

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

**FORM 8-K**

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

February 11, 2015  
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 principle 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))

**ITEM 7.01 REGULATION FD DISCLOSURE.**

The attached investor presentation contains information that the members of TowneBank (the “Company”) management will use during visits with investors, analysts, and other interested parties to assist their understanding of the Company at the 2015 Sterne Agee Financial Institutions Investor Conference on February 12, 2015 and February 13, 2015. This presentation is also available under the Presentation link in the Investor Relations section of the Company’s website at <https://townebank.com>.

The presentation is attached as Exhibit 99.1 to this report and is being furnished, not filed, under Item 7.01 of this Form 8-K.

**ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.**

(d) *Exhibits.*

99.1 TowneBank investor presentation

**SIGNATURES**

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

TOWNE BANK  
(Registrant)

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

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

Date: February 11, 2015



# TOWNE BANK

2015 STERNE AGEE FINANCIAL INSTITUTIONS INVESTOR CONFERENCE  
FEBRUARY 11-13, 2015



# Welcome to TowneBank (TOWN)



The Towne story began in my home garage in the summer of 1998 when a small group of long-time friends and banking associates came together to lay the foundation for what was to become TowneBank. With caring as a specific business strategy and a deep-rooted passion for service to others, our defined culture for Towne set us on a course to begin building a great community asset for our hometown community in the Hampton Roads Region of Virginia.

Our initial stock offering was substantially oversubscribed as over 4,000 community shareholders invested over \$50 million in what was the largest capitalization of a new bank in Virginia history. In another first, we actually returned \$13 million to our subscribers and limited any one shareholder to a maximum investment of \$250,000. This extraordinary level of capital coupled with the reputation our bankers enjoyed with the banking regulators allowed the bank to open with 90 hometown bankers and three banking centers located in the cities of Virginia Beach, Chesapeake and Portsmouth. More than a bank, Towne has emerged as a family of companies providing wealth management, insurance, real estate brokerage, residential and vacation property management along with commercial and residential mortgage services.

As a tribute to our early investors and community supporters, Towne now has assets approaching \$6 billion, an enviable record of 15 consecutive years of increased earnings, and has returned over \$79 million in common dividends since our opening on April 8, 1999. Today, our journey continues as we prepare to take our special style of hometown banking to the Richmond, Virginia market with the acquisition of the \$1.1 billion Franklin Financial Corporation (FRNK).

As you review the information contained in this Investor Presentation, please know that we welcome you to join our TowneBank family of investors and supporters as we embark on a new and continued journey as a growth company.

Sincerely,

G. Robert Aston, Jr.  
Chairman and  
Chief Executive Officer



## Forward-Looking Statements

Statements made in this presentation, other than those concerning historical financial information, may be considered forward-looking statements, which speak only as of the date of this presentation and are based on current expectations and involve a number of assumptions. 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. TowneBank's ability to predict results, or the actual effect of future plans or strategies, is inherently uncertain. Factors which could have a material effect on the operations and future prospects of TowneBank include but are not limited to: the businesses of TowneBank and the recently-acquired Franklin Financial Corporation may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected, and expected revenue synergies and cost savings from the merger may not be fully realized or realized within the expected timeframe; 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; the quality and composition of the loan and securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in TowneBank's respective market areas; the implementation of new technologies; the ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; and 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.

## Non-GAAP Financial Measures

This slide presentation contains certain non-GAAP financial measures determined by methods other than in accordance with generally accepted accounting principles. Such non-GAAP financial measures include the following: fully tax-equivalent net interest margin, 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.

