

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

FORM 8-K

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

December 16, 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 8.01 OTHER EVENTS.

On December 17, 2015, TowneBank and Monarch Financial Holdings, Inc. (“Monarch”) announced the execution of an Agreement and Plan of Reorganization, dated as of December 16, 2015, by and among TowneBank, Monarch and Monarch Bank (the “Bank Subsidiary”), the wholly-owned bank subsidiary of Monarch (the “Merger Agreement”), pursuant to which Monarch and the Bank Subsidiary will merge with and into TowneBank.

A copy of the press release issued jointly by TowneBank and Monarch announcing the execution of the Merger Agreement is included as Exhibit 99.1 to this report and is incorporated herein by reference. In addition, TowneBank will be providing supplemental information regarding the proposed transaction in connection with presentations to analysts and investors. The slides to be used in connection with these presentations are attached hereto as Exhibit 99.2.

Additional Information and Where to Find It

In connection with the proposed merger, TowneBank will file with the Federal Deposit Insurance Corporation (the “FDIC”) a preliminary proxy statement/prospectus and Monarch will file with the Securities and Exchange Commission (the “SEC”) a preliminary proxy statement. TowneBank and Monarch will each deliver a definitive joint proxy statement/prospectus to their respective stockholders seeking approval of the merger and related matters. In addition, each of TowneBank and Monarch may file other relevant documents concerning the proposed merger with the FDIC and SEC.

Investors and stockholders of both companies are urged to read the definitive joint proxy statement/prospectus when it becomes available and any other relevant documents to be filed with the FDIC and SEC in connection with the proposed merger because they will contain important information about TowneBank, Monarch and the proposed transaction. Investors and stockholders may obtain free copies of certain of these documents through the website maintained by the SEC at <http://www.sec.gov>. Free copies of the definitive joint proxy statement/prospectus, when available, also may be obtained by directing a request by telephone or mail to TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23425, Attention: Investor Relations (telephone: (757) 638-6794), or Monarch Financial Holdings, Inc., , 1435 Crossways Blvd, Suite 301, Chesapeake, Virginia 23320, Attention: Investor Relations (telephone: (757) 389-5111), or by accessing TowneBank’s website at <https://townebank.com> under “Investor Relations” or Monarch’s website at <https://www.monarchbank.com> under “Investor Relations.” The information on TowneBank’s and Monarch’s websites is not, and shall not be deemed to be, a part of this report or incorporated into other filings either company makes with the FDIC or SEC.

TowneBank and its directors and executive officers may be deemed to be participants in the solicitation of proxies from the stockholders of TowneBank in connection with the merger. Information about the directors and executive officers of TowneBank is set forth in the proxy statement for TowneBank’s 2015 annual meeting of stockholders filed with the FDIC on April 17, 2015. Additional information regarding the interests of these participants and other persons who may be deemed participants in the merger may be obtained by reading the definitive joint proxy statement/prospectus regarding the merger when it becomes available.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(d) *Exhibits.*

The following exhibits are filed herewith:

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
99.1	Press release issued jointly by TowneBank and Monarch Financial Holdings, Inc. on December 17, 2015.
99.2	Investor Presentation dated December 17, 2015.

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: December 17, 2015

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
99.1	Press release issued jointly by TowneBank and Monarch Financial Holdings, Inc. on December 17, 2015.
99.2	Investor Presentation dated December 17, 2015.



News Release

For more information contact:

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

Brad E. Schwartz, Monarch Financial Holdings, Inc., CEO, (757) 389-5111

FOR IMMEDIATE RELEASE

**TOWNEBANK ANNOUNCES AGREEMENT TO ACQUIRE
MONARCH FINANCIAL HOLDINGS, INC. AND MONARCH BANK**

Suffolk, Va. December 17, 2015 – Hampton Roads based TowneBank (NASDAQ: TOWN) and Monarch Financial Holdings, Inc., the parent company of Monarch Bank (NASDAQ: MNRK), today announced the signing of a definitive merger agreement pursuant to which TowneBank will acquire Monarch creating a \$7.3 billion hometown bank serving Hampton Roads, Richmond and Northeastern North Carolina. On a proforma basis, the combined companies will rank No. 1 in deposit market share with 20.64% of the Hampton Roads market and will be the only community bank in the top 50 largest MSAs in the United States with a No. 1 market share ranking.

