

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C. 20429

FORM 8-K

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

October 24, 2019

Date of Report (Date of earliest event reported)

TOWNE BANK

(Exact name of registrant as specified in its charter)

<u>Virginia</u> (State or other jurisdiction of incorporation)	<u>35095</u> (FDIC Insurance Cert. No.)	<u>54-1910608</u> (IRS Employer Identification No.)
<u>5716 High Street, Portsmouth, Virginia</u> (Address of principal executive offices)		<u>23703</u> (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 October 24, 2019, TowneBank issued a press release announcing its results of operations and financial condition for the third quarter ended September 30, 2019. A copy of the press release announcing the Registrant's results for the third quarter ended September 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 October 24, 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: October 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 THIRD QUARTER 2019 EARNINGS

Suffolk, VA, October 24, 2019 - TowneBank (the “Company”) (NASDAQ: TOWN) today reported earnings for the quarter ended September 30, 2019 of \$37.66 million, or \$0.52 per diluted share, compared to \$38.29 million, or \$0.53 per diluted share, for the quarter ended September 30, 2018.

“Our third quarter continued the trend of solid growth in top-line revenues which climbed to \$145.88 million, or a 5.78% increase, over the same period in 2018 driven by strong performances in our noninterest income sources. Noninterest bearing deposits increased 10.74% on an annualized basis during the quarter and represents 32.11% of our total deposits. During the past year, we continued to increase our deposit market share and remain the market leader in the Hampton Roads, Virginia MSA while our leadership teams in Richmond and the North Carolina markets provided an outstanding deposit growth rate of 19.67% and 27.70%, respectively, compared to the quarter ended September 30, 2018,” said G. Robert Aston, Jr., Executive Chairman. “The year 2019 has been a year of significant investment in the future, as we have absorbed the expense related to enhancements in company infrastructure driven by changing industry standards and increased regulatory expectations due to crossing the \$10 billion asset threshold. Additionally, we have successfully recruited 27 new staff members on the production and revenue side of the bank, expanding Towne’s presence into Greensboro and Greenville, North Carolina as well as adding an eight person Corporate Banking team in the Hampton Roads market,” added Aston.

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

- Total revenues were \$145.88 million, an increase of \$7.97 million, or 5.78%.
- Loans held for investment increased \$301.14 million, or 3.82%, from September 30, 2018, and \$56.10 million, or 0.69%, from June 30, 2019, or 2.74% on an annualized basis.
- Total deposits were \$9.44 billion, an increase of \$1.14 billion, or 13.72%, compared to prior year and \$0.17 billion, or 1.83%, from June 30, 2019, or 7.24% on an annualized basis. In comparison

to September 30, 2018, total deposits increased 8.52% in our Hampton Roads region, 19.67% in our Richmond region, and 27.70% in our North Carolina region.

- Noninterest bearing deposits increased by 13.44%, to \$3.03 billion, representing 32.11% of total deposits. Compared to the linked quarter, noninterest bearing deposits increased 2.71%, or 10.74% on an annualized basis.
- Annualized return on common shareholders' equity was 9.29% and annualized return on average tangible common shareholders' equity was 14.36% (non-GAAP).
- Net interest margin for the quarter was 3.41% and taxable equivalent net interest margin was 3.43% (non-GAAP).
- Effective tax rate of 16.95% in the quarter compared to 19.30% in the third quarter of 2018.

“Continued diversity in our revenue composition has been a consistent objective of our Company for many years. As pressures on net interest margin and required infrastructure investments continue to challenge our bottom line returns, it is important to keep our focus on growing top-line revenues. We were pleased to announce the completion of a strategic insurance acquisition in Charlotte, North Carolina, which will serve to strengthen our product delivery in one of our key growth markets,” stated J. Morgan Davis, President and Chief Executive Officer.

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

- Net interest income was \$91.10 million compared to \$88.70 million at September 30, 2018.
- Taxable equivalent net interest margin (non-GAAP) was 3.43%, including accretion of 11 basis points, compared to 3.64%, including accretion of 18 basis points, for 2018.
- Average loans held for investment, with an average yield of 5.02%, represented 76.35% of average earning assets at September 30, 2019 compared to an average yield of 4.95% and 80.45% of average earning assets in the third quarter of 2018.
- Total cost of deposits increased to 1.01% from 0.72% at September 30, 2018.
- Average interest-earning assets totaled \$10.60 billion at September 30, 2019 compared to \$9.73 billion at September 30, 2018, an increase of 9.03%.
- Average interest-bearing liabilities totaled \$7.03 billion, an increase of \$0.46 billion from prior year.

Quarterly Provision for Loan Losses:

- Recorded a provision for loan losses of \$1.51 million compared to \$1.24 million one year ago and \$2.82 million in the linked quarter.
- Net charge-offs were \$0.61 million compared to \$0.54 million one year prior. The ratio of net

charge-offs to average loans on an annualized basis was 0.03% compared to 0.08% in the prior quarter and 0.03% in the third quarter of 2018.

- The allowance for loan losses represented 0.68% of total loans compared to 0.67% at June 30, 2019 and 0.64% at September 30, 2018. Loan loss reserve as a percentage of total loans, excluding purchased loans, was 0.81% at September 30, 2019, and June 30, 2019, compared to 0.82% at September 30, 2018. The allowance for loan losses was 3.95 times nonperforming loans compared to 3.00 times at June 30, 2019 and 7.25 times at September 30, 2018.

Quarterly Noninterest Income Compared to the Third Quarter of 2018:

- Total noninterest income was \$54.78 million compared to \$49.22 million in 2018, an increase of \$5.56 million, or 11.29%. Residential mortgage banking income increased \$3.05 million in the quarter, insurance commissions and other title fees increased \$2.19 million, real estate brokerage and property management income increased \$0.90 million, while service charges on deposit accounts decreased \$0.78 million.
- Residential mortgage banking income was \$18.86 million compared to \$15.80 million in third quarter 2018. Loan volume in the current quarter was \$963.66 million, with purchase activity comprising 68.83% of that volume. Loan volume in third quarter 2018 was \$811.50 million, with purchase activity of 89.72%.
- Total Insurance segment revenue increased 16.59% to \$19.62 million in the third quarter due primarily to additional commission income from insurance agencies that were acquired in November 2018 and January 2019. An additional insurance agency, Angel Insurance and Financial Services, Inc., was acquired, effective September 1, 2019.
- Property management fee revenue increased 13.47%, or \$0.78 million, as compared to third quarter 2018 due to increases in reservation levels.