# Company Overview

Nasdaq Global Select: TOWN

## Key Considerations

- #2 Market share in Hampton Roads ; Efficient branching strategy
- 36 basis points Cost of Deposits
- Noninterest income represents 40% of Total Revenues
- Franklin transaction creates Richmond platform and 2<sup>nd</sup> largest independent Community Bank headquartered in Virginia
- Attractive valuation

## Corporate Headquarters

Suffolk, Virginia

## Banking Main Office

Portsmouth, Virginia

## Average Deposits per Branch<sup>1</sup>

Virginia	\$157.8 million
North Carolina	\$57.8 million
Total Bank	\$136.3 million

## Balance Sheet<sup>2</sup>

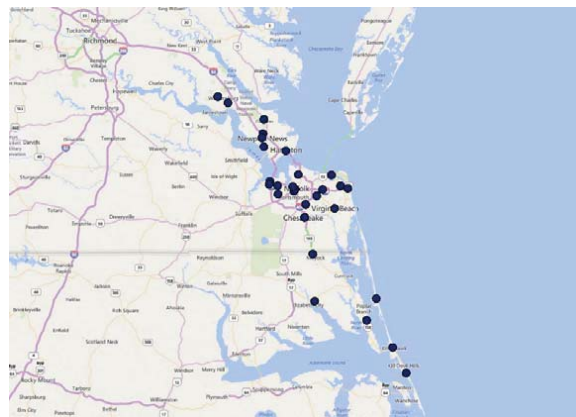
Assets:	\$5.0 billion
Loans:	\$3.4 billion
Deposits:	\$3.8 billion
Total Equity:	\$618.3 million

1) Data as of 6/30/2014 FDIC Summary of Deposits

2) Data as of 12/31/2014

## Virginia Beach-Norfolk-Newport News, VA-NC<sup>1</sup>

Rank	Institution (ST)	Branches	Deposits in Market (\$mm)	Market Share (%)
1	Wells Fargo & Co. (CA)	54	4,405	20.37
2	<b>TowneBank (VA)</b>	<b>26</b>	<b>3,612</b>	<b>16.70</b>
3	SunTrust Banks Inc. (GA)	39	3,496	16.16
4	BB&T Corp. (NC)	51	2,917	13.48
5	Bank of America Corp. (NC)	36	2,343	10.83
6	Monarch Financial Hldgs (VA)	11	774	3.58
7	Old Point Financial Corp. (VA)	20	717	3.32
8	Hampton Roads Bankshares Inc. (VA)	17	622	2.87
9	PNC Financial Services Group (PA)	12	360	1.67
10	Farmers Bankshares Inc. (VA)	5	333	1.54

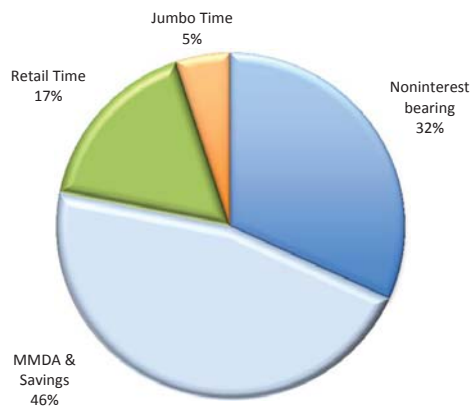


# Key Franchise Differentiator

Strong Core Deposit Franchise – Non-Interest Income

## Deposit Composition at December 31, 2014

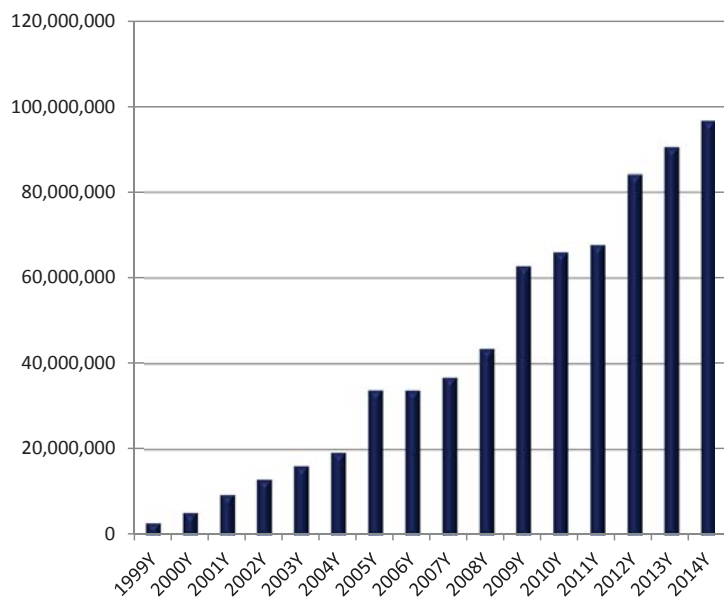
- 32% Noninterest bearing demand deposits
- Loan officer incentive plans linked to deposit goals
- Cost of Deposits 2014 year to date of 0.36%