“Our Towne family is humbled and excited to join hands with our long-time friends at Monarch,” said G. Robert Aston, Jr., Chairman and CEO of TowneBank. “Since the founding of our two banks in 1998, our companies have been built around the values of “serving others and enriching lives” while striving to build a great community asset that will help our communities grow and prosper.”

“We have known and respected the senior leadership team and employees at Towne Bank for many years and have been impressed by the way they have grown their company into one of the largest and most successful financial institutions in Virginia”, stated Brad E. Schwartz, CEO of Monarch. “This combination of the top two performing community banks in the market gives us a dynamic foundation to serve our commercial, mortgage and consumer customers with even greater convenience, expanded product and service offerings, and additional lending capacity. This merger is a great outcome for our company’s shareholders and positions us well for sustainable success over the long term.”

Based on financials reported on September 30, 2015 the combined companies would have total assets of \$7.3 billion, deposits of \$5.8 billion and loans of \$5.4 billion. Under the terms of the agreement, common shareholders of Monarch will receive 0.8830 shares of TowneBank common stock for each share of Monarch. This implies a deal value per share of \$18.57 or approximately \$220.6 million based on TowneBank’s closing stock price of \$21.03 on Wednesday, December 16, 2015.

Using a 20-day moving average of TowneBank's closing stock price implies a deal value per share of \$19.25 or \$229 million on an average share price of \$21.81. The share price and total deal value will be determined utilizing the conversion ratio of 0.8830 shares of Monarch common stock for each share of Towne Bank common stock at the merger closing date, expected to be in the second quarter of 2016 subject to shareholder and regulatory approvals.

In consideration of the merger, extensive due diligence was performed over a multi-week period. Under the proposed terms, the transaction is expected to be accretive to TowneBank's earnings in 2016 and thereafter. Further it is anticipated that the transaction will be immediately accretive to TowneBank's capital ratios, which already exceed well-capitalized regulatory standards.

Brad E. Schwartz will join Aston on the Towne Corporate Management Group as Senior Executive Vice President and Chief Operating Officer along with TowneBank President and Chief Banking Officer, J. Morgan Davis; William B. Littreal, Senior Executive Vice President and Chief Strategy Officer; and Clyde E. McFarland, Senior Executive Vice President and Chief Financial Officer.

Neal Crawford, Monarch Bank President, will join Towne as President and Chief Executive Officer of Towne Financial Services Group. William T. Morrison, Chief Executive Officer of Monarch Mortgage will become Chairman and Chief Executive Officer of TowneBank Mortgage and Realty Group succeeding Jacqueline B. Amato, currently TowneBank Mortgage CEO, who is planning to retire at the end of the 2016 calendar year.

Monarch Chairman, Jeffrey F. Benson, will join the TowneBank Corporate Board along with Monarch Directors, Elizabeth T. Patterson, Dwight E. Schaubach and Robert M. Oman. Schwartz, Crawford and Morrison will also join the board.

Monarch Directors, Virginia Sancilio Cross, Taylor B. Grissom, Lawton H. Baker and Joe P. Covington will be elected to the Towne Financial Services Group Board of Directors.

An investor presentation outlining the transaction is provided on the TowneBank website at www.townebank.com under "Investor Relations".

Sandler O'Neill + Partners, LP acted as financial advisor to TowneBank and LeClairRyan, A Professional Corporation acted as its legal advisor in the transaction. Raymond James acted as financial advisor to Monarch and Williams Mullen acted as its legal advisor.