Quarterly Noninterest Expense Compared to the Third Quarter of 2018:

- Total noninterest expense was \$97.29 million compared to \$88.26 million in 2018, an increase of \$9.03 million, or 10.23%. This reflects increases of \$5.29 million in salary and benefits expense, \$1.66 million in professional fees, \$0.94 million in occupancy expense, and \$0.56 million in advertising and marketing expenses.
- In addition to growth in production related expenses, changing industry standards and increased regulatory expectations related to exceeding \$10 billion in assets, have resulted in enhancements to Company infrastructure, resulting in increased salary and benefits expense and professional fees.

Areas of enhancement include: information technology, risk and compliance, accounting, and internal audit.

- Noninterest expense included operational expenses of \$1.86 million related to insurance agencies acquired subsequent to third quarter 2018.

Quarterly Income Taxes Compared to the Third Quarter of 2018:

- Income tax expense was \$7.68 million compared to \$9.16 million one year prior. This represents an effective tax rate of 16.95% compared to 19.30% in the third quarter of 2018.

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

- Total assets were \$12.02 billion for the quarter ended September 30, 2019, an increase of 7.69%, or 10.28% on an annualized basis, compared to \$11.16 billion at December 31, 2018. Total assets increased \$0.90 billion, or 8.09%, from \$11.12 billion at September 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 \$49.66 million due to the adoption of the leasing standard.
- Loans held for investment increased \$0.16 billion, or 2.05%, or 2.74% on an annualized basis, compared to year end 2018, and \$0.30 billion, or 3.82% compared to September 30, 2018.
- Total liabilities were \$10.38 billion at September 30, 2019, an increase of \$758.15 million, or 7.88%, compared to December 31, 2018 and \$761.35 million, or 7.91%, compared to September 30, 2018.
- Total deposits increased \$1.07 billion, or 12.75%, or 17.05% on an annualized basis, over December 31, 2018 and \$1.14 billion, or 13.72%, over September 30, 2018.
- Total borrowings declined \$0.42 billion, or 38.49%, or 51.46% on an annualized basis from December 31, 2018 and \$0.49 billion from September 30, 2018.

Investment Securities:

- Total investment securities were \$1.41 billion compared to \$1.35 billion at June 30, 2019 and \$1.16 billion at September 30, 2018. The weighted average duration of the portfolio at September 30, 2019 was 3.6 years. The carrying value of the available-for-sale portfolio included \$26.07 million of net unrealized gains compared to \$19.66 million at June 30, 2019 and \$26.22 million in net unrealized losses at September 30, 2018. The increase in net unrealized gains was primarily due to further declines in interest rates. The carrying value of the held-to-maturity

portfolio does not reflect \$1.68 million in net unrealized gains compared to \$1.58 million in net unrealized gains at June 30, 2019 and \$0.17 million in net unrealized gains at September 30, 2018.

Loans and Asset Quality:

- Total loans held for investment were \$8.18 billion at September 30, 2019 compared to \$8.13 billion at June 30, 2019 and \$7.88 billion at September 30, 2018.
- Nonperforming assets were \$31.04 million, or 0.26% of total assets, compared to \$27.33 million, or 0.25%, at September 30, 2018.
- Nonperforming loans were 0.17% of period end loans.
- Foreclosed property decreased to \$15.52 million from \$18.15 million at September 30, 2018.

Deposits and Borrowings:

- Total deposits were \$9.44 billion compared to \$9.27 billion at June 30, 2019 and \$8.30 billion at September 30, 2018.
- Total loans to deposits were 86.70% compared to 87.68% at June 30, 2019 and 94.97% at September 30, 2018.
- Non-interest bearing deposits were 32.11% of total deposits at September 30, 2019 compared to 31.83% at June 30, 2019 and 32.19% at September 30, 2018.
- Total borrowings were \$0.67 billion compared to \$0.84 billion and \$1.17 billion at June 30, 2019 and September 30, 2018, respectively.

Capital:

- Common equity tier 1 capital ratio of 11.52%.
- Tier 1 leverage capital ratio of 9.84%.
- Tier 1 risk-based capital ratio of 11.55%.
- Total risk-based capital ratio of 14.70%.
- Book value was \$22.38 compared to \$21.95 at June 30, 2019 and \$20.54 at September 30, 2018.
- Tangible book value (non-GAAP) was \$15.44 compared to \$15.05 at June 30, 2019 and \$13.83 at September 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 \$94 - \$96 million for 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 \$12.02 billion as of September 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				
	September 30,	June 30,	March 31,	December 31,	September 30,
	2019	2019	2019	2018	2018
Income and Performance Ratios:					
Total Revenue	\$ 145,879	\$ 144,537	\$ 133,854	\$ 131,417	\$ 137,914
Net income	39,400	36,242	32,082	36,440	39,252
Net income attributable to TowneBank	37,659	34,638	31,409	35,990	38,293
Net income per common share - diluted	0.52	0.48	0.44	0.50	0.53
Book value per common share	22.38	21.95	21.40	21.05	20.54
Book value per common share - tangible ^(non-GAAP)	15.44	15.05	14.46	14.26	13.83
Return on average assets	1.26%	1.20%	1.14%	1.28%	1.40%
Return on average assets - tangible ^(non-GAAP)	1.40%	1.35%	1.29%	1.43%	1.56%
Return on average equity	9.22%	8.83%	8.24%	9.44%	10.21%
Return on average equity - tangible ^(non-GAAP)	14.20%	13.90%	13.24%	14.91%	16.08%
Return on average common equity	9.29%	8.89%	8.30%	9.53%	10.30%
Return on average common equity - tangible ^(non-GAAP)	14.36%	14.05%	13.39%	15.11%	16.30%
Noninterest income as a percentage of total revenue	37.55%	37.86%	34.65%	32.12%	35.69%
Regulatory Capital Ratios (1):					
Common equity tier 1	11.52%	11.58%	11.49%	11.51%	11.53%
Tier 1	11.55%	11.62%	11.52%	11.54%	11.57%
Total	14.70%	14.85%	14.79%	14.83%	14.90%
Tier 1 leverage ratio	9.84%	9.86%	9.92%	9.87%	9.98%
Asset Quality:					
Allowance for loan losses to nonperforming loans	3.95x	3.00x	9.36x	10.97x	7.25x
Allowance for loan losses to period end loans	0.68%	0.67%	0.66%	0.65%	0.64%
Allowance for loan losses to period end loans excluding purchased loans	0.81%	0.81%	0.81%	0.82%	0.82%
Nonperforming loans to period end loans	0.17%	0.22%	0.07%	0.06%	0.09%
Nonperforming assets to period end assets	0.26%	0.29%	0.22%	0.22%	0.25%
Net charge-offs to average loans (annualized)	0.03%	0.08%	0.01%	0.02%	0.03%
Nonperforming loans	\$ 14,016	\$ 18,202	\$ 5,696	\$ 4,749	\$ 6,926
Former bank premises	1,510	1,510	2,223	2,253	2,253
Foreclosed property	15,517	14,517	17,071	17,163	18,153
Total nonperforming assets	<u>\$ 31,043</u>	<u>\$ 34,229</u>	<u>\$ 24,990</u>	<u>\$ 24,165</u>	<u>\$ 27,332</u>
Loans past due 90 days and still accruing interest	<u>\$ 636</u>	<u>\$ 415</u>	<u>\$ 117</u>	<u>\$ 394</u>	<u>\$ 153</u>
Allowance for loan losses	\$ 55,428	\$ 54,527	\$ 53,303	\$ 52,094	\$ 50,236
Mortgage Banking:					
Loans originated, mortgage	\$ 703,922	\$ 574,638	\$ 366,643	\$ 407,787	\$ 561,543
Loans originated, joint venture	259,742	246,491	146,884	192,280	249,956
Total loans originated	<u>\$ 963,664</u>	<u>\$ 821,129</u>	<u>\$ 513,527</u>	<u>\$ 600,067</u>	<u>\$ 811,499</u>
Number of loans originated	3,360	3,121	1,977	2,304	3,068
Number of originators	225	229	240	293	303
Purchase %	68.83%	84.97%	86.08%	88.64%	89.72%
Loans sold	\$ 925,058	\$ 694,832	\$ 473,068	\$ 694,341	\$ 852,205
Gross realized gain on sales and fees as a % of loans originated	3.45%	3.43%	3.58%	3.37%	3.36%
Other Ratios:					
Net interest margin	3.41%	3.49%	3.54%	3.53%	3.62%
Net interest margin-fully tax equivalent ^(nonGAAP)	3.43%	3.52%	3.57%	3.55%	3.64%
Average earning assets/total average assets	89.53%	89.46%	89.50%	89.91%	89.69%
Average loans/average deposits	87.63%	91.60%	95.83%	95.32%	97.55%
Average noninterest deposits/total average deposits	31.82%	31.63%	31.39%	31.90%	32.61%
Period end equity/period end total assets	13.63%	13.45%	13.53%	13.78%	13.49%
Efficiency ratio	66.66%	66.80%	68.43%	62.65%	64.00%