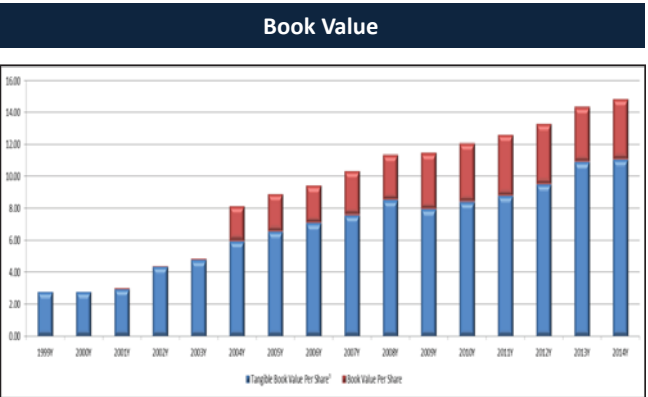
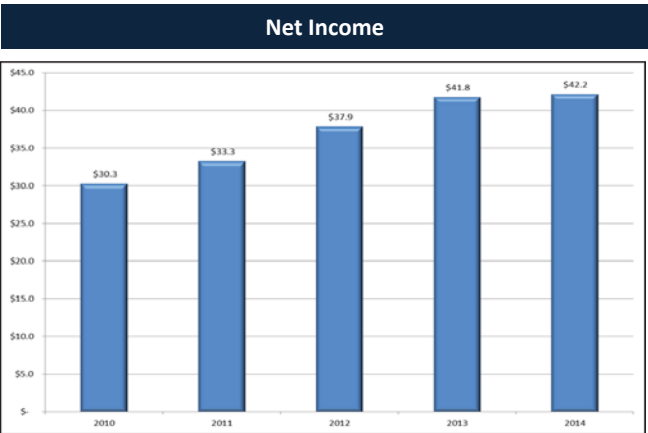
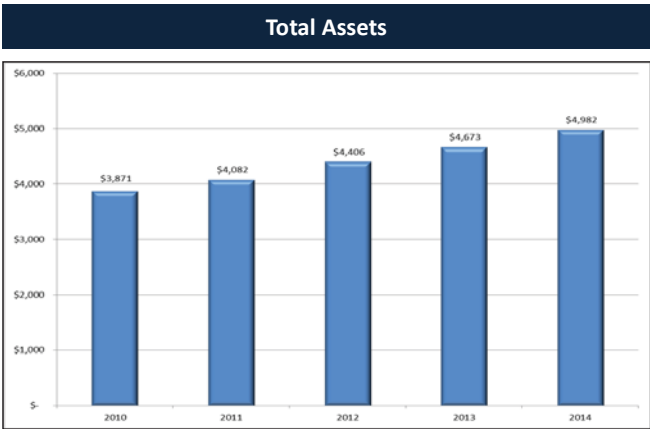
Total Deposits: \$3.8 billion

## Noninterest Income

- 2014 - 40% of Total Revenue
- 2014 – 17% contribution to Net Income from non-bank business lines



# Financial Performance Trends



(1) Non-GAAP financial measure. See appendix for 2014 reconciliation. See reconciliation of Non-GAAP measures in our annual reports form 10-K for prior periods.