About TowneBank

As one of the top community banks in Virginia and North Carolina, TowneBank operates 37 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 Moyock, Grandy, Camden County, Southern Shores, Corolla and Nags Head in North Carolina. Towne also offers a full range of financial services through its controlled divisions and subsidiaries that include Towne Investment Group, Towne Insurance Agency, TFA Benefits, TowneBank Mortgage, TowneBank Commercial Mortgage, Berkshire Hathaway HomeServices Towne Realty, Towne 1031 Exchange, LLC, and Beach Properties of Hilton Head. 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 \$6.17 billion as of September 30, 2015, TowneBank is one of the largest banks headquartered in Virginia.

About Monarch

Monarch Financial Holdings, Inc. is the one-bank holding company for Monarch Bank. Monarch Bank is a community bank with ten banking offices in Chesapeake, Virginia Beach, Norfolk, and Williamsburg, Virginia. Monarch Bank also has loan production offices in Newport News and Richmond, Virginia. OBX Bank, a division of Monarch Bank, operates offices in Kitty Hawk and Nags Head, North Carolina. Monarch Mortgage and our affiliated mortgage companies have over thirty offices with locations in Virginia, North Carolina, Maryland, and South Carolina. Our subsidiaries/ divisions include Monarch Bank, OBX Bank, Monarch Mortgage (secondary mortgage origination), OBX Bank Mortgage (secondary mortgage origination), Coastal Home Mortgage, LLC (secondary mortgage origination), Fitzgerald Financial, LLC (secondary mortgage origination), Advance Mortgage, LLC (secondary mortgage origination), Monarch Bank Private Wealth (investment, trust, planning and private banking), Monarch Investments (investment and insurance solutions), Real Estate Security Agency, LLC (title agency) and Monarch Capital, LLC (commercial mortgage brokerage). The shares of common stock of Monarch Financial Holdings, Inc. are publicly traded on the Nasdaq Capital Market under the symbol "MNRK."

Additional Information and Where to Find It

In connection with the proposed merger, TowneBank will file with the Federal Deposit Insurance Corporation (the "FDIC") a preliminary proxy statement/prospectus and Monarch will file with the Securities and Exchange Commission (the "SEC") a preliminary proxy statement. TowneBank and Monarch will each deliver a definitive joint proxy statement/prospectus to their respective stockholders seeking approval of the merger and related matters. In addition, each of TowneBank and Monarch may file other relevant documents concerning the proposed merger with the FDIC and SEC.

Investors and stockholders of both companies are urged to read the definitive joint proxy statement/prospectus when it becomes available and any other relevant documents to be filed with the FDIC and SEC in connection with the proposed merger because they will contain important information about TowneBank, Monarch and the proposed transaction. Investors and stockholders may obtain free copies of certain of these documents through the website maintained by the SEC at <http://www.sec.gov>. Free copies of the definitive joint proxy statement/prospectus, when available, also may be obtained by directing a request by telephone or mail to TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23425, Attention: Investor Relations (telephone: (757) 638-6794), or Monarch Financial Holdings, Inc., 1435 Crossways Boulevard, Suite 301, Chesapeake, Virginia 23320, Attention: Investor Relations (telephone: (757) 389-5112), or by accessing TowneBank's website at <https://townebank.com> under "Investor Relations" or Monarch's website at <https://www.monarchbank.com> under "Investor Relations." The information on TowneBank's and Monarch's websites is not, and shall not be deemed to be, a part of this release or incorporated into other filings either company makes with the FDIC or SEC.

TowneBank and Monarch, and their respective directors and executive officers, may be deemed to be participants in the solicitation of proxies from the stockholders of TowneBank and/or Monarch in connection with the merger. Information about the directors and executive officers of TowneBank is set forth in the proxy statement for TowneBank's 2015 annual meeting of

stockholders filed with the FDIC on April 17, 2015. Information about the directors and executive officers of Monarch is set forth in the proxy statement for Monarch's 2015 annual meeting of stockholders filed with the SEC on April 2, 2015. Additional information regarding the interests of these participants and other persons who may be deemed participants in the merger may be obtained by reading the definitive joint proxy statement/prospectus regarding the merger when it becomes available.

