



Investor Presentation - First Quarter 2020

CAUTIONARY STATEMENTS

Forward-Looking Statements

This presentation contains certain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only the beliefs, expectations, or opinions of TowneBank and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward-looking statements may be identified by the use of such words as: “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” or words of similar meaning, or future or conditional terms, such as “will,” “would,” “should,” “could,” “may,” “likely,” “probably,” or “possibly.” These statements may address issues that involve significant risks, uncertainties, estimates, and assumptions made by management. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include the impacts of the ongoing coronavirus (COVID-19) pandemic; competitive pressures in the banking industry that may increase significantly; changes in the interest rate environment that may reduce margins and/or the volumes and values of loans made or held as well as the value of other financial assets held; changes in the creditworthiness of customers and the possible impairment of the collectability of loans; general economic conditions, either nationally or regionally, that may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit or other services; changes in the legislative or regulatory environment, including changes in accounting standards and tax laws, that may adversely affect our business; costs or difficulties related to the integration of the businesses we have acquired may be greater than expected; expected cost savings associated with pending or recently completed acquisitions may not be fully realized or realized within the expected time frame; cybersecurity threats or attacks, the implementation of new technologies, and the ability to develop and maintain reliable electronic systems; our competitors may have greater financial resources and develop products that enable them to compete more successfully; changes in business conditions; changes in the securities market; and changes in our local economy with regard to our market area. Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events, or otherwise. For additional information on factors that could materially influence forward-looking statements included in this report, see the “Risk Factors” in TowneBank’s Annual Report on Form 10-K for the year ended December 31, 2019 and related disclosures in other filings that have been, or will be, filed by TowneBank with the Federal Deposit Insurance Corporation.

Non-GAAP Financial Measures

This presentation contains certain financial measures determined by methods other than in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Such non-GAAP financial measures include the following: fully tax-equivalent net interest margin, core operating earnings, core net income, tangible book value per common share, total risk-based capital ratio, tier one leverage ratio, tier one capital ratio, and the tangible common equity to tangible assets ratio. Management uses these non-GAAP financial measures to assess the performance of TowneBank’s core business and the strength of its capital position. Management believes that these non-GAAP financial measures provide meaningful additional information about TowneBank to assist investors in evaluating operating results, financial strength, and capitalization. The non-GAAP financial measures should be considered as additional views of the way our financial measures are affected by significant charges for credit costs and other factors. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled measures of other companies. The computations of the non-GAAP financial measures used in this presentation are referenced in a footnote or in the appendix to this presentation.

PAYCHECK PROTECTION PROGRAM (PPP)

The PPP is a program offered through the SBA, and coordinated through banks nationwide. The PPP is available through the CARES Act and allows small businesses to apply for a low interest loan directly through their bank to help cover payroll, mortgage interest, rent, utilities, and employee expenses.

- Proactive effort by “HomeTowne Bankers” to identify impacted members.
- 4,828 loans booked for approximately \$1.0 billion.
- 85% of approved loans were less than \$350 thousand in size.
- Funds are provided in the form of loans that will be fully forgiven when used for payroll costs, interest on mortgages, rent, and utilities.
- Loan payments will be deferred for six months and have a 2 year maturity.
- The Bank plans to utilize the Federal Reserve’s PPP lending facility to fund the loans.

PERFORMANCE HIGHLIGHTS

<i>Dollars in millions, except per share data</i>	QTD				
	1Q20	4Q19	Change	1Q19	Change
Net Interest Income	\$ 89.50	\$ 89.96	(0.51%)	\$ 87.47	2.32%
Noninterest Income	48.20	49.71	(3.04%)	46.38	3.92%
Total Revenue	137.70	139.67	(1.41%)	133.85	2.88%
Noninterest Expense	96.89	92.34	4.93%	92.12	5.18%
Net Income	26.38	35.08	(24.80%)	31.41	(16.01%)
Diluted Earnings Per Share	\$ 0.36	\$ 0.49	(26.53%)	\$ 0.44	(18.18%)
Dividends Declared Per Share	0.18	0.18	0.00%	0.16	12.50%
Tangible Book Value Per Share	15.91	15.69	1.40%	14.46	10.03%
Total Assets	\$ 12,624	\$ 11,948	5.66%	\$ 11,568	9.13%
Total Loans	8,784	8,419	4.33%	8,105	8.38%
Total Deposits	9,308	9,271	0.40%	8,732	6.60%
Return on Average Assets	0.88%	1.16%	(0.28%)	1.14%	(1.42%)
Return on Average Tangible Common Equity	10.01%	13.12%	(3.11%)	13.39%	(16.50%)
Net Interest Margin (TE)	3.37%	3.35%	0.02%	3.57%	(3.55%)
Nonperforming Assets / Total Assets	0.24%	0.27%	(0.03%)	0.22%	(0.25%)
Allowance for Loan Losses / Total Loans	0.73%	0.69%	0.04%	0.66%	(0.62%)
Net Loan Charge-offs / Average Loans	0.03%	0.04%	(0.01%)	0.01%	(0.02%)
Common Equity Tier 1 Ratio	10.98%	11.46%	(0.48%)	11.49%	(11.97%)