# Balance Sheet Summary

<i>(Dollars in Thousands)</i>	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Total Cash & Securities	\$ 1,092,440	\$ 1,111,307	\$1,070,682	\$1,043,646	\$ 975,730
Gross Loans	3,466,333	3,444,566	3,418,613	3,327,107	3,292,810
Loan Loss Reserve	<u>35,917</u>	<u>36,180</u>	<u>35,786</u>	<u>37,543</u>	<u>38,380</u>
Total Net Loans	3,430,416	3,408,386	3,382,827	3,289,564	3,254,430
Other Assets	<u>459,629</u>	<u>452,755</u>	<u>456,334</u>	<u>442,024</u>	<u>442,836</u>
<b>Total Assets</b>	<u><u>\$ 4,982,485</u></u>	<u><u>\$ 4,972,448</u></u>	<u><u>\$4,909,843</u></u>	<u><u>\$4,775,234</u></u>	<u><u>\$ 4,672,997</u></u>
Total Deposits	\$ 3,846,602	\$ 3,849,932	\$3,795,829	\$3,681,709	\$ 3,567,104
FHLB Borrowings	398,181	398,477	394,620	394,855	395,087
Other Debt	31,893	24,594	27,525	31,571	47,659
Total Debt	430,074	423,071	422,145	426,426	442,746
Total Other Liabilities	<u>87,533</u>	<u>36,038</u>	<u>87,057</u>	<u>73,692</u>	<u>77,828</u>
<b>Total Liabilities</b>	<u><u>\$ 4,364,209</u></u>	<u><u>\$ 4,359,040</u></u>	<u><u>\$4,305,031</u></u>	<u><u>\$4,181,828</u></u>	<u><u>\$ 4,087,678</u></u>
<b>Equity (\$000)</b>					
SBLF Preferred Equity	\$ 76,458	\$ 76,458	\$ 76,458	\$ 76,458	\$ 76,458
Common Equity	<u>532,486</u>	<u>527,727</u>	<u>519,536</u>	<u>507,963</u>	<u>499,850</u>
Equity Attributable to Parent Company	608,944	604,185	595,994	584,421	576,308
Noncontrolling Interests	<u>9,332</u>	<u>9,223</u>	<u>8,817</u>	<u>8,986</u>	<u>9,010</u>
<b>Total Equity</b>	<u><u>\$ 618,276</u></u>	<u><u>\$ 613,408</u></u>	<u><u>\$ 604,812</u></u>	<u><u>\$ 593,406</u></u>	<u><u>\$ 585,319</u></u>

# Summary 2014 Earnings

Dollars in Thousands	Twelve Months Ended			Three Months Ended				
	December 31,	December 31,	Y/Y	December 31,	September 30,	December 31,	Linked Quarter	Q/Q
	2014	2013	Δ	2014	2014	2013	Δ	Δ
Net Interest Income	\$145,736	\$143,895	1%	\$37,139	\$36,867	\$36,456	1%	2%
Provision for Loan Losses	492	4,248	(88%)	(1)	996	551	(100%)	(100%)
Total Noninterest Income	96,744	89,916	8%	22,401	26,269	18,711	(15%)	20%
Realized Gain on Securities	(15)	612	(102%)	-	44	66	(100%)	(100%)
Merger and Acquisition Expense	4,280	-	N/M	3,103	1,090	87	185%	3,467%
Other Noninterest Expense	174,584	168,792	3%	45,856	43,064	40,913	6%	12%
Net Income before Taxes	<u>63,109</u>	<u>61,383</u>	3%	<u>10,582</u>	<u>18,030</u>	<u>13,682</u>	(41%)	(23%)
Tax Provision	18,179	17,135	6%	2,798	5,044	3,655	(45%)	(23%)
Effective Tax Rate (%)	28.81%	27.91%	3%	26.44%	27.98%	26.71%	(5%)	(1%)
Net Income	<u>44,930</u>	<u>44,248</u>	2%	<u>7,784</u>	<u>12,986</u>	<u>10,027</u>	(40%)	(22%)
Noncontrolling Interest	2,761	2,486	11%	549	860	353	(36%)	56%
Preferred Dividends	765	4,227	(82%)	191	191	191	0%	0%
Net Income Available to Common	<u>\$ 41,404</u>	<u>\$ 37,535</u>	10%	<u>\$ 7,044</u>	<u>\$ 11,935</u>	<u>\$ 9,483</u>	(41%)	(26%)
Diluted EPS	\$1.18	\$1.14	4%	\$0.20	\$0.34	\$0.27	(41%)	(26%)
Common Dividend	\$0.43	\$0.38	13%	\$0.11	\$0.11	\$0.10	0%	10%
NIM - fully tax equivalent <sup>1</sup>	3.38%	3.61%	(23)bps	3.35%	3.32%	3.53%	3bps	(18)bps
ROA	0.87%	0.93%	(6%)	0.57%	0.97%	0.82%	(41%)	(30%)