(1) Current reporting period regulatory capital ratios are preliminary

TOWNEBANK
Selected Data (unaudited)
(dollars in thousands)

Investment Securities

			% Change		
	Q3 2019	Q3 2018	Q2 2019	Q3 19 vs. Q3 18	Q3 19 vs. Q2 19
<i>Available-for-sale securities, at fair value</i>					
U.S. agency securities	\$ 152,581	\$ 388,904	\$ 261,960	(60.77)%	(41.75)%
U.S. Treasury notes	999	1,245	2,241	(19.76)%	(55.42)%
Municipal securities	173,519	72,818	167,466	138.29 %	3.61 %
Trust preferred and other corporate securities	52,006	30,648	43,799	69.69 %	18.74 %
Mortgage-backed securities issued by GSE and GNMA	958,290	558,158	785,355	71.69 %	22.02 %
Total	<u>\$ 1,337,395</u>	<u>\$ 1,051,773</u>	<u>\$ 1,260,821</u>	<u>27.16 %</u>	<u>6.07 %</u>

Held-to-maturity securities, at amortized cost

Municipal securities	\$ 29,166	\$ 35,007	\$ 34,458	(16.69)%	(15.36)%
Trust preferred corporate securities	2,381	500	2,393	376.20 %	(0.50)%
Mortgage-backed securities issued by GSE and GNMA	12,947	16,495	13,723	(21.51)%	(5.65)%
Total	<u>\$ 44,494</u>	<u>\$ 52,002</u>	<u>\$ 50,574</u>	<u>(14.44)%</u>	<u>(12.02)%</u>

Loans Held For Investment

			% Change		
	Q3 2019	Q3 2018	Q2 2019	Q3 19 vs. Q3 18	Q3 19 vs. Q2 19
Real estate - construction and development	\$ 1,142,225	\$ 1,016,120	\$ 1,107,762	12.41 %	3.11 %
Commercial real estate - investment related properties	2,070,317	1,957,297	1,985,990	5.77 %	4.25 %
Commercial real estate - owner occupied	1,286,137	1,259,368	1,288,478	2.13 %	(0.18)%
Real estate - multifamily	219,901	284,423	267,528	(22.69)%	(17.80)%
Real estate - residential 1-4 family	1,621,175	1,608,517	1,639,547	0.79 %	(1.12)%
Commercial and industrial business	1,527,515	1,447,794	1,523,607	5.51 %	0.26 %
Consumer and other loans	315,559	308,173	313,817	2.40 %	0.56 %
Total	<u>\$ 8,182,829</u>	<u>\$ 7,881,692</u>	<u>\$ 8,126,729</u>	<u>3.82 %</u>	<u>0.69 %</u>

