ 11,532,278</u>			<u>\$ 11,194,753</u>			<u>\$ 10,536,847</u>		
Net interest income (tax-equivalent basis)		\$ 90,427			\$ 88,084			\$ 87,337	
Reconciliation of Non-GAAP Financial Measures									
Tax-equivalent basis adjustment		(608)			(611)			(514)	
Net interest income (GAAP)		<u>\$ 89,819</u>			<u>\$ 87,473</u>			<u>\$ 86,823</u>	
Interest rate spread (1)(3)			2.99%			3.06%			3.34%
Interest expense as a percent of average earning assets			1.09%			1.07%			0.78%
Net interest margin (tax equivalent basis) (2)(3)			3.52%			3.57%			3.71%
Total cost of deposits			0.99%			0.93%			0.60%

(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.

(3) Non-GAAP.

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

	Six Months Ended June 30, 2019			Six Months Ended June 30, 2018			Six Months Ended June 30, 2019 Compared with 2018		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Increase (Decrease)	Change due to Rate	Volume
Assets:									
Loans (net of unearned income and deferred costs), excluding nonaccrual loans	\$ 8,053,146	\$202,512	5.07%	\$ 7,255,533	\$175,458	4.88%	\$ 27,054	\$ 7,201	\$ 19,853
Taxable investment securities	1,103,799	15,875	2.88%	945,229	10,811	2.29%	5,064	3,066	1,998
Tax-exempt investment securities	85,158	1,522	3.57%	77,964	1,408	3.61%	114	(14)	128
Total securities	1,188,957	17,397	2.93%	1,023,193	12,219	2.39%	5,178	3,052	2,126
Interest-bearing deposits	695,999	8,013	2.32%	564,041	4,522	1.62%	3,491	2,272	1,219
Loans held for sale	230,411	5,010	4.35%	279,380	5,936	4.25%	(926)	136	(1,062)
Total earning assets	10,168,513	232,932	4.62%	9,122,147	198,135	4.38%	34,797	12,661	22,136
Less: allowance for loan losses	(53,117)			(46,976)					
Total nonearning assets	1,249,052			1,119,336					
Total assets	<u>\$ 11,364,448</u>			<u>\$ 10,194,507</u>					
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	\$ 3,243,616	\$ 13,264	0.82%	\$ 2,860,596	\$ 6,571	0.46%	\$ 6,693	\$ 5,713	\$ 980
Savings	283,348	1,956	1.39%	307,734	1,817	1.19%	139	290	(151)
Certificates of deposit	2,362,165	25,738	2.20%	1,922,737	12,718	1.33%	13,020	9,623	3,397
Total interest-bearing deposits	5,889,129	40,958	1.40%	5,091,067	21,106	0.84%	19,852	15,626	4,226
Borrowings	749,948	7,540	2.00%	874,385	6,705	1.53%	835	1,882	(1,047)
Subordinated debt, net	247,989	5,923	4.78%	254,560	6,143	4.83%	(220)	(63)	(157)
Total interest-bearing liabilities	6,887,066	54,421	1.59%	6,220,012	33,954	1.10%	20,467	17,445	3,022
Demand deposits	2,710,141			2,398,693					
Other noninterest-bearing liabilities	207,287			167,108					
Total liabilities	9,804,494			8,785,813					
Shareholders' equity	1,559,954			1,408,694					
Total liabilities and equity	<u>\$ 11,364,448</u>			<u>\$ 10,194,507</u>					
Net interest income (tax-equivalent basis)		\$178,511			\$164,181		\$ 14,330	\$ (4,784)	\$ 19,114
Reconciliation of Non-GAAP Financial Measures									
Tax-equivalent basis adjustment		(1,219)			(1,013)		(206)		
Net interest income (GAAP)		<u>\$177,292</u>			<u>\$163,168</u>		<u>\$ 14,124</u>		
Interest rate spread (1)(3)			3.03%			3.28%			
Interest expense as a percent of average earning assets			1.08%			0.75%			
Net interest margin (tax equivalent basis) (2)(3)			3.54%			3.63%			
Total cost of deposits			0.96%			0.57%			

(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.