Highlights

- Total revenue of \$137.70 million, an increase of \$3.85 million, or 2.9%, versus the same period of 2019.
- Loans held for investment up \$364.91 million compared to 12/31/19, or 17.2% annualized.
- Strong mortgage volumes of \$923.20 million in Q1 offset by derivative valuations.
- Margin of 3.37% included accretion of 13bp.
- Insurance segment increased revenues 9.42% versus the same period of 2019.

BALANCE SHEET SUMMARY

<i>(Dollars in Millions)</i>	Mar 31, 2020	Dec 31, 2019	Q/Q Change		Mar 31, 2019	Y/Y Change	
			Amount	%		Amount	%
Cash, Cash Equivalents and Securities	\$ 2,235	\$ 1,964	\$ 271	13.8%	\$ 2,096	\$ 139	6.6%
Loans Held for Sale	453	419	34	8.1%	247	206	83.4%
Gross Loans	8,784	8,419	365	4.3%	8,105	679	8.4%
Allowance for Loan Losses	(64)	(58)	(6)	10.3%	(53)	(11)	20.8%
Net Loans	8,720	8,361	359	4.3%	8,052	668	8.3%
Other Assets	1,216	1,204	12	1.0%	1,173	43	3.7%
Total Assets	\$ 12,624	\$ 11,948	\$ 676	5.7%	\$ 11,568	\$ 1,056	9.1%
Noninterest-Bearing Deposits	\$ 3,061	\$ 2,951	\$ 110	3.7%	\$ 2,814	\$ 247	8.8%
Interest-Bearing Deposits	6,247	6,320	(73)	(1.2%)	5,918	329	5.6%
Total Deposits	9,308	9,271	37	0.4%	8,732	576	6.6%
FHLB Advances	972	472	500	105.9%	739	233	31.5%
Debt and Other Borrowings	249	300	(51)	(17.0%)	248	1	0.4%
Other Liabilities	429	251	178	70.9%	283	146	51.6%
Total Liabilities	10,958	10,294	664	6.5%	10,002	956	9.6%
Shareholders' Equity	1,654	1,641	13	0.8%	1,554	100	6.4%
Noncontrolling Interests	12	13	(1)	(7.7%)	12	-	0.0%
Total Equity	1,666	1,654	12	0.7%	1,566	100	6.4%
Total Liabilities and Equity	\$ 12,624	\$ 11,948	\$ 676	5.7%	\$ 11,568	\$ 1,056	9.1%

Highlights:

- Total assets were \$12.62 billion, an increase of \$1.06 billion, or 9.1%, compared to 1Q19
- Average earning assets in 1Q20 were up \$723.10 million, or 7.2%, compared to 1Q19
- Proactive liquidity build during March; total primary and secondary liquidity sources of \$4.8 billion
- Stable core funding; noninterest deposits represent 32.9% of total deposits
- Securities portfolio with 4.31 year average duration