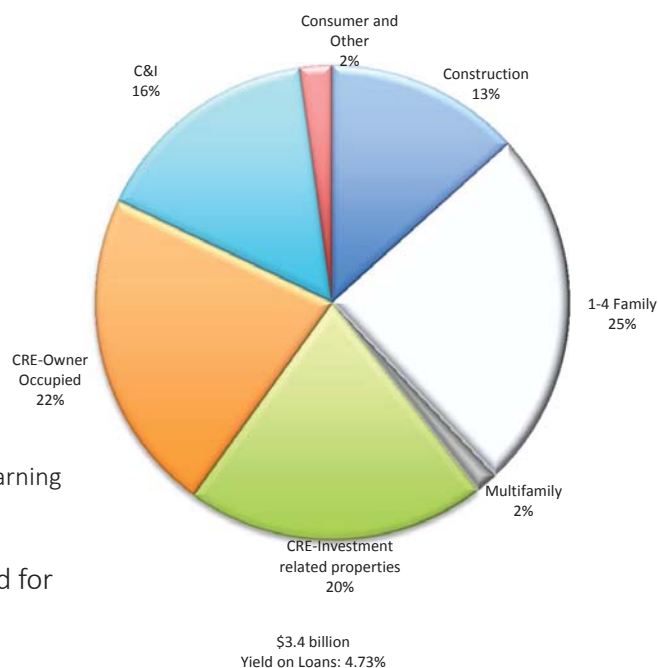
(1) Non-GAAP financial measure. See Appendix for reconciliation.

# Loan Portfolio

High-Quality, Stable Portfolio

- Disciplined growth in 2014 of 5%
  - CRE- Owner Occupied up 11%; Consumer up 55%
  - Portfolio yield\* of 4.73% for 2014
- Improved Asset Quality during 2014
  - 20% decrease in NPAs
  - NPAs / Assets of 0.84% at December 31, 2014
  - Reduced NPLs by 47%; Allowance to NPLs of 5.3x
  - 58 TDR's valued at \$38.4 million are performing and earning interest income
- Top 10 loan relationships represent 9.95% of the held for investment portfolio
- Loan originations\*\* of \$1.2 billion during 2014