(3) Non-GAAP.

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

	June 30, 2019	December 31, 2018
	(unaudited)	(audited)
ASSETS		
Cash and due from banks	\$ 110,580	\$ 94,604
Interest-bearing deposits at Federal Reserve Bank	834,505	570,425
Interest-bearing deposits in financial institutions	21,527	21,667
Total Cash and Cash Equivalents	<u>966,612</u>	<u>686,696</u>
Securities available for sale, at fair value	1,260,821	1,095,339
Securities held to maturity, at amortized cost	50,574	50,598
Other equity securities	5,396	4,797
Federal Home Loan Bank stock	32,657	43,229
Total Securities	<u>1,349,448</u>	<u>1,193,963</u>
Mortgage loans held for sale	362,773	220,986
Loans, net of unearned income and deferred costs	8,126,729	8,018,233
Less: allowance for loan losses	(54,527)	(52,094)
Net Loans	<u>8,072,202</u>	<u>7,966,139</u>
Premises and equipment, net	230,177	211,796
Goodwill	442,881	433,658
Other intangible assets, net	58,391	58,752
Bank-owned life insurance policies	240,621	237,371
Other assets	219,375	153,669
TOTAL ASSETS	<u>\$ 11,942,480</u>	<u>\$ 11,163,030</u>
LIABILITIES AND EQUITY		
Deposits:		
Noninterest-bearing demand	\$ 2,950,615	\$ 2,622,761
Interest-bearing:		
Demand and money market accounts	3,409,322	3,223,215
Savings	277,495	286,684
Certificates of deposit	2,631,386	2,237,762
Total Deposits	<u>9,268,818</u>	<u>8,370,422</u>
Advances from the Federal Home Loan Bank	532,004	799,315
Subordinated debt, net	248,160	247,861
Repurchase agreements and other borrowings	56,355	47,156
Total Borrowings	<u>836,519</u>	<u>1,094,332</u>
Other liabilities	230,691	159,856
TOTAL LIABILITIES	<u>10,336,028</u>	<u>9,624,610</u>
Preferred stock		
Authorized and unissued shares - 2,000,000	—	—
Common stock, \$1.667 par: 90,000,000 shares authorized		
72,608,253 and 72,465,923 shares issued at		
June 30, 2019 and December 31, 2018, respectively	121,038	120,801
Capital surplus	1,036,982	1,034,676
Retained earnings	420,600	379,239
Common stock issued to deferred compensation trust, at cost		
807,939 and 769,200 shares at		
June 30, 2019 and December 31, 2018, respectively	(15,160)	(13,955)
Deferred compensation trust	15,160	13,955
Accumulated other comprehensive loss	15,143	(9,190)
TOTAL SHAREHOLDERS' EQUITY	<u>1,593,763</u>	<u>1,525,526</u>
Noncontrolling interest	12,689	12,894
TOTAL EQUITY	<u>1,606,452</u>	<u>1,538,420</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 11,942,480</u>	<u>\$ 11,163,030</u>