Forward-Looking Statements

Statements made in this release, other than those concerning historical financial information, may be considered forward-looking statements, which speak only as of the date of this release and are based on current expectations and involve a number of assumptions. These include statements as to the anticipated benefits of the merger, including future financial and operating results, cost savings and enhanced revenues that may be realized from the merger as well as other statements of expectations regarding the merger and any other statements regarding future results or expectations. Each of TowneBank and Monarch 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. The companies' respective abilities 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 each of TowneBank and Monarch, and the resulting company, include but are not limited to: the businesses of TowneBank and Monarch may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; expected revenue synergies and cost savings from the merger may not be fully realized or realized within the expected timeframe; revenues following the merger may be lower than expected; customer and employee relationships and business operations may be disrupted by the merger; the ability to obtain required regulatory and stockholder approvals, and the ability to complete the merger on the expected timeframe may be more difficult, time-consuming or costly than expected; 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 the companies' respective market areas; the companies' respective implementation of new technologies and their ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; and changes in accounting principles, policies and guidelines, and other risk factors detailed from time to time in filings made by TowneBank with the FDIC or Monarch with the SEC. TowneBank and Monarch undertake no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events or otherwise. ###



MONARCH FINANCIAL HOLDINGS, INC.
TO MERGE INTO TOWNEBANK



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. These include statements as to the anticipated benefits of the merger, including future financial and operating results, cost savings and enhanced revenues that may be realized from the merger as well as other statements of expectations regarding the merger and any other statements regarding future results or expectations. 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, and the resulting company after the merger, include but are not limited to: the businesses of TowneBank and Monarch Financial Holdings, Inc. ("Monarch") may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; expected revenue synergies and cost savings from the merger may not be fully realized or realized within the expected timeframe; revenues following the merger may be lower than expected; customer and employee relationships and business operations may be disrupted by the merger; the ability to obtain required regulatory and stockholder approvals, and the ability to complete the merger on the expected timeframe may be more difficult, time-consuming or costly than expected; 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 the companies' respective market areas; the companies' respective implementation of new technologies and their ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; and 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 (the "FDIC"). TowneBank undertakes no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.

In connection with the proposed merger, TowneBank will file with the FDIC a preliminary proxy statement/prospectus. TowneBank will deliver a definitive proxy statement/prospectus to its stockholders seeking approval of the merger and related matters and to Monarch's stockholders in connection with the offer of common stock in connection with the merger. In addition, TowneBank may file other relevant documents concerning the proposed merger with the FDIC. Investors and stockholders are urged to read the definitive joint proxy statement/prospectus when it becomes available and any other relevant documents to be filed with the FDIC in connection with the proposed merger because they will contain important information. Free copies of the definitive joint proxy statement/prospectus, when available, may be obtained by directing a request by telephone or mail to TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23425, Attention: Investor Relations (telephone: (757) 638-6794), or by accessing TowneBank's website at <https://townebank.com> under "Investor Relations." The information on TowneBank's website is not, and shall not be deemed to be, a part of this presentation or incorporated into other filings TowneBank makes with the FDIC.

TowneBank and its directors and executive officers may be deemed to be participants in the solicitation of proxies from the stockholders of TowneBank in connection with the merger. Information about the directors and executive officers of TowneBank is set forth in the proxy statement for TowneBank's 2015 annual meeting of stockholders filed with the FDIC on April 17, 2015. Additional information regarding the interests of these participants and other persons who may be deemed participants in the merger may be obtained by reading the definitive joint proxy statement/prospectus regarding the merger when it becomes available.