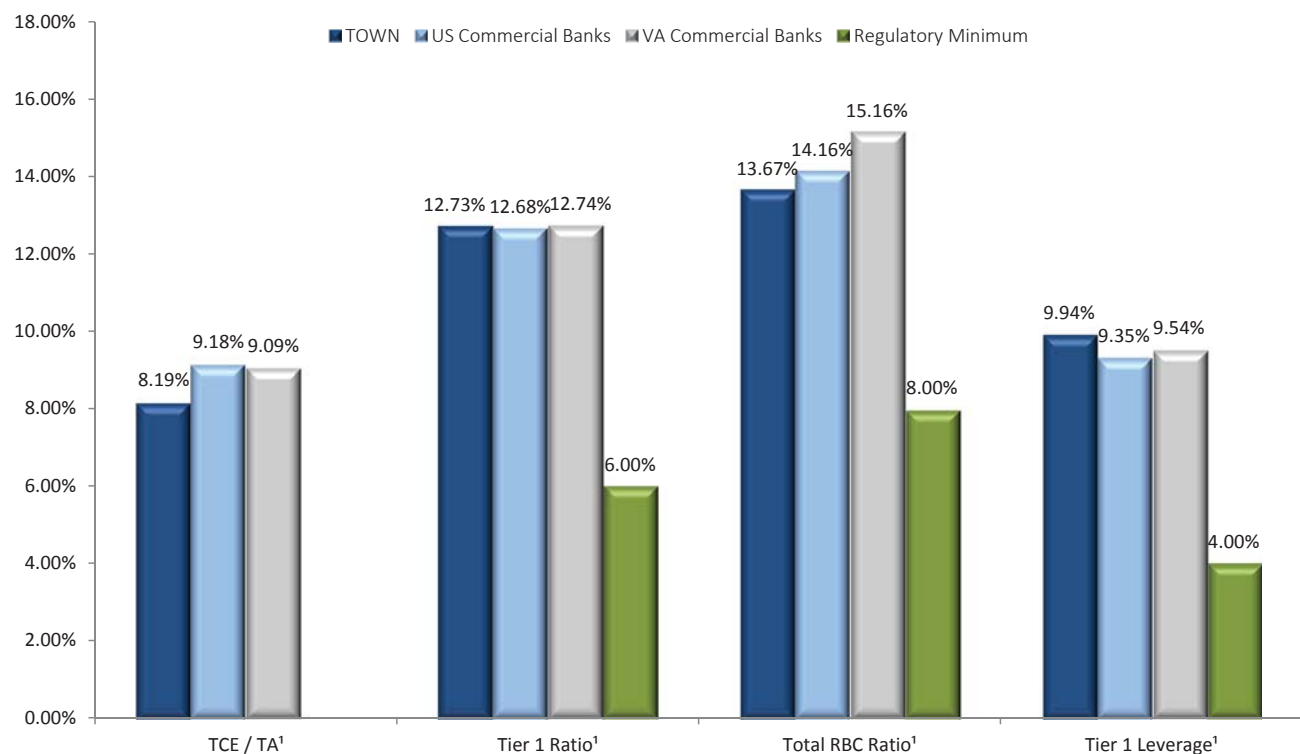
Loan Composition December 31, 2014



\* Excluding nonaccrual loans

\*\* Originations includes new production and advances on existing lines

# Strong Capital Position

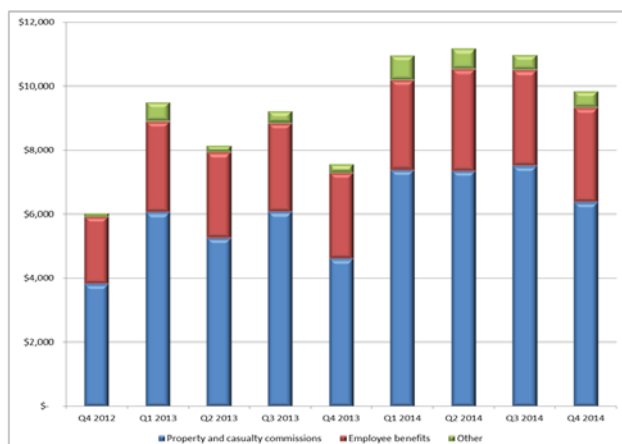


(1) Non-GAAP financial measure. See appendix for reconciliation.

# Towne Financial Services

## Insurance Segment

- 44% growth in Net Income for YTD 2014
- Revenues of \$35 Million up 22% during 2014
- Southern acquisition in May 2014
- Continued emphasis on M&A

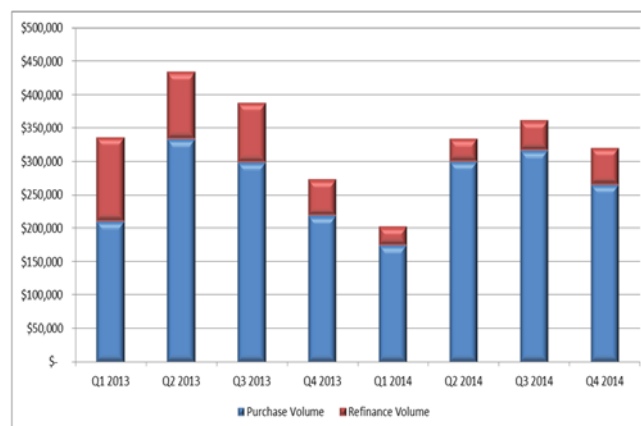


(Dollars in millions)



## Realty Segment

- \$1.2 billion in mortgage originations during 2014
- Improving operational efficiencies; Scaling overhead
- Acquisition of Beach Properties



## Recent M&A Acquisition: Franklin Financial Corporation

---

### Update

- Closed transaction on January 2, 2015
- Completed redemption of outstanding Small Business Lending Fund preferred shares
- Successfully completed systems integration and conversion
- Offering complete array of Towne products and services