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
INTEREST INCOME:				
Loans, including fees	\$ 101,874	\$ 93,150	\$ 201,569	\$ 174,682
Investment securities	8,987	6,390	17,121	11,982
Interest-bearing deposits in financial institutions and federal funds sold	4,015	2,159	8,013	4,522
Mortgage loans held for sale	3,007	3,557	5,010	5,936
Total interest income	117,883	105,256	231,713	197,122
INTEREST EXPENSE:				
Deposits	21,784	11,620	40,958	21,106
Advances from the Federal Home Loan Bank	3,201	3,764	7,354	6,602
Subordinated debt, net	2,962	2,986	5,924	6,143
Repurchase agreements and other borrowings	117	63	185	103
Total interest expense	28,064	18,433	54,421	33,954
Net interest income	89,819	86,823	177,292	163,168
PROVISION FOR LOAN LOSSES	2,824	3,056	4,262	5,009
Net interest income after provision for loan losses	86,995	83,767	173,030	158,159
NONINTEREST INCOME:				
Residential mortgage banking income, net	18,565	18,745	32,073	36,348
Insurance commissions and other title fees and income, net	17,213	15,087	32,795	28,459
Real estate brokerage and property management income, net	8,843	6,910	18,111	17,340
Service charges on deposit accounts	3,185	2,969	6,046	5,852
Credit card merchant fees, net	660	1,443	1,843	2,611
Bank owned life insurance	1,635	1,633	3,233	3,165
Other income	4,617	3,448	7,774	6,389
Net gain/(loss) on investment securities	—	—	(776)	3
Total noninterest income	54,718	50,235	101,099	100,167
NONINTEREST EXPENSE:				
Salaries and employee benefits	54,263	50,324	107,123	101,108
Occupancy expense	7,662	6,802	15,913	13,279
Furniture and equipment	3,578	3,546	6,949	7,244
Amortization - intangibles	3,113	2,996	6,305	5,591
Software expense	2,788	2,648	5,533	4,988
Outside data processing	3,616	2,859	6,782	4,980
Professional fees	3,707	2,415	6,386	4,387
Advertising and marketing	3,182	3,124	6,011	5,774
Other expenses	14,647	14,507	27,677	34,173
Total noninterest expense	96,556	89,221	188,679	181,524
Income before income tax expense and noncontrolling interest	45,157	44,781	85,450	76,802
Provision for income tax expense	8,915	8,643	17,126	14,720
Net income	\$ 36,242	\$ 36,138	\$ 68,324	\$ 62,082
Net income attributable to noncontrolling interest	(1,604)	(1,334)	(2,277)	(2,572)
Net income attributable to TowneBank	\$ 34,638	\$ 34,804	\$ 66,047	\$ 59,510
Per common share information				
Basic earnings	\$ 0.48	\$ 0.48	\$ 0.92	\$ 0.84
Diluted earnings	\$ 0.48	\$ 0.48	\$ 0.92	\$ 0.84
Cash dividends declared	\$ 0.18	\$ 0.16	\$ 0.34	\$ 0.30