Overview of Transaction Terms

Transaction:	<ul style="list-style-type: none"> TowneBank to acquire Monarch Financial Holdings, Inc.
Considerations:	<ul style="list-style-type: none"> 0.8830x shares of TOWN common stock for each share of MNRK common stock; 100% stock
Transaction Value¹:	<ul style="list-style-type: none"> \$18.57 per share or \$220.6 million
Pricing:	<ul style="list-style-type: none"> 17.4x LTM EPS 192% of TBV
Ownership Split:	<ul style="list-style-type: none"> 83% / 17%
Management Team:	<ul style="list-style-type: none"> G. Robert Aston (70), Chairman and CEO (TOWN) J. Morgan Davis (64), President (TOWN) Brad E. Schwartz (52), SEVP & COO (MNRK) William T. Morrison (53), CEO TowneBank Mortgage (MNRK) William B. Littreal (45), SEVP & CSO (TOWN) Clyde E. McFarland, Jr (61), SEVP & CFO (TOWN) E. Neal Crawford, Jr. (53), President TFSG (MNRK)
Board Composition:	<ul style="list-style-type: none"> TOWN to appoint 7 current MNRK Board members to the TOWN Board
Required Approvals:	<ul style="list-style-type: none"> Customary regulatory and shareholder approvals of both TOWN and MNRK
Expected Closing:	<ul style="list-style-type: none"> Q2/Q3 2016

(1) Based on TOWN's closing price of \$21.03 as of 12/16/2015

3

Strategic Rationale

Strategically Compelling

- Combined Company is the 2nd largest community bank in Virginia with approximately \$7.7 billion in assets, \$6.1 billion in deposits and \$5.6 billion in loans
- Combined Company is the only community bank with a #1 deposit market share in one of the 50 largest MSAs in the U.S.¹
 - #1 by deposit market share in the Virginia Beach-Norfolk-Newport News, VA-NC MSA
- Combined non-interest bearing deposits of \$1.7 billion or approximately 30% of total combined deposits
- Supports continued expansion of TOWN's non-interest income business lines (e.g. insurance, mortgage, etc.)

Financially Attractive

- Immediate EPS accretion of approximately 17% in full year 2017
- Low single-digit tangible book value dilution, earned back in approximately 2.5 years
- Strong capital, with TCE/TA greater than 10% post closing, which supports growth and capital management opportunities
- Significant cost savings due to branch and back office overlap
- Monarch Bank's asset-sensitive balance sheet is well-positioned for a rising rate environment (not included in pro forma financial modeling)

Low Risk Profile

- Thorough multi-week due diligence process covering all aspects of MNRK's operations; Credit review included:
 - 1.5% credit mark reduces risk
- Strong familiarity: Members of management teams have known each other for many years
- Close proximity of Companies reduces execution risk
- Many of the MNRK customers are known to TOWN

(1) Largest MSAs by population; for banks with assets less than \$15 billion
Source: SNL Financial

Combined Company to be 2nd Largest Community Bank in Virginia

- Combined Company is firmly established as the largest bank by deposits in the Virginia Beach-Norfolk-Newport News, VA-NC MSA and the second largest independent community bank in Virginia, which is one of the most attractive markets in the U.S.
 - The only community bank with a #1 deposit market share in one of the 50 largest MSAs in the U.S.¹
 - Combined Company is #1 by deposit market share in the Northeastern, NC MSA²
 - 3rd largest community bank in the Richmond, VA MSA by deposit market share

Virginia Beach-Norfolk-Newport News, VA-NC ³

Rank	Institution (ST)	Number of Branches	Deposits in Market (\$mm)	Market Share (%)
1	Pro Forma	27	4,712	20.64
1	Wells Fargo & Co. (CA)	54	\$4,488	19.66
2	TowneBank (VA)	27	3,844	16.84
3	SunTrust Banks Inc. (GA)	39	3,835	16.80
4	BB&T Corp. (NC)	50	2,973	13.03
5	Bank of America Corp. (NC)	36	2,725	11.94
6	Monarch Financial Hldgs (VA)	11	868	3.80
7	Old Point Financial Corp. (VA)	20	726	3.18
8	Hampton Roads Bankshares Inc. (VA)	17	655	2.87
9	Southern BancShares (NC) (NC)	15	474	2.07
10	PNC Financial Services Group (PA)	11	363	1.59