INCOME STATEMENT SUMMARY

(Dollars in millions)	QTD						
	1Q20	4Q19	Q/Q Change		1Q19	Y/Y Change	
			Amount	%		Amount	%
Interest Income	\$ 114.10	\$ 116.48	\$ (2.38)	(2.0%)	\$ 113.83	\$ 0.27	0.2%
Interest Expense	24.60	26.52	(1.92)	(7.2%)	26.36	(1.76)	(6.7%)
Net Interest Income	89.50	89.96	(0.46)	(0.5%)	87.47	2.03	2.3%
Provisions for Loan Losses	7.02	3.60	3.42	95.0%	1.44	5.58	387.5%
Net Interest Income after Provision for Loan Losses	82.48	86.36	(3.88)	(4.5%)	86.03	(3.55)	(4.1%)
Noninterest Income	43.20	49.71	(6.51)	(13.1%)	47.16	(3.96)	(8.4%)
Net Gain (Loss) on Investment Securities	5.00	-	5.00	[n/m]	(0.78)	5.78	[n/m]
Total Noninterest Income	48.20	49.71	(1.51)	(3.0%)	46.38	1.82	3.9%
Noninterest Expense	97.04	92.32	4.72	5.1%	91.71	5.33	5.8%
Merger and Acquisition Expense	(0.15)	0.02	(0.17)	[n/m]	0.41	(0.56)	(136.6%)
Total Noninterest Expense	96.89	92.34	4.55	4.9%	92.12	4.77	5.2%
Income Before Income Tax and Noncontrolling Interest	33.79	43.73	(9.94)	(22.7%)	40.29	(6.50)	(16.1%)
Provision for Income Taxes	6.19	7.79	(1.60)	(20.5%)	8.21	(2.02)	(24.6%)
Noncontrolling Interest	1.22	0.87	0.35	40.2%	0.67	0.55	82.1%
Net Income Attributable to TowneBank	\$ 26.38	\$ 35.07	\$ (8.69)	(24.8%)	\$ 31.41	\$ (5.03)	(16.0%)

CURRENT EXPECTED CREDIT LOSS (CECL)

Day-1 cumulative impact of CECL implementation:

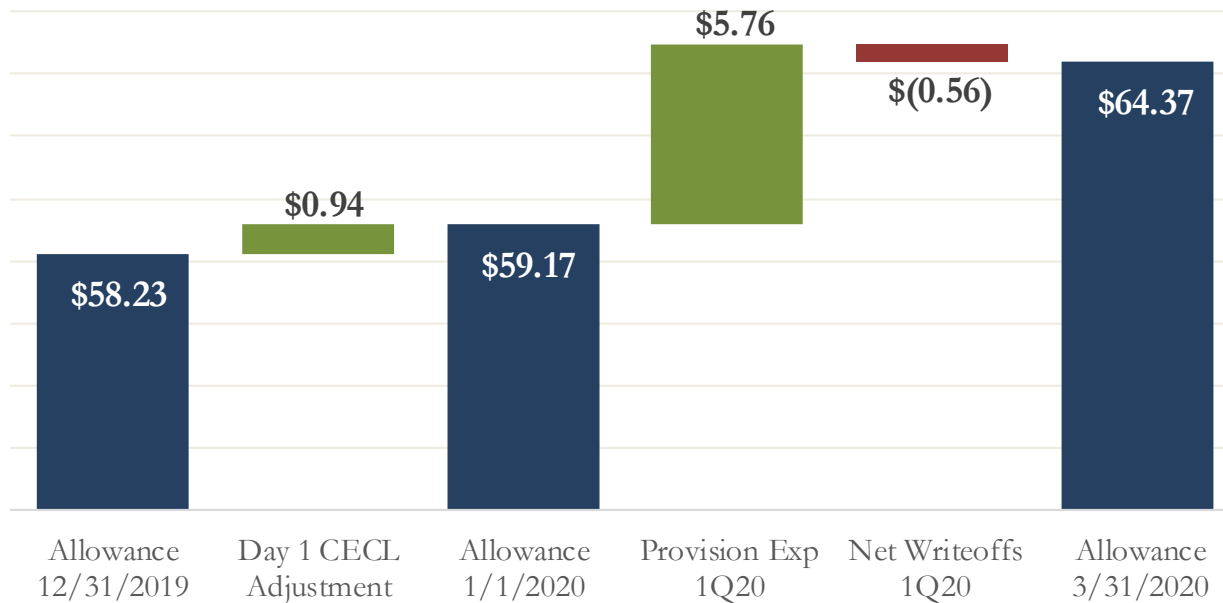
- New CECL Methodology Effective 1/1/2020
- Day-1 cumulative impact of CECL implementation of 8%
 - Net increase from longer duration HELOC, construction and development and unfunded commitments, partially offset by a decrease from commercial real estate, indirect and C&I

Day-2 post implementation impact of CECL:

- Q1 2020 provision for credit losses of \$7.02 million, inclusive of net charge-offs
- Expected loss estimates are subject to change based on continuing review of models and assumptions, portfolio performance, changes in forecasted macroeconomic conditions and loan mix which could result in material additions to the reserve in future periods.