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

	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)
ASSETS					
Cash and due from banks	\$ 110,580	\$ 104,091	\$ 94,604	\$ 106,485	\$ 98,339
Interest-bearing deposits at Federal Reserve Bank	834,505	775,208	570,425	582,099	341,715
Interest-bearing deposits in financial institutions	21,527	21,001	21,667	20,910	17,749
Total Cash and Cash Equivalents	<u>966,612</u>	<u>900,300</u>	<u>686,696</u>	<u>709,494</u>	<u>457,803</u>
Securities available for sale, at fair value	1,260,821	1,099,777	1,095,339	1,051,773	1,057,663
Securities held to maturity, at amortized cost	50,574	49,687	50,598	52,002	53,954
Other equity securities	5,396	5,022	4,797	5,519	5,206
Federal Home Loan Bank stock	32,657	41,464	43,229	46,393	46,393
Total Securities	<u>1,349,448</u>	<u>1,195,950</u>	<u>1,193,963</u>	<u>1,155,687</u>	<u>1,163,216</u>
Mortgage loans held for sale	362,773	247,021	220,986	333,354	396,185
Loans, net of unearned income and deferred costs	8,126,729	8,105,370	8,018,233	7,881,692	7,774,956
Less: allowance for loan losses	(54,527)	(53,303)	(52,094)	(50,236)	(49,535)
Net Loans	<u>8,072,202</u>	<u>8,052,067</u>	<u>7,966,139</u>	<u>7,831,456</u>	<u>7,725,421</u>
Premises and equipment, net	230,177	227,458	211,796	210,724	207,997
Goodwill	442,881	442,881	433,658	427,117	425,625
Other intangible assets, net	58,391	61,333	58,752	58,165	60,669
Bank-owned life insurance policies	240,621	238,977	237,371	235,348	233,682
Other assets	219,375	202,276	153,669	159,887	161,055
TOTAL ASSETS	<u>\$ 11,942,480</u>	<u>\$ 11,568,263</u>	<u>\$ 11,163,030</u>	<u>\$ 11,121,232</u>	<u>\$ 10,831,653</u>
LIABILITIES AND EQUITY					
Deposits:					
Noninterest-bearing demand	\$ 2,950,615	\$ 2,813,857	\$ 2,622,761	\$ 2,671,558	\$ 2,597,320
Interest-bearing:					
Demand and money market accounts	3,409,322	3,290,907	3,223,215	3,096,317	3,017,767
Savings	277,495	285,790	286,684	298,368	305,334
Certificates of deposit	2,631,386	2,341,134	2,237,762	2,233,188	2,070,790
Total Deposits	<u>9,268,818</u>	<u>8,731,688</u>	<u>8,370,422</u>	<u>8,299,431</u>	<u>7,991,211</u>
Advances from the Federal Home Loan Bank	532,004	739,160	799,315	873,469	873,622
Subordinated debt, net	248,160	248,010	247,861	247,712	247,563
Repurchase agreements and other borrowings	56,355	44,775	47,156	45,591	50,981
Total Borrowings	<u>836,519</u>	<u>1,031,945</u>	<u>1,094,332</u>	<u>1,166,772</u>	<u>1,172,166</u>
Other liabilities	230,691	238,974	159,856	155,205	191,490
TOTAL LIABILITIES	<u>10,336,028</u>	<u>10,002,607</u>	<u>9,624,610</u>	<u>9,621,408</u>	<u>9,354,867</u>
Preferred stock					
Authorized shares - 2,000,000	—	—	—	—	—
Common stock, \$1.667 par value	121,038	121,047	120,801	120,613	120,615
Capital surplus	1,036,982	1,035,563	1,034,676	1,032,863	1,031,965
Retained earnings	420,600	399,030	379,239	354,842	328,125
Common stock issued to deferred compensation trust, at cost	(15,160)	(14,067)	(13,955)	(13,780)	(13,500)
Deferred compensation trust	15,160	14,067	13,955	13,780	13,500
Accumulated other comprehensive loss	15,143	(1,792)	(9,190)	(22,348)	(17,944)
TOTAL SHAREHOLDERS' EQUITY	<u>1,593,763</u>	<u>1,553,848</u>	<u>1,525,526</u>	<u>1,485,970</u>	<u>1,462,761</u>
Noncontrolling interest	12,689	11,808	12,894	13,854	14,025
TOTAL EQUITY	<u>1,606,452</u>	<u>1,565,656</u>	<u>1,538,420</u>	<u>1,499,824</u>	<u>1,476,786</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 11,942,480</u>	<u>\$ 11,568,263</u>	<u>\$ 11,163,030</u>	<u>\$ 11,121,232</u>	<u>\$ 10,831,653</u>