Deposits

			% Change		
	Q3 2019	Q3 2018	Q2 2019	Q3 19 vs. Q3 18	Q3 19 vs. Q2 19
Noninterest-bearing demand	\$ 3,030,505	\$ 2,671,558	\$ 2,950,615	13.44 %	2.71 %
Interest-bearing:					
Demand and money market accounts	3,534,252	3,096,317	3,409,322	14.14 %	3.66 %
Savings	280,552	298,368	277,495	(5.97)%	1.10 %
Certificates of deposits	2,592,705	2,233,188	2,631,386	16.10 %	(1.47)%
Total	<u>\$ 9,438,014</u>	<u>\$ 8,299,431</u>	<u>\$ 9,268,818</u>	<u>13.72 %</u>	<u>1.83 %</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	
	December 31,	
	2019	
Assets:	\$	(74)
Investment Securities		1,403
Loans		
Liabilities:		
Deposits		47
Total estimated effect on net interest income	<u>\$</u>	<u>1,282</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 September 30, 2019			Three Months Ended June 30, 2019			Three Months Ended September 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	\$ 8,096,908	\$102,495	5.02%	\$ 8,075,054	\$102,366	5.08%	\$ 7,825,065	\$ 97,705	4.95%
Taxable investment securities	1,266,447	9,087	2.87%	1,170,215	8,346	2.85%	1,022,051	6,402	2.51%
Tax-exempt investment securities	121,738	997	3.28%	90,942	756	3.33%	82,235	766	3.73%
Total securities	1,388,185	10,084	2.91%	1,261,157	9,102	2.89%	1,104,286	7,168	2.60%
Interest-bearing deposits	711,030	3,745	2.09%	698,649	4,016	2.31%	450,455	2,148	1.89%
Loans held for sale	408,377	3,956	3.87%	281,775	3,007	4.27%	346,806	4,012	4.63%
Total earning assets	10,604,500	120,280	4.50%	10,316,635	118,491	4.61%	9,726,612	111,033	4.53%
Less: allowance for loan losses	(54,858)			(53,386)			(50,144)		
Total nonearning assets	1,295,640			1,269,029			1,168,102		
Total assets	<u>\$ 11,845,282</u>			<u>\$ 11,532,278</u>			<u>\$ 10,844,570</u>		
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	\$ 3,379,888	\$ 7,223	0.85%	\$ 3,312,313	\$ 7,025	0.85%	\$ 2,957,037	\$ 4,217	0.57%
Savings	278,048	702	1.00%	281,221	929	1.33%	301,311	984	1.30%
Certificates of deposit	2,641,681	15,627	2.35%	2,433,479	13,830	2.28%	2,147,338	9,339	1.73%
Total interest-bearing deposits	6,299,617	23,552	1.48%	6,027,013	21,784	1.45%	5,405,686	14,540	1.07%
Borrowings	486,644	2,020	1.62%	678,799	3,318	1.93%	920,380	4,195	1.78%
Subordinated debt, net	248,210	2,962	4.77%	248,064	2,962	4.78%	247,615	2,962	4.78%
Total interest-bearing liabilities	7,034,471	28,534	1.61%	6,953,876	28,064	1.62%	6,573,681	21,697	1.31%
Demand deposits	2,940,370			2,788,596			2,615,946		
Other noninterest-bearing liabilities	250,371			215,951			166,575		
Total liabilities	10,225,212			9,958,423			9,356,202		
Shareholders' equity	1,620,070			1,573,855			1,488,368		
Total liabilities and equity	<u>\$ 11,845,282</u>			<u>\$ 11,532,278</u>			<u>\$ 10,844,570</u>		
Net interest income (tax-equivalent basis)		\$ 91,746			\$ 90,427			\$ 89,336	
Reconciliation of Non-GAAP Financial Measures									
Tax-equivalent basis adjustment		(643)			(608)			(639)	
Net interest income (GAAP)		<u>\$ 91,103</u>			<u>\$ 89,819</u>			<u>\$ 88,697</u>	
Interest rate spread (1)(3)			2.89%			2.99%			3.22%
Interest expense as a percent of average earning assets			1.07%			1.09%			0.89%
Net interest margin (tax equivalent basis) (2)(3)			3.43%			3.52%			3.64%
Total cost of deposits			1.01%			0.99%			0.72%

(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)

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018			Nine Months Ended September 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	\$ 8,067,894	\$305,007	5.05%	\$ 7,447,463	\$273,162	4.90%	\$ 31,845	\$ 8,578	\$ 23,267
Taxable investment securities	1,158,611	24,962	2.87%	971,117	17,214	2.36%	7,748	4,086	3,662
Tax-exempt investment securities	97,485	2,519	3.45%	79,404	2,174	3.65%	345	(128)	473
Total securities	1,256,096	27,481	2.92%	1,050,521	19,388	2.46%	8,093	3,958	4,135
Interest-bearing deposits	700,840	11,758	2.24%	521,361	6,670	1.71%	5,088	2,416	2,672
Loans held for sale	290,384	8,966	4.12%	302,102	9,948	4.39%	(982)	(605)	(377)
Total earning assets	10,315,214	353,212	4.58%	9,321,447	309,168	4.43%	44,044	14,347	29,697
Less: allowance for loan losses	(53,703)			(48,044)					
Total nonearning assets	1,264,976			1,140,173					
Total assets	<u>\$ 11,526,487</u>			<u>\$ 10,413,576</u>					
Liabilities and Equity:									
Interest-bearing deposits									
Demand and money market	\$ 3,289,539	\$ 20,488	0.83%	\$ 2,893,096	\$ 10,788	0.50%	\$ 9,700	\$ 8,053	\$ 1,647
Savings	281,562	2,658	1.26%	305,570	2,802	1.23%	(144)	81	(225)
Certificates of deposit	2,456,360	41,364	2.25%	1,998,427	22,057	1.48%	19,307	13,447	5,860
Total interest-bearing deposits	6,027,461	64,510	1.43%	5,197,093	35,647	0.92%	28,863	21,581	7,282
Borrowings	661,216	9,559	1.91%	889,885	10,899	1.62%	(1,340)	1,757	(3,097)
Subordinated debt, net	248,064	8,885	4.78%	252,220	9,105	4.81%	(220)	(71)	(149)
Total interest-bearing liabilities	6,936,741	82,954	1.60%	6,339,198	55,651	1.17%	27,303	23,267	4,036
Demand deposits	2,787,727			2,471,906					
Other noninterest-bearing liabilities	221,806			166,928					
Total liabilities	9,946,274			8,978,032					
Shareholders' equity	1,580,213			1,435,544					
Total liabilities and equity	<u>\$ 11,526,487</u>			<u>\$ 10,413,576</u>					
Net interest income (tax-equivalent basis)		\$270,258			\$253,517		\$ 16,741	\$ (8,920)	\$ 25,661
Reconciliation of Non-GAAP Financial Measures									
Tax-equivalent basis adjustment		(1,862)			(1,652)		(210)		
Net interest income (GAAP)		<u>\$268,396</u>			<u>\$251,865</u>		<u>\$ 16,531</u>		
Interest rate spread (1)(3)			2.98%			3.26%			
Interest expense as a percent of average earning assets			1.08%			0.80%			
Net interest margin (tax equivalent basis) (2)(3)			3.50%			3.64%			
Total cost of deposits			0.98%			0.62%			

(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)

	September 30, 2019	December 31, 2018
	(unaudited)	(audited)
ASSETS		
Cash and due from banks	\$ 124,439	\$ 94,604
Interest-bearing deposits at Federal Reserve Bank	675,288	570,425
Interest-bearing deposits in financial institutions	21,663	21,667
Total Cash and Cash Equivalents	821,390	686,696
Securities available for sale, at fair value	1,337,395	1,095,339
Securities held to maturity, at amortized cost	44,494	50,598
Other equity securities	5,697	4,797
Federal Home Loan Bank stock	26,282	43,229
Total Securities	1,413,868	1,193,963
Mortgage loans held for sale	456,719	220,986
Loans, net of unearned income and deferred costs	8,182,829	8,018,233
Less: allowance for loan losses	(55,428)	(52,094)
Net Loans	8,127,401	7,966,139
Premises and equipment, net	231,060	211,796
Goodwill	446,423	433,658
Other intangible assets, net	57,404	58,752
Bank-owned life insurance policies	241,652	237,371
Other assets	225,374	153,669
TOTAL ASSETS	\$ 12,021,291	\$ 11,163,030
LIABILITIES AND EQUITY		
Deposits:		
Noninterest-bearing demand	\$ 3,030,505	\$ 2,622,761
Interest-bearing:		
Demand and money market accounts	3,534,252	3,223,215
Savings	280,552	286,684
Certificates of deposit	2,592,705	2,237,762
Total Deposits	9,438,014	8,370,422
Advances from the Federal Home Loan Bank	381,846	799,315
Subordinated debt, net	248,309	247,861
Repurchase agreements and other borrowings	42,971	47,156
Total Borrowings	673,126	1,094,332
Other liabilities	271,617	159,856
TOTAL LIABILITIES	10,382,757	9,624,610
Preferred stock		
Authorized and unissued shares - 2,000,000	—	—
Common stock, \$1.667 par: 150,000,000 shares authorized		
72,633,517 and 72,465,923 shares issued at		
September 30, 2019 and December 31, 2018, respectively	121,080	120,801
Capital surplus	1,039,156	1,034,676
Retained earnings	445,186	379,239
Common stock issued to deferred compensation trust, at cost		
811,340 and 769,200 shares at		
September 30, 2019 and December 31, 2018, respectively	(15,317)	(13,955)
Deferred compensation trust	15,317	13,955
Accumulated other comprehensive income (loss)	19,958	(9,190)
TOTAL SHAREHOLDERS' EQUITY	1,625,380	1,525,526
Noncontrolling interest	13,154	12,894
TOTAL EQUITY	1,638,534	1,538,420
TOTAL LIABILITIES AND EQUITY	\$ 12,021,291	\$ 11,163,030