On Balance Sheet Estimated Credit Losses

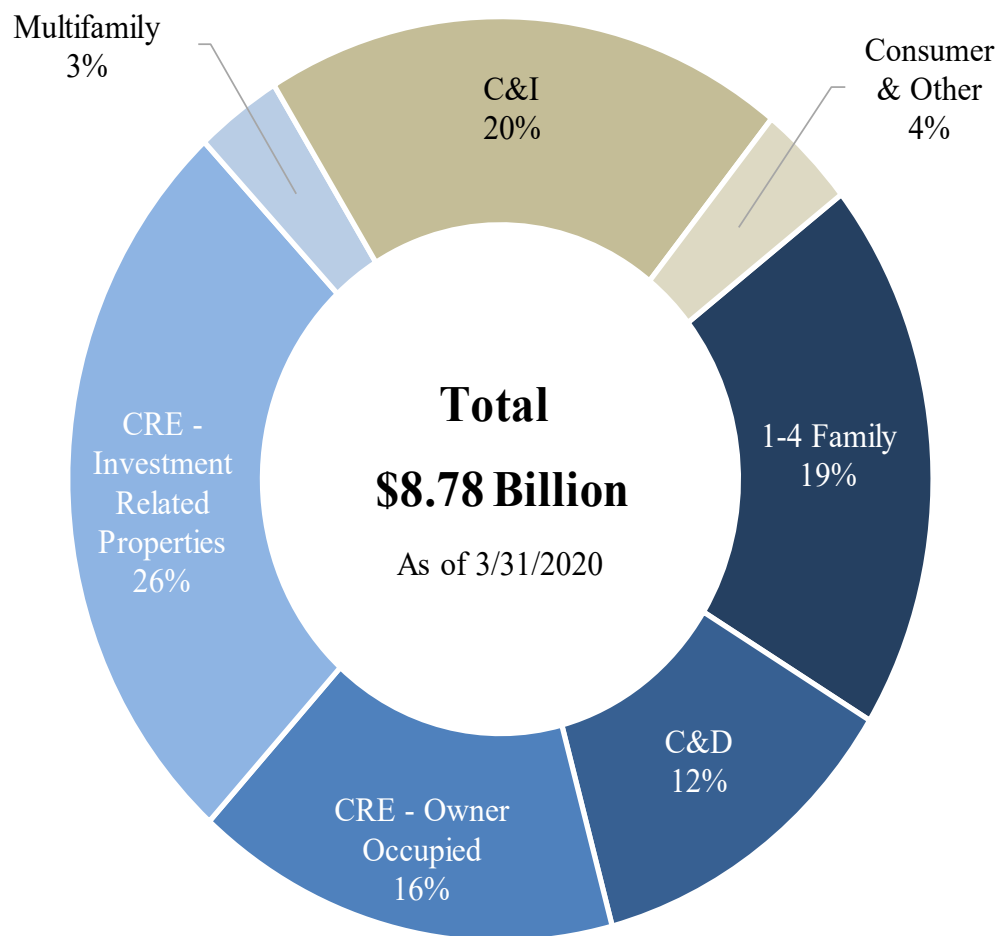
Amounts in millions



Macroeconomic forecast	Weighted Moody's economic scenarios *
Reasonable & supportable forecast period	2 year
Reversion period and approach	4 quarter reversion period with a blended transition approach
Key macroeconomic variables	Price Index GDP Interest Rates Residential Sales Trends