Virginia Deposit Market Share ³

Rank	Institution (ST)	Number of Branches	Deposits in Market (\$mm)	Market Share (%)
1	Wells Fargo & Co. (CA)	290	\$36,737	20.06
2	Bank of America Corp. (NC)	142	27,609	15.08
3	BB&T Corp. (NC)	358	22,794	12.45
4	SunTrust Banks Inc. (GA)	209	18,786	10.26
5	Capital One Financial Corp. (VA)	80	10,649	5.82
6	Union Bkshs Corp (VA)	124	5,795	3.16
	Pro Forma	32	5,208	2.84
7	TowneBank (VA)	32	4,340	2.37
8	United Bankshares Inc. (WV)	61	4,325	2.36
9	Carter Bank & Trust (VA)	88	3,885	2.12
10	PNC Financial Services Group (PA)	100	3,360	1.84
23	Monarch Financial Hldgs (VA)	11	868	0.47

(1) Largest MSAs by population; for banks with assets less than \$15 billion

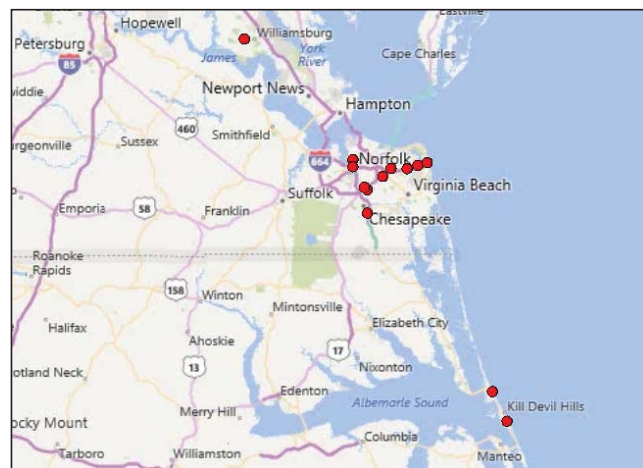
(2) Includes Camden, Currituck and Dare counties

(3) Data as of 6/30/2015 FDIC Summary of Deposits; presented for illustrative purposes only and does not indicate actual results of the combined company

Source: SNL Financial

MNRK – Company Overview

- Headquartered in Chesapeake, VA
- 13 banking offices serving the Hampton Roads area of Southeastern VA and the Outer Banks region of Northeastern NC
- 6th ranked community bank in the Virginia Beach MSA by deposit market share
- Monarch Bank operates at a pre-tax LTM ROAA of 1.87%
 - 3.83% pre-tax LTM ROAA after estimated cost savings
- Demand deposit growth of 33% since December 31, 2012
- High quality deposit franchise
 - Cost of deposits: 0.30%
 - 29% noninterest bearing deposits



Financial Highlights		
	2014	YTD
Total Assets (\$mm)	\$1,067	\$1,122
Capital Ratios		
Tangible Book Value per Share	\$9.10	\$9.69
Tangible Common Equity / Tangible Assets	10.01%	10.28%
Leverage Ratio	11.44%	11.16%
Total RBC Ratio	13.8%	14.1%
Asset Quality Metrics		
Reserves / Loans	0.97%	0.93%
NPA's / Assets	0.52%	0.39%
Profitability and Ratios		
Net Income	\$11.4	\$10.1
Return on Average Assets	1.15%	1.22%
Return on Average Equity	11.17%	12.11%
Net Interest Margin	4.25%	4.25%