### Financial Metrics

- High single-digit EPS dilution for 2015; Accretive to 2016 EPS and beyond
- Slight dilution to TBV earned back in under 2.5 years
- Strong capital post closing, with TCE/TA greater than 10%
- On target to achieve cost save estimates
- 7% mark on Loans and Other Real Estate Owned reduces risk

### Growth

- Local Board
- Building out Loan team with deep Richmond backgrounds – 8 experienced producers
  - 3 New Producers with extensive middle market C&I and private banking experience
  - Relocated CRE producer back to Richmond market
  - Senior Credit Administrator
- Launching brand awareness campaign during Q1 2015

# 2015 Outlook Summary

---

## Loans and Asset Quality

- Targeting high single-digit loan growth
- No significant ALLL releases anticipated
- Stable asset quality and charge-offs

## Profitability

- Stable Net Interest Margin
- Focused expense control
- Drive Efficiency Ratio
- Near term Return on Average Assets range of 1.0% - 1.1%

## Strategic

- Primary focus on organic growth to build out existing markets
- Leverage excess Capital
- Opportunistic M&A

## Attractively Valued Versus Peers

- Using a comparable group of similar asset-size public banks, TOWN is attractively priced
- TOWN has solid asset and capital ratios and better profitability metrics but trades at a discount to peers on a TBV and EPS basis

	Capital Position			LTM Profitability		Asset Quality		Valuation		
	Total Assets (\$)	TCE/TA (%)	Leverage Ratio (%)	ROAA (%)	ROAE (%)	LLR/Gross Loans (%)	NPA <sup>2</sup> /Total Assets (%)	Price/Tang. Book Value (%)	LTM EPS (x)	Market Value (\$)
Peers <sup>1</sup>	4,266	8.28	9.40	0.78	7.79	0.98	1.37	169	18.2	589
TOWN	4,982	8.19	9.94	0.87	6.95	1.06	0.84	132	11.8	772

(1) Comparable peer group consists of UBSH, CARE, YDKN, BNCN, CNFL, FBNC, SSB

(2) Nonperforming assets defined as nonaccrual loans and leases, renegotiated loans and leases, and real estate owned

(3) Pricing data as of 2/2/2015 and financial data as of 12/31/2014

Source: SNL Financial



# Contact Information

---

William B. Littreal  
Chief Investment Relations Officer and COO  
757-638-6813

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

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





# TOWNE BANK

---

## APPENDIX

# Non-GAAP Reconciliations

(Dollars in thousands)

	Quarter Ended December 31, 2014
Total assets	\$ 4,982,485
Less: Goodwill	(113,159)
Less: Intangible assets, net	(22,509)
Tangible asset	\$ 4,846,817
Total shareholders' equity	\$ 608,945
Less: Goodwill	(113,159)
Less: Intangible assets, net	(22,509)
Less: Preferred stock	(76,458)
Tangible common equity	\$ 396,819
Risk-based capital:	
Tier 1	\$ 484,349
Total	\$ 520,266
Risk weighted assets	\$ 3,805,569
Total assets for leverage capital purposes	\$ 4,871,643
Tangible common equity to tangible assets ratio	8.19%
Tier 1 capital ratio	12.73%
Total risk-based capital ratio	13.67%
Tier 1 leverage ratio	9.94%

# Non-GAAP Reconciliations

	Year Ended December 31, 2014	Year Ended December 31, 2013	Quarter Ended December 31, 2014	Quarter Ended September 30, 2014	Quarter Ended December 31, 2013
Net interest margin - tax-equivalent (Non-GAAP)	3.38%	3.61%	3.35%	3.32%	3.53%
<b>Adjustments to net interest margin:</b>					
Income from bank-owned life insurance	(0.07)	(0.07)	(0.10)	(0.06)	(0.10)
Tax-equivalent basis adjustment	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Net interest margin (GAAP)	3.26%	3.49%	3.20%	3.21%	3.38%

	December 31, 2014
Book value (GAAP)	\$ 14.88
Impact of excluding average goodwill and other intangibles and amortization	(3.79)
Tangible book value (Non-GAAP)	\$ 11.09