*Baseline scenario as of 3/27/2020; Alternative scenarios as of 3/31/2020

LOAN PORTFOLIO

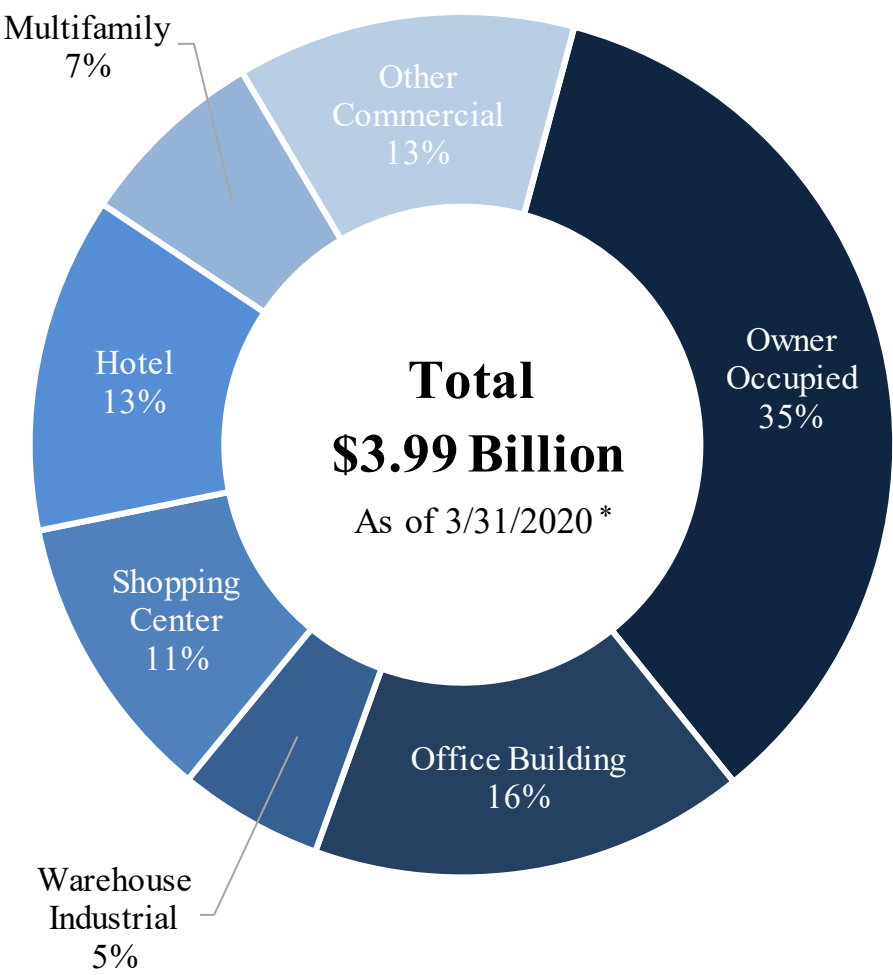


Portfolio Highlights:

- Loans Held for Investment increased \$364.91 million or 4% from 12/31/2019, 17% annualized
- NPAs / Assets of 0.24%
- NCOs / Average Loans of 0.03%
- Outstanding asset quality metrics
- Allowance to NPLs of 3.85x

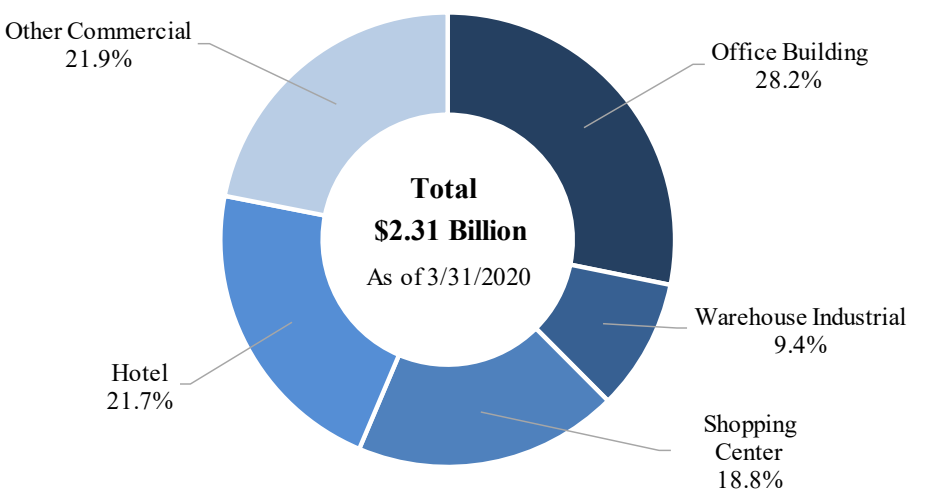
Grouping	Outstanding Balance	% of Total Balance
No Floor	\$ 1,168	40.57%
Floor Reached	1,157	40.19%
0-25 bps to Reach Floor	48	1.67%
26-50 bps to Reach Floor	84	2.92%
51-75 bps to Reach Floor	84	2.92%
76-100 bps to Reach Floor	35	1.21%
101+ bps to Reach Floor	303	10.52%
Total	\$ 2,879	