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
INTEREST INCOME:				
Loans, including fees	\$ 102,047	\$ 97,215	\$ 303,616	\$ 271,897
Investment securities	9,889	7,019	27,010	19,001
Interest-bearing deposits in financial institutions and federal funds sold	3,745	2,148	11,758	6,670
Mortgage loans held for sale	3,956	4,012	8,966	9,948
Total interest income	119,637	110,394	351,350	307,516
INTEREST EXPENSE:				
Deposits	23,552	14,540	64,510	35,647
Advances from the Federal Home Loan Bank	1,935	4,153	9,288	10,755
Subordinated debt, net	2,962	2,962	8,885	9,105
Repurchase agreements and other borrowings	85	42	271	144
Total interest expense	28,534	21,697	82,954	55,651
Net interest income	91,103	88,697	268,396	251,865
PROVISION FOR LOAN LOSSES	1,508	1,241	5,770	6,249
Net interest income after provision for loan losses	89,595	87,456	262,626	245,616
NONINTEREST INCOME:				
Residential mortgage banking income, net	18,855	15,804	50,929	52,152
Insurance commissions and other title fees and income, net	16,681	14,493	49,477	42,952
Real estate brokerage and property management income, net	9,444	8,542	27,555	25,881
Service charges on deposit accounts	2,253	3,028	8,299	8,880
Credit card merchant fees, net	1,514	1,563	3,357	4,174
Bank owned life insurance	2,117	1,657	5,350	4,822
Other income	3,981	4,130	11,754	10,520
Net gain/(loss) on investment securities	(69)	—	(845)	3
Total noninterest income	54,776	49,217	155,876	149,384
NONINTEREST EXPENSE:				
Salaries and employee benefits	55,784	50,497	162,907	151,606
Occupancy expense	7,953	7,013	23,866	20,292
Furniture and equipment	3,805	3,646	10,753	10,890
Amortization - intangibles	3,059	2,996	9,364	8,587
Software expense	3,208	2,940	8,742	7,927
Outside data processing	2,533	2,917	9,316	7,898
Professional fees	3,566	1,908	9,952	6,295
Advertising and marketing	3,429	2,874	9,440	8,649
Other expenses	13,950	13,471	41,627	47,643
Total noninterest expense	97,287	88,262	285,967	269,787
Income before income tax expense and noncontrolling interest	47,084	48,411	132,535	125,213
Provision for income tax expense	7,684	9,159	24,810	23,879
Net income	\$ 39,400	\$ 39,252	\$ 107,725	\$ 101,334
Net income attributable to noncontrolling interest	(1,741)	(959)	(4,018)	(3,531)
Net income attributable to TowneBank	\$ 37,659	\$ 38,293	\$ 103,707	\$ 97,803
Per common share information				
Basic earnings	\$ 0.52	\$ 0.53	\$ 1.44	\$ 1.38
Diluted earnings	\$ 0.52	\$ 0.53	\$ 1.44	\$ 1.38
Cash dividends declared	\$ 0.18	\$ 0.16	\$ 0.52	\$ 0.46

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

	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
	(unaudited)	(unaudited)	(unaudited)	(audited)	(unaudited)
ASSETS					
Cash and due from banks	\$ 124,439	\$ 110,580	\$ 104,091	\$ 94,604	\$ 106,485
Interest-bearing deposits at Federal Reserve Bank	675,288	834,505	775,208	570,425	582,099
Interest-bearing deposits in financial institutions	21,663	21,527	21,001	21,667	20,910
Total Cash and Cash Equivalents	821,390	966,612	900,300	686,696	709,494
Securities available for sale, at fair value	1,337,395	1,260,821	1,099,777	1,095,339	1,051,773
Securities held to maturity, at amortized cost	44,494	50,574	49,687	50,598	52,002
Other equity securities	5,697	5,396	5,022	4,797	5,519
Federal Home Loan Bank stock	26,282	32,657	41,464	43,229	46,393
Total Securities	1,413,868	1,349,448	1,195,950	1,193,963	1,155,687
Mortgage loans held for sale	456,719	362,773	247,021	220,986	333,354
Loans, net of unearned income and deferred costs	8,182,829	8,126,729	8,105,370	8,018,233	7,881,692
Less: allowance for loan losses	(55,428)	(54,527)	(53,303)	(52,094)	(50,236)
Net Loans	8,127,401	8,072,202	8,052,067	7,966,139	7,831,456
Premises and equipment, net	231,060	230,177	227,458	211,796	210,724
Goodwill	446,423	442,881	442,881	433,658	427,117
Other intangible assets, net	57,404	58,391	61,333	58,752	58,165
Bank-owned life insurance policies	241,652	240,621	238,977	237,371	235,348
Other assets	225,374	219,375	202,276	153,669	159,887
TOTAL ASSETS	\$ 12,021,291	\$ 11,942,480	\$ 11,568,263	\$ 11,163,030	\$ 11,121,232
LIABILITIES AND EQUITY					
Deposits:					
Noninterest-bearing demand	\$ 3,030,505	\$ 2,950,615	\$ 2,813,857	\$ 2,622,761	\$ 2,671,558
Interest-bearing:					
Demand and money market accounts	3,534,252	3,409,322	3,290,907	3,223,215	3,096,317
Savings	280,552	277,495	285,790	286,684	298,368
Certificates of deposit	2,592,705	2,631,386	2,341,134	2,237,762	2,233,188
Total Deposits	9,438,014	9,268,818	8,731,688	8,370,422	8,299,431
Advances from the Federal Home Loan Bank	381,846	532,004	739,160	799,315	873,469
Subordinated debt, net	248,309	248,160	248,010	247,861	247,712
Repurchase agreements and other borrowings	42,971	56,355	44,775	47,156	45,591
Total Borrowings	673,126	836,519	1,031,945	1,094,332	1,166,772
Other liabilities	271,617	230,691	238,974	159,856	155,205
TOTAL LIABILITIES	10,382,757	10,336,028	10,002,607	9,624,610	9,621,408
Preferred stock					
Authorized shares - 2,000,000	—	—	—	—	—
Common stock, \$1.667 par value	121,080	121,038	121,047	120,801	120,613
Capital surplus	1,039,156	1,036,982	1,035,563	1,034,676	1,032,863
Retained earnings	445,186	420,600	399,030	379,239	354,842
Common stock issued to deferred compensation trust, at cost	(15,317)	(15,160)	(14,067)	(13,955)	(13,780)
Deferred compensation trust	15,317	15,160	14,067	13,955	13,780
Accumulated other comprehensive income (loss)	19,958	15,143	(1,792)	(9,190)	(22,348)
TOTAL SHAREHOLDERS' EQUITY	1,625,380	1,593,763	1,553,848	1,525,526	1,485,970
Noncontrolling interest	13,154	12,689	11,808	12,894	13,854
TOTAL EQUITY	1,638,534	1,606,452	1,565,656	1,538,420	1,499,824
TOTAL LIABILITIES AND EQUITY	\$ 12,021,291	\$ 11,942,480	\$ 11,568,263	\$ 11,163,030	\$ 11,121,232