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

	Three Months Ended				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
INTEREST INCOME:					
Loans, including fees	\$ 101,874	\$ 99,695	\$ 99,446	\$ 97,215	\$ 93,150
Investment securities	8,987	8,134	8,126	7,019	6,390
Interest-bearing deposits in financial institutions and federal funds sold	4,015	3,998	3,559	2,148	2,159
Mortgage loans held for sale	3,007	2,003	3,176	4,012	3,557
Total interest income	<u>117,883</u>	<u>113,830</u>	<u>114,307</u>	<u>110,394</u>	<u>105,256</u>
INTEREST EXPENSE:					
Deposits	21,784	19,174	17,495	14,540	11,620
Advances from the Federal Home Loan Bank	3,201	4,153	4,585	4,153	3,764
Subordinated debt	2,962	2,962	2,961	2,962	2,986
Repurchase agreements and other borrowings	117	68	58	42	63
Total interest expense	<u>28,064</u>	<u>26,357</u>	<u>25,099</u>	<u>21,697</u>	<u>18,433</u>
Net interest income	<u>89,819</u>	<u>87,473</u>	<u>89,208</u>	<u>88,697</u>	<u>86,823</u>
PROVISION FOR LOAN LOSSES	<u>2,824</u>	<u>1,438</u>	<u>2,292</u>	<u>1,241</u>	<u>3,056</u>
Net interest income after provision for loan losses	<u>86,995</u>	<u>86,035</u>	<u>86,916</u>	<u>87,456</u>	<u>83,767</u>
NONINTEREST INCOME:					
Residential mortgage banking income, net	18,565	13,508	12,951	15,804	18,745
Insurance commissions and other title fees and income, net	17,213	15,582	13,212	14,493	15,087
Real estate brokerage and property management income, net	8,843	9,268	5,982	8,542	6,910
Service charges on deposit accounts	3,185	2,861	2,928	3,028	2,969
Credit card merchant fees, net	660	1,183	1,298	1,563	1,443
Bank owned life insurance	1,635	1,598	2,014	1,657	1,633
Other income	4,617	3,157	3,824	4,130	3,448
Net gain/(loss) on investment securities	—	(776)	—	—	—
Total noninterest income	<u>54,718</u>	<u>46,381</u>	<u>42,209</u>	<u>49,217</u>	<u>50,235</u>
NONINTEREST EXPENSE:					
Salaries and employee benefits	54,263	52,860	50,233	50,497	50,324
Occupancy expense	7,662	8,251	7,352	7,013	6,802
Furniture and equipment	3,578	3,371	3,587	3,646	3,546
Amortization - intangibles	3,113	3,192	3,123	2,996	2,996
Software expense	2,788	2,745	2,694	2,940	2,648
Outside data processing	3,616	3,166	2,466	2,917	2,859
Professional fees	3,707	2,679	2,028	1,908	2,415
Advertising and marketing	3,182	2,829	2,546	2,874	3,124
Other expenses	14,647	13,030	8,308	13,471	14,507
Total noninterest expense	<u>96,556</u>	<u>92,123</u>	<u>82,337</u>	<u>88,262</u>	<u>89,221</u>
Income before income tax expense and noncontrolling interest	<u>45,157</u>	<u>40,293</u>	<u>46,788</u>	<u>48,411</u>	<u>44,781</u>
Provision for income tax expense	8,915	8,211	10,348	9,159	8,643
Net income	<u>36,242</u>	<u>32,082</u>	<u>36,440</u>	<u>39,252</u>	<u>36,138</u>
Net income attributable to noncontrolling interest	(1,604)	(673)	(450)	(959)	(1,334)
Net income attributable to TowneBank	<u>\$ 34,638</u>	<u>\$ 31,409</u>	<u>\$ 35,990</u>	<u>\$ 38,293</u>	<u>\$ 34,804</u>
Per common share information					
Basic earnings	\$ 0.48	\$ 0.44	\$ 0.50	\$ 0.53	\$ 0.48
Diluted earnings	\$ 0.48	\$ 0.44	\$ 0.50	\$ 0.53	\$ 0.48
Basic weighted average shares outstanding	72,044,817	71,992,330	71,905,956	71,875,085	71,787,980
Diluted weighted average shares outstanding	72,145,600	\$ 72,099,558	72,043,369	72,044,355	71,949,590
Cash dividends declared	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16

TOWNEBANK
Banking Segment Financial Information
(dollars in thousands)