COMMERCIAL REAL ESTATE

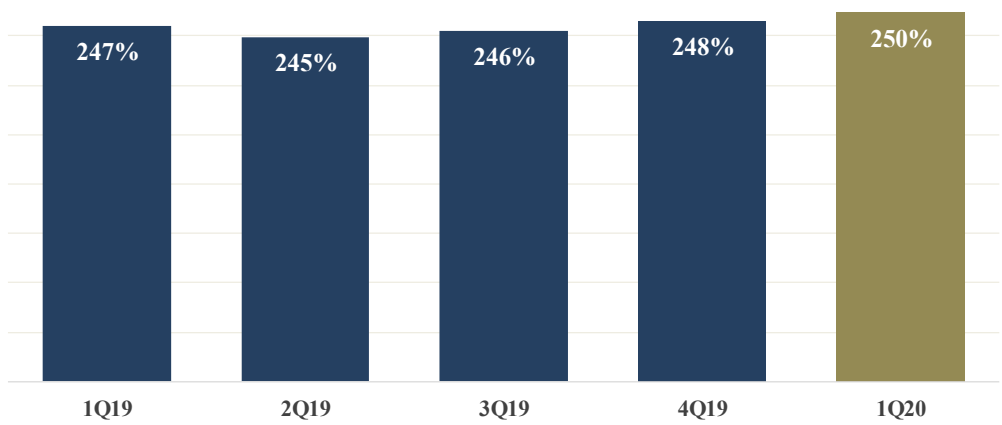


*Excludes C&D loans

Commercial Real Estate (Excluding Owner Occupied)



Commercial Real Estate/ Total Risk-Based Capital



Commercial Portfolio Diversification

Description	Outstanding Balance (in 000's)	
Office Building	\$	1,156,151
Hotel		584,953
Warehouse/Light Industrial		539,681
Shopping Center		453,453
Multi-Family		411,922
Retail Building		224,587
Auto Dealership/Repair		207,757
Self-Storage		183,786
Restaurant		155,467
Church		99,603

Key Observations:

- Our portfolio is well diversified by brand, guarantors, and geography.
- Average hotel loan size \$3.34 million.
- Average restaurants loan size is \$302 thousand.
- Some of these clients have participated in the Paycheck Protection Program.
- Rigorous portfolio management and consistent communication with owner operators.

HOTEL CREDIT EXPOSURE

Ten Largest Hotel Loans (\$ in 000's)			
Ten Largest Hotel Loans Location	Balance at 3/31/2020	Flag	Deferral as of 4/17/2020
VA	\$35,314	Hilton	Yes
VA	\$25,061	Boutique	Yes
VA	\$25,996	Marriott	Yes
VA	\$24,974	Hilton	Yes
MD	\$15,428	Hilton	Yes
VA	\$19,522	Marriott	Yes
NC	\$18,528	Marriott	No
NC	\$18,500	Boutique	Yes
VA	\$17,449	Marriott	Yes
VA	\$16,400	Marriott	No

Key Observations:

- Top hotel exposures are supported by strong guarantors.
- No nonrecourse exposure on hotel portfolio.
- We currently have no significant non-performance, delinquencies or TDRs.
- Hotel loans under construction are on budget and on time, and we are not experiencing any issues with construction supply chain.

LOAN MODIFICATIONS RELATED TO COVID-19

- The CARES Act states that a financial institution may elect to account for eligible loan modifications under section 4013 of the Act. Loan modifications accounted for under section 4013 are not required to be reported as TDRs in regulatory reports.
- Loan modifications detailed below are related to eligible loan modifications in accordance with section 4013 of the CARES Act.

Loan Category (\$ in 000's)	#	Balance	% of Balance	Exposure	% of Exposure
Hotels	113	\$ 594,947	31.84%	\$ 627,002	32.69%
Lessors of Real Estate & Other Activities, Equipment Lessor	461	517,486	27.70%	525,689	27.41%
Restaurants, Caterers, Bars	222	123,457	6.61%	124,701	6.50%
Offices of Physicians & Other Medical Professionals	243	96,304	5.15%	100,094	5.22%
Amusements, Theaters	50	103,906	5.56%	104,117	5.43%
All Others	1,425	432,277	23.14%	436,319	22.75%
Total Modifications ¹	2,514	\$ 1,868,377	100.00%	\$ 1,917,922	100.00%

1. Modifications as of 4/23/2020

OUTLOOK SUMMARY

Due to the current economic uncertainty, we are withdrawing previously issued full-year 2020 performance guidance.