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

	Three Months Ended				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
INTEREST INCOME:					
Loans, including fees	\$ 102,047	\$ 101,874	\$ 99,695	\$ 99,446	\$ 97,215
Investment securities	9,889	8,987	8,134	8,126	7,019
Interest-bearing deposits in financial institutions and federal funds sold	3,745	4,015	3,998	3,559	2,148
Mortgage loans held for sale	3,956	3,007	2,003	3,176	4,012
Total interest income	<u>119,637</u>	<u>117,883</u>	<u>113,830</u>	<u>114,307</u>	<u>110,394</u>
INTEREST EXPENSE:					
Deposits	23,552	21,784	19,174	17,495	14,540
Advances from the Federal Home Loan Bank	1,935	3,201	4,153	4,585	4,153
Subordinated debt	2,962	2,962	2,962	2,961	2,962
Repurchase agreements and other borrowings	85	117	68	58	42
Total interest expense	<u>28,534</u>	<u>28,064</u>	<u>26,357</u>	<u>25,099</u>	<u>21,697</u>
Net interest income	<u>91,103</u>	<u>89,819</u>	<u>87,473</u>	<u>89,208</u>	<u>88,697</u>
PROVISION FOR LOAN LOSSES	<u>1,508</u>	<u>2,824</u>	<u>1,438</u>	<u>2,292</u>	<u>1,241</u>
Net interest income after provision for loan losses	<u>89,595</u>	<u>86,995</u>	<u>86,035</u>	<u>86,916</u>	<u>87,456</u>
NONINTEREST INCOME:					
Residential mortgage banking income, net	18,855	18,565	13,508	12,951	15,804
Insurance commissions and other title fees and income, net	16,681	17,213	15,582	13,212	14,493
Real estate brokerage and property management income, net	9,444	8,843	9,268	5,982	8,542
Service charges on deposit accounts	2,253	3,185	2,861	2,928	3,028
Credit card merchant fees, net	1,514	660	1,183	1,298	1,563
Bank owned life insurance	2,117	1,635	1,598	2,014	1,657
Other income	3,981	4,617	3,157	3,824	4,130
Net gain/(loss) on investment securities	(69)	—	(776)	—	—
Total noninterest income	<u>54,776</u>	<u>54,718</u>	<u>46,381</u>	<u>42,209</u>	<u>49,217</u>
NONINTEREST EXPENSE:					
Salaries and employee benefits	55,784	54,263	52,860	50,233	50,497
Occupancy expense	7,953	7,662	8,251	7,352	7,013
Furniture and equipment	3,805	3,578	3,371	3,587	3,646
Amortization - intangibles	3,059	3,113	3,192	3,123	2,996
Software expense	3,208	2,788	2,745	2,694	2,940
Outside data processing	2,533	3,616	3,166	2,466	2,917
Professional fees	3,566	3,707	2,679	2,028	1,908
Advertising and marketing	3,429	3,182	2,829	2,546	2,874
Other expenses	13,950	14,647	13,030	8,308	13,471
Total noninterest expense	<u>97,287</u>	<u>96,556</u>	<u>92,123</u>	<u>82,337</u>	<u>88,262</u>
Income before income tax expense and noncontrolling interest	<u>47,084</u>	<u>45,157</u>	<u>40,293</u>	<u>46,788</u>	<u>48,411</u>
Provision for income tax expense	7,684	8,915	8,211	10,348	9,159
Net income	<u>39,400</u>	<u>36,242</u>	<u>32,082</u>	<u>36,440</u>	<u>39,252</u>
Net income attributable to noncontrolling interest	(1,741)	(1,604)	(673)	(450)	(959)
Net income attributable to TowneBank	<u>\$ 37,659</u>	<u>\$ 34,638</u>	<u>\$ 31,409</u>	<u>\$ 35,990</u>	<u>\$ 38,293</u>
Per common share information					
Basic earnings	\$ 0.52	\$ 0.48	\$ 0.44	\$ 0.50	\$ 0.53
Diluted earnings	\$ 0.52	\$ 0.48	\$ 0.44	\$ 0.50	\$ 0.53
Basic weighted average shares outstanding	72,091,221	72,044,817	71,992,330	71,905,956	71,875,085
Diluted weighted average shares outstanding	72,222,934	\$ 72,145,600	72,099,558	72,043,369	72,044,355
Cash dividends declared	\$ 0.18	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.16