	Three Months Ended			Six Months Ended		Increase/(Decrease)	
	June 30,		March 31,	June 30,		2019 over 2018	
	2019	2018	2019	2019	2018	Amount	Percent
Revenue							
Net interest income	\$ 88,442	\$ 83,686	\$ 86,400	\$ 174,842	\$ 157,729	\$ 17,113	10.85 %
Service charges on deposit accounts	3,185	2,969	2,861	6,046	5,852	194	3.32 %
Credit card merchant fees	660	1,443	1,183	1,843	2,611	(768)	(29.41)%
Other income	5,273	4,062	3,927	9,200	8,017	1,183	14.76 %
Subtotal	9,118	8,474	7,971	17,089	16,480	609	3.70 %
Gain/(loss) on investment securities	—	—	(776)	(776)	3	(779)	N/M
Total noninterest income	9,118	8,474	7,195	16,313	16,483	(170)	(1.03)%
Total revenue	97,560	92,160	93,595	191,155	174,212	16,943	9.73 %
Provision for loan losses	2,824	3,056	1,438	4,262	5,009	(747)	(14.91)%
Expenses							
Salaries and employee benefits	32,353	27,840	31,087	63,440	58,042	5,398	9.30 %
Occupancy expense	5,007	4,274	5,244	10,251	8,291	1,960	23.64 %
Furniture and equipment	2,517	2,491	2,367	4,884	5,022	(138)	(2.75)%
Amortization of intangibles	1,315	1,530	1,366	2,681	2,751	(70)	(2.54)%
Other expenses	18,938	15,364	16,181	35,119	36,111	(992)	(2.75)%
Total expenses	60,130	51,499	56,245	116,375	110,217	6,158	5.59 %
Income before income tax, corporate allocation and noncontrolling interest	34,606	37,605	35,912	70,518	58,986	11,532	19.55 %
Corporate allocation	546	476	452	998	932	66	7.08 %
Income before income tax provision and noncontrolling interest	35,152	38,081	36,364	71,516	59,918	11,598	19.36 %
Provision for income tax expense	6,650	7,142	7,192	13,842	11,023	2,819	25.57 %
Net income	28,502	30,939	29,172	57,674	48,895	8,779	17.95 %
Noncontrolling interest	1	(6)	2	3	(8)	11	N/M
Net income attributable to TowneBank	\$ 28,503	\$ 30,933	\$ 29,174	\$ 57,677	\$ 48,887	\$ 8,790	17.98 %
Efficiency ratio	61.63%	55.88%	59.60%	60.63%	63.27%	(2.64)%	(4.17)%

TOWNEBANK
Realty Segment Financial Information
(dollars in thousands)

	Three Months Ended			Six Months Ended		Increase/(Decrease)	
	June 30,		March 31,	June 30,		2019 over 2018	
	2019	2018	2019	2019	2018	Amount	Percent
Revenue							
Residential mortgage brokerage income, net	\$ 18,898	\$ 19,344	\$ 13,756	\$ 32,654	\$ 37,005	\$ (4,351)	(11.76)%
Real estate brokerage income, net	2,873	2,818	1,561	4,434	4,517	(83)	(1.84)%
Title insurance and settlement fees	594	579	368	962	895	67	7.49 %
Property management fees, net	5,970	4,092	7,708	13,678	12,823	855	6.67 %
Income from unconsolidated subsidiary	162	100	94	256	194	62	31.96 %
Net interest and other income	1,677	3,342	1,372	3,049	5,887	(2,838)	(48.21)%
Total revenue	30,174	30,275	24,859	55,033	61,321	(6,288)	(10.25)%
Expenses							
Salaries and employee benefits	13,309	15,403	12,895	26,204	29,280	(3,076)	(10.51)%
Occupancy expense	2,028	1,964	2,345	4,373	3,858	515	13.35 %
Furniture and equipment	803	835	768	1,571	1,816	(245)	(13.49)%
Amortization of intangible assets	695	672	725	1,420	1,343	77	5.73 %
Other expenses	7,234	8,158	6,241	13,475	14,452	(977)	(6.76)%
Total expenses	24,069	27,032	22,974	47,043	50,749	(3,706)	(7.30)%
Income before income tax, corporate allocation and noncontrolling interest	6,105	3,243	1,885	7,990	10,572	(2,582)	(24.42)%
Corporate allocation	(328)	(293)	(263)	(591)	(582)	(9)	1.55 %
Income before income tax provision and noncontrolling interest	5,777	2,950	1,622	7,399	9,990	(2,591)	(25.94)%
Provision for income tax expense	1,287	633	551	1,838	2,192	(354)	(16.15)%
Net income	4,490	2,317	1,071	5,561	7,798	(2,237)	(28.69)%
Noncontrolling interest	(1,248)	(891)	(252)	(1,500)	(1,512)	12	(0.79)%
Net income attributable to TowneBank	<u>\$ 3,242</u>	<u>\$ 1,426</u>	<u>\$ 819</u>	<u>\$ 4,061</u>	<u>\$ 6,286</u>	<u>\$ (2,225)</u>	<u>(35.40)%</u>
Efficiency ratio	79.77%	89.29%	92.42%	85.48%	82.76%	2.72%	3.29 %