Virginia Beach-Norfolk-Newport News, VA-NC ¹

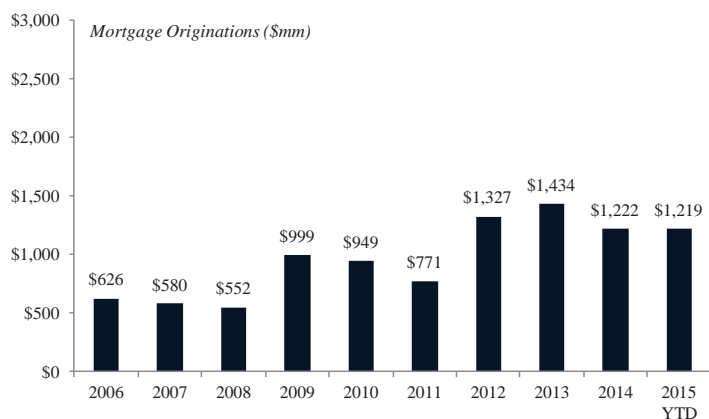
Rank	Institution (ST)	Number of Branches	Deposits in Market (\$mm)	Market Share (%)
1	Wells Fargo & Co. (CA)	54	\$4,488	19.66
2	TowneBank (VA)	27	3,844	16.84
3	SunTrust Banks Inc. (GA)	39	3,835	16.80
4	BB&T Corp. (NC)	50	2,973	13.03
5	Bank of America Corp. (NC)	36	2,725	11.94
6	Monarch Financial Hldgs (VA)	11	868	3.80
7	Old Point Financial Corp. (VA)	20	726	3.18
8	Hampton Roads Bankshares Inc. (VA)	17	655	2.87
9	Southern BancShares (NC) (NC)	15	474	2.07
10	PNC Financial Services Group (PA)	11	363	1.59

(1) Data as of 6/30/2015 FDIC Summary of Deposits
Source: SNL Financial

Mortgage Operations

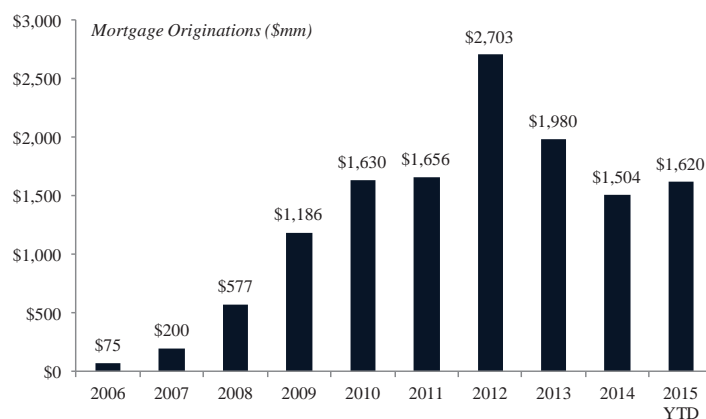
TowneBank Mortgage

- Founded in 1999 and headquartered in Virginia Beach
- TowneBank Mortgage YTD Production as of September 30, 2015
 - Core banking markets - \$775 million
 - Mortgage only markets - \$444 million



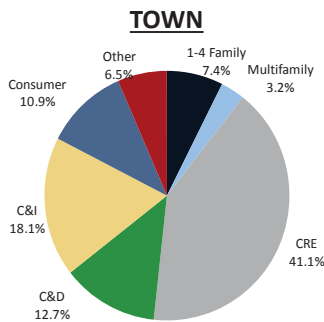
Monarch Mortgage

- Founded in May 2007 and headquartered in Virginia Beach
- Monarch Mortgage YTD Production as of September 30, 2015
 - Core banking markets - \$517 million
 - Mortgage only markets - \$1,103 million