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

	Three Months Ended			Nine Months Ended		Increase/(Decrease)	
	September 30,		June 30,	September 30,		2019 over 2018	
	2019	2018	2019	2019	2018	Amount	Percent
Revenue							
Net interest income	\$ 89,490	\$ 85,423	\$ 88,442	\$ 264,332	\$ 243,151	\$ 21,181	8.71 %
Service charges on deposit accounts	2,253	3,028	3,185	8,299	8,880	(581)	(6.54)%
Credit card merchant fees	1,514	1,563	660	3,357	4,174	(817)	(19.57)%
Other income	5,152	4,300	5,273	14,350	12,318	2,032	16.50 %
Subtotal	8,919	8,891	9,118	26,006	25,372	634	2.50 %
Net gain/(loss) on investment securities	(69)	—	—	(845)	3	(848)	N/M
Total noninterest income	8,850	8,891	9,118	25,161	25,375	(214)	(0.84)%
Total revenue	98,340	94,314	97,560	289,493	268,526	20,967	7.81 %
Provision for loan losses	1,508	1,241	2,824	5,770	6,249	(479)	(7.67)%
Expenses							
Salaries and employee benefits	33,526	28,329	32,353	96,966	86,372	10,594	12.27 %
Occupancy expense	5,209	4,331	5,007	15,460	12,621	2,839	22.49 %
Furniture and equipment	2,779	2,463	2,517	7,662	7,485	177	2.36 %
Amortization of intangibles	1,265	1,479	1,315	3,946	4,230	(284)	(6.71)%
Other expenses	17,098	14,829	18,938	52,218	50,940	1,278	2.51 %
Total expenses	59,877	51,431	60,130	176,252	161,648	14,604	9.03 %
Income before income tax, corporate allocation and noncontrolling interest	36,955	41,642	34,606	107,471	100,629	6,842	6.80 %
Corporate allocation	384	438	546	1,383	1,370	13	0.95 %
Income before income tax provision and noncontrolling interest	37,339	42,080	35,152	108,854	101,999	6,855	6.72 %
Provision for income tax expense	5,495	7,604	6,650	19,337	18,629	708	3.80 %
Net income	31,844	34,476	28,502	89,517	83,370	6,147	7.37 %
Noncontrolling interest	—	(4)	1	4	(12)	16	N/M
Net income attributable to TowneBank	\$ 31,844	\$ 34,472	\$ 28,503	\$ 89,521	\$ 83,358	\$ 6,163	7.39 %
Efficiency ratio	60.85%	54.53%	61.63%	60.71%	60.20%	0.51%	0.85 %

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

	Three Months Ended			Nine Months Ended		Increase/(Decrease)	
	September 30,		June 30,	September 30,		2019 over 2018	
	2019	2018	2019	2019	2018	Amount	Percent
Revenue							
Residential mortgage brokerage income, net	\$ 19,171	\$ 16,219	\$ 18,898	\$ 51,826	\$ 53,223	\$ (1,397)	(2.62)%
Real estate brokerage income, net	2,882	2,758	2,873	7,315	7,275	40	0.55 %
Title insurance and settlement fees	617	525	594	1,581	1,420	161	11.34 %
Property management fees, net	6,562	5,783	5,970	20,240	18,606	1,634	8.78 %
Income from unconsolidated subsidiary	185	122	162	441	316	125	39.56 %
Net interest and other income	1,885	4,111	1,677	4,937	9,999	(5,062)	(50.63)%
Total revenue	31,302	29,518	30,174	86,340	90,839	(4,499)	(4.95)%
Expenses							
Salaries and employee benefits	13,474	14,862	13,309	39,678	44,142	(4,464)	(10.11)%
Occupancy expense	2,055	2,084	2,028	6,428	5,942	486	8.18 %
Furniture and equipment	754	952	803	2,326	2,768	(442)	(15.97)%
Amortization of intangible assets	666	672	695	2,086	2,015	71	3.52 %
Other expenses	7,478	7,543	7,234	20,953	21,996	(1,043)	(4.74)%
Total expenses	24,427	26,113	24,069	71,471	76,863	(5,392)	(7.02)%
Income before income tax, corporate allocation and noncontrolling interest	6,875	3,405	6,105	14,869	13,976	893	6.39 %
Corporate allocation	(208)	(270)	(328)	(800)	(853)	53	(6.21)%
Income before income tax provision and noncontrolling interest	6,667	3,135	5,777	14,069	13,123	946	7.21 %
Provision for income tax expense	1,454	786	1,287	3,292	2,977	315	10.58 %
Net income	5,213	2,349	4,490	10,777	10,146	631	6.22 %
Noncontrolling interest	(1,496)	(756)	(1,248)	(2,997)	(2,268)	(729)	32.14 %
Net income attributable to TowneBank	<u>\$ 3,717</u>	<u>\$ 1,593</u>	<u>\$ 3,242</u>	<u>\$ 7,780</u>	<u>\$ 7,878</u>	<u>\$ (98)</u>	(1.24)%
Efficiency ratio	78.04%	88.46%	79.77%	82.78%	84.61%	(1.83)%	(2.16)%

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

	Three Months Ended			Nine Months Ended		Increase/(Decrease)	
	September 30,		June 30,	September 30,		2019 over 2018	
	2019	2018	2019	2019	2018	Amount	Percent
Commission and fee income							
Property and casualty	\$ 13,481	\$ 10,762	\$ 13,067	\$ 38,421	\$ 31,178	\$ 7,243	23.23 %
Employee benefits	3,629	3,813	3,833	10,968	10,463	505	4.83 %
Travel insurance	834	871	1,169	3,292	4,028	(736)	(18.27)%
Specialized benefit services	166	166	163	499	506	(7)	(1.38)%
Total commissions and fees	18,110	15,612	18,232	53,180	46,175	7,005	15.17 %
Contingency and bonus revenue	1,431	1,137	1,893	4,910	3,703	1,207	32.60 %
Other income	74	75	79	227	215	12	5.58 %
Total revenue	19,615	16,824	20,204	58,317	50,093	8,224	16.42 %
Employee commission expense	3,378	2,742	3,401	9,878	8,209	1,669	20.33 %
Revenue, net of commission expense	16,237	14,082	16,803	48,439	41,884	6,555	15.65 %
Salaries and employee benefits	8,784	7,306	8,601	26,263	21,092	5,171	24.52 %
Occupancy expense	689	598	627	1,978	1,729	249	14.40 %
Furniture and equipment	272	232	258	765	637	128	20.09 %
Amortization of intangible assets	1,128	845	1,103	3,332	2,342	990	42.27 %
Other expenses	2,110	1,737	1,768	5,906	5,476	430	7.85 %
Total operating expenses	12,983	10,718	12,357	38,244	31,276	6,968	22.28 %
Income before income tax, corporate allocation and noncontrolling interest	3,254	3,364	4,446	10,195	10,608	(413)	(3.89)%
Corporate allocation	(176)	(168)	(218)	(583)	(517)	(66)	12.77 %
Income before income tax provision and noncontrolling interest	3,078	3,196	4,228	9,612	10,091	(479)	(4.75)%
Provision for income tax expense	735	769	978	2,181	2,273	(92)	(4.05)%
Net income	2,343	2,427	3,250	7,431	7,818	(387)	(4.95)%
Noncontrolling interest	(245)	(199)	(357)	(1,025)	(1,251)	226	(18.07)%
Net income attributable to TowneBank	\$ 2,098	\$ 2,228	\$ 2,893	\$ 6,406	\$ 6,567	\$ (161)	(2.45)%
Provision for income taxes	735	769	978	2,181	2,273	(92)	(4.05)%
Depreciation, amortization and interest expense	1,325	1,068	1,309	3,943	2,982	961	32.23 %
EBITDA (non-GAAP)	\$ 4,158	\$ 4,065	\$ 5,180	\$ 12,530	\$ 11,822	\$ 708	5.99 %
Efficiency ratio	79.96%	76.11%	73.54%	78.95%	74.67%	4.28%	5.73 %