TOWNEBANK
Insurance Segment Financial Information
(dollars in thousands)

	Three Months Ended			Six Months Ended		Increase/(Decrease)	
	June 30,		March 31,	June 30,		2019 over 2018	
	2019	2018	2019	2019	2018	Amount	Percent
Commission and fee income							
Property and casualty	\$ 13,067	\$ 11,059	\$ 11,873	\$ 24,940	\$ 20,416	\$ 4,524	22.16 %
Employee benefits	3,833	3,454	3,506	7,339	6,650	689	10.36 %
Travel insurance	1,169	1,389	1,289	2,458	3,157	(699)	(22.14)%
Specialized benefit services	163	171	170	333	340	(7)	(2.06)%
Total commissions and fees	18,232	16,073	16,838	35,070	30,563	4,507	14.75 %
Contingency and bonus revenue	1,893	1,433	1,585	3,479	2,566	913	35.58 %
Other income	79	71	75	154	141	13	9.22 %
Total revenue	20,204	17,577	18,498	38,703	33,270	5,433	16.33 %
Employee commission expense	3,401	2,953	3,098	6,500	5,468	1,032	18.87 %
Revenue, net of commission expense	16,803	14,624	15,400	32,203	27,802	4,401	15.83 %
Salaries and employee benefits	8,601	7,081	8,878	17,479	13,786	3,693	26.79 %
Occupancy expense	627	564	662	1,289	1,130	159	14.07 %
Furniture and equipment	258	220	236	494	406	88	21.67 %
Amortization of intangible assets	1,103	794	1,101	2,204	1,497	707	47.23 %
Other expenses	1,768	2,032	2,027	3,795	3,739	56	1.50 %
Total operating expenses	12,357	10,691	12,904	25,261	20,558	4,703	22.88 %
Income before income tax, corporate allocation and noncontrolling interest	4,446	3,933	2,496	6,942	7,244	(302)	(4.17)%
Corporate allocation	(218)	(183)	(189)	(407)	(350)	(57)	16.29 %
Income before income tax provision and noncontrolling interest	4,228	3,750	2,307	6,535	6,894	(359)	(5.21)%
Provision for income tax expense	978	868	468	1,446	1,505	(59)	(3.92)%
Net income	3,250	2,882	1,839	5,089	5,389	(300)	(5.57)%
Noncontrolling interest	(357)	(437)	(423)	(780)	(1,052)	272	(25.86)%
Net income attributable to TowneBank	\$ 2,893	\$ 2,445	\$ 1,416	\$ 4,309	\$ 4,337	\$ (28)	(0.65)%
Provision for income taxes	978	868	468	1,446	1,505	(59)	(3.92)%
Depreciation, amortization and interest expense	1,309	1,007	1,333	2,642	1,913	729	38.11 %
EBITDA (non-GAAP)	\$ 5,180	\$ 4,320	\$ 3,217	\$ 8,397	\$ 7,755	\$ 642	8.28 %
Efficiency ratio	73.54%	73.11%	83.79%	78.44%	73.94%	4.50%	6.09 %

TOWNEBANK
Reconciliation of Non-GAAP Financial Measures

	Three Months Ended			Six Months Ended	
	June 30, 2019	June 30, 2018	March 31, 2019	June 30, 2019	June 30, 2018
Return on average assets (GAAP)	1.20%	1.32%	1.14%	1.17%	1.18%
Impact of excluding average goodwill and other intangibles and amortization	0.15%	0.16%	0.15%	0.15%	0.14%
Return on average tangible assets (non-GAAP)	1.35%	1.48%	1.29%	1.32%	1.32%
Return on average equity (GAAP)	8.83%	9.55%	8.24%	8.54%	8.52%
Impact of excluding average goodwill and other intangibles and amortization	5.07%	5.64%	5.00%	5.03%	4.95%
Return on average tangible equity (non-GAAP)	13.90%	15.19%	13.24%	13.57%	13.47%
Return on average common equity (GAAP)	8.89%	9.62%	8.30%	8.60%	8.59%
Impact of excluding average goodwill and other intangibles and amortization	5.16%	5.74%	5.09%	5.13%	5.03%
Return on average tangible common equity (non-GAAP)	14.05%	15.36%	13.39%	13.73%	13.62%
Book value (GAAP)	\$ 21.95	\$ 20.22	\$ 21.40	\$ 21.95	\$ 20.22
Impact of excluding average goodwill and other intangibles and amortization	(6.90)	(6.72)	(6.94)	(6.90)	(6.72)
Tangible book value (non-GAAP)	\$ 15.05	\$ 13.50	\$ 14.46	\$ 15.05	\$ 13.50

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

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

	Three Months Ended				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Net income (GAAP)	\$ 34,638	\$ 31,409	\$ 35,990	\$ 38,293	\$ 34,804
Acquisition-related expenses	20	411	(1,518)	424	797
Income tax expense -tax reform legislation	—	—	696	—	—
Income tax expense (benefit) - other items	(3)	(52)	355	(44)	(93)
Income tax expense (benefit)	(3)	(52)	1,051	(44)	(93)
Total charges, net of taxes	17	359	(467)	380	704
Operating earnings, excluding certain items affecting comparability (non-GAAP)	<u>\$ 34,655</u>	<u>\$ 31,768</u>	<u>\$ 35,523</u>	<u>\$ 38,673</u>	<u>\$ 35,508</u>
Weighted average diluted shares	72,145,600	72,099,558	72,043,369	72,044,355	71,949,590
Diluted EPS (GAAP)	\$ 0.48	\$ 0.44	\$ 0.50	\$ 0.53	\$ 0.48
Diluted EPS, excluding certain items affecting comparability (non-GAAP)	\$ 0.48	\$ 0.44	\$ 0.49	\$ 0.54	\$ 0.49
Average assets	\$ 11,532,278	\$ 11,194,753	\$ 11,149,960	\$ 10,844,570	\$ 10,536,847
Average tangible equity	\$ 1,070,634	\$ 1,039,630	1,022,982	\$ 1,003,151	\$ 981,607
Return on average assets, excluding certain items affecting comparability (non-GAAP)	1.21%	1.15%	1.26%	1.41%	1.35%
Return on average tangible equity, excluding certain items affecting comparability (non-GAAP)	13.90%	13.38%	14.73%	16.23%	15.48%
Return on average common tangible equity, excluding certain items affecting comparability (non-GAAP)	14.06%	13.53%	14.93%	16.45%	15.66%
Efficiency ratio, excluding certain items affecting comparability (non-GAAP)	66.79%	68.12%	63.81%	63.69%	64.52%

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

<u>Reconciliation of GAAP Earnings to Operating Earnings Excluding Certain Items Affecting Comparability</u>	<u>Six months ended</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Net income (GAAP)	\$ 66,047	\$ 59,510
Acquisition-related expenses	431	9,523
Total charges	431	9,523
Income tax expense (benefit) - other items	(55)	(1,732)
Income tax expense (benefit)	(55)	(1,732)
Total charges, net of taxes	376	7,791
Operating earnings, excluding certain items affecting comparability (non-GAAP)	<u>\$ 66,423</u>	<u>\$ 67,301</u>
Weighted average diluted shares	72,122,467	70,551,537
Diluted EPS (GAAP)	\$ 0.92	\$ 0.84
Diluted EPS, excluding certain items affecting comparability (non-GAAP)	\$ 0.92	\$ 0.95
Average assets	\$ 11,364,448	\$ 10,194,507
Average tangible equity	\$ 1,055,218	\$ 957,021
Return on average assets, excluding certain items affecting comparability (non-GAAP)	1.18%	1.33%
Return on average tangible equity, excluding certain items affecting comparability (non-GAAP)	13.65%	15.11%
Return on average common tangible equity, excluding certain items affecting comparability (non-GAAP)	13.80%	15.29%
Efficiency ratio, excluding certain items affecting comparability (non-GAAP)	67.43%	65.32%