TOWNEBANK
Reconciliation of Non-GAAP Financial Measures
(dollars in thousands)

	Three Months Ended			Nine Months Ended	
	September 30, 2019	September 30, 2018	June 30, 2019	September 30, 2019	September 30, 2018
Return on average assets (GAAP)	1.26%	1.40%	1.20%	1.20%	1.26%
Impact of excluding average goodwill and other intangibles and amortization	0.14%	0.16%	0.15%	0.15%	0.15%
Return on average tangible assets (non-GAAP)	1.40%	1.56%	1.35%	1.35%	1.41%
Return on average equity (GAAP)	9.22%	10.21%	8.83%	8.77%	9.11%
Impact of excluding average goodwill and other intangibles and amortization	4.98%	5.87%	5.07%	5.02%	5.27%
Return on average tangible equity (non-GAAP)	14.20%	16.08%	13.90%	13.79%	14.38%
Return on average common equity (GAAP)	9.29%	10.30%	8.89%	8.84%	9.18%
Impact of excluding average goodwill and other intangibles and amortization	5.07%	6.00%	5.16%	5.11%	5.37%
Return on average tangible common equity (non-GAAP)	14.36%	16.30%	14.05%	13.95%	14.55%
Book value (GAAP)	\$ 22.38	\$ 20.54	\$ 21.95	\$ 22.38	\$ 20.54
Impact of excluding average goodwill and other intangibles and amortization	(6.94)	(6.71)	(6.90)	(6.94)	(6.71)
Tangible book value (non-GAAP)	\$ 15.44	\$ 13.83	\$ 15.05	\$ 15.44	\$ 13.83
Average assets (GAAP)	\$ 11,845,282	\$ 10,844,570	\$ 11,532,278	\$ 11,526,487	\$ 10,413,575
Less: average goodwill	442,919	425,725	442,881	442,890	405,726
Less: average intangible assets	57,327	59,492	60,339	60,333	57,251
Average tangible assets (non-GAAP)	\$ 11,345,036	\$ 10,359,353	\$ 11,029,058	\$ 11,023,264	\$ 9,950,598
Average equity (GAAP)	\$ 1,620,070	\$ 1,488,368	\$ 1,573,855	\$ 1,580,213	\$ 1,435,544
Less: average goodwill	442,919	425,725	442,881	442,890	405,726
Less: average intangible assets	57,327	59,492	60,339	60,333	57,251
Average tangible equity (non-GAAP)	\$ 1,119,824	\$ 1,003,151	\$ 1,070,635	\$ 1,076,990	\$ 972,567
Average common equity (GAAP)	\$ 1,607,853	\$ 1,474,833	\$ 1,562,214	\$ 1,568,336	\$ 1,423,787
Less: average goodwill	442,919	425,725	442,881	442,890	405,726
Less: average intangible assets	57,327	59,492	60,339	60,333	57,251
Average tangible common equity (non-GAAP)	\$ 1,107,607	\$ 989,616	\$ 1,058,994	\$ 1,065,113	\$ 960,810

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				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Net income (GAAP)	\$ 37,659	\$ 34,638	\$ 31,409	\$ 35,990	\$ 38,293
Acquisition-related expenses	207	20	411	(1,518)	424
Income tax expense -tax reform legislation	—	—	—	696	—
Income tax expense (benefit) - other items	(20)	(3)	(52)	355	(44)
Income tax expense (benefit)	(20)	(3)	(52)	1,051	(44)
Total charges, net of taxes	187	17	359	(467)	380
Operating earnings, excluding certain items affecting comparability (non-GAAP)	<u>\$ 37,846</u>	<u>\$ 34,655</u>	<u>\$ 31,768</u>	<u>\$ 35,523</u>	<u>\$ 38,673</u>
Weighted average diluted shares	72,222,934	72,145,600	72,099,558	72,043,369	72,044,355
Diluted EPS (GAAP)	\$ 0.52	\$ 0.48	\$ 0.44	\$ 0.50	\$ 0.53
Diluted EPS, excluding certain items affecting comparability (non-GAAP)	\$ 0.52	\$ 0.48	\$ 0.44	\$ 0.49	\$ 0.54
Average assets	\$ 11,845,282	\$ 11,532,278	\$ 11,194,753	\$ 11,149,960	\$ 10,844,570
Average tangible equity	\$ 1,119,824	\$ 1,070,635	1,039,630	\$ 1,022,982	\$ 1,003,151
Return on average assets, excluding certain items affecting comparability (non-GAAP)	1.27%	1.21%	1.15%	1.26%	1.41%
Return on average tangible equity, excluding certain items affecting comparability (non-GAAP)	14.26%	13.90%	13.38%	14.73%	16.23%
Return on average common tangible equity, excluding certain items affecting comparability (non-GAAP)	14.42%	14.06%	13.53%	14.93%	16.45%
Efficiency ratio, excluding certain items affecting comparability (non-GAAP)	66.52%	66.79%	68.12%	63.81%	63.69%

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>Nine months ended</u>	
	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Net income (GAAP)	\$ 103,707	\$ 97,803
Acquisition-related expenses	638	9,947
Total charges	638	9,947
Income tax expense (benefit) - other items	(75)	(1,776)
Income tax expense (benefit)	(75)	(1,776)
Total charges, net of taxes	563	8,171
Operating earnings, excluding certain items affecting comparability (non-GAAP)	<u>\$ 104,270</u>	<u>\$ 105,974</u>
Weighted average diluted shares	72,152,643	71,043,039
Diluted EPS (GAAP)	\$ 1.44	\$ 1.38
Diluted EPS, excluding certain items affecting comparability (non-GAAP)	\$ 1.45	\$ 1.49
Average assets	\$ 11,526,487	\$ 10,413,575
Average tangible equity	\$ 1,076,990	\$ 972,567
Return on average assets, excluding certain items affecting comparability (non-GAAP)	1.21%	1.36%
Return on average tangible equity, excluding certain items affecting comparability (non-GAAP)	13.86%	15.50%
Return on average common tangible equity, excluding certain items affecting comparability (non-GAAP)	14.02%	15.69%
Efficiency ratio, excluding certain items affecting comparability (non-GAAP)	67.12%	64.76%