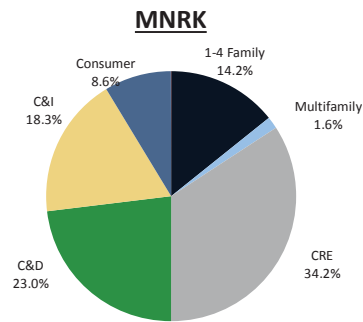


Pro Forma Loans & Deposits

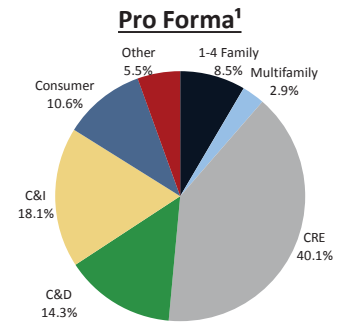
Loan Composition



Yield on Loans: 4.57%

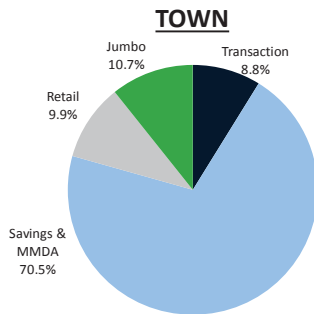


Yield on Loans: 5.03%



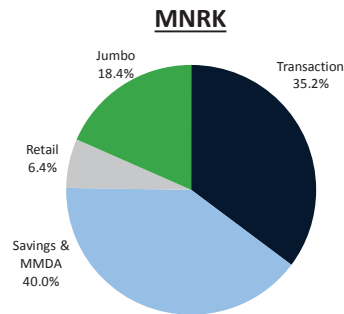
Yield on Loans: 4.64%

Deposit Composition



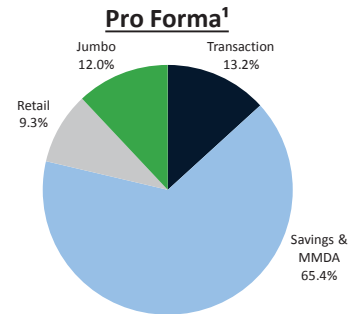
Cost of Deposits: 0.41%

Noninterest-Bearing Deposits: 30.2%



Cost of Deposits: 0.30%

Noninterest-Bearing Deposits: 28.8%



Cost of Deposits: 0.39%

Noninterest-Bearing Deposits: 29.9%

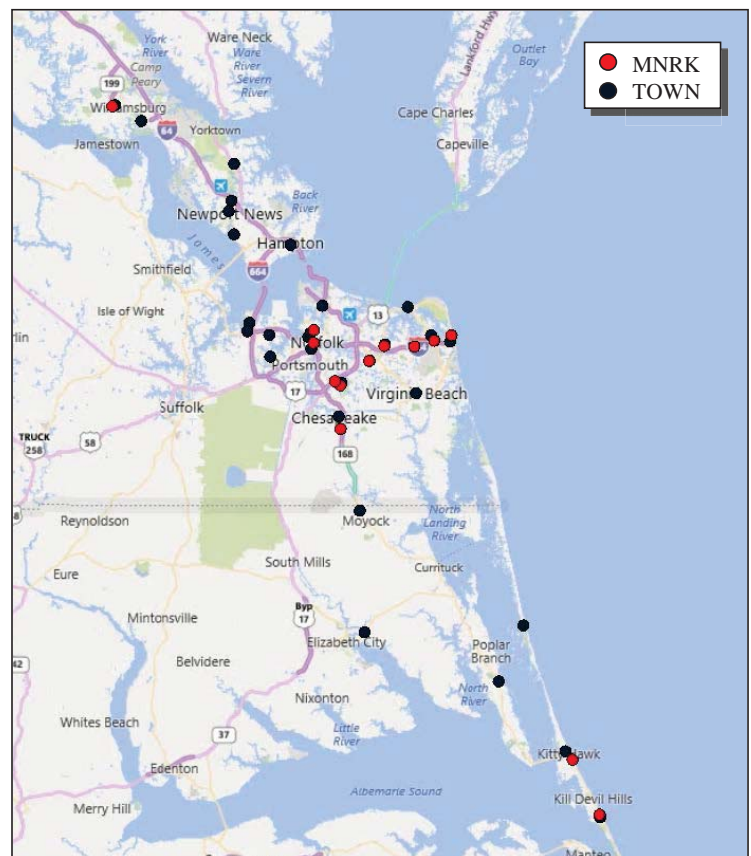
(1) Pro forma loan and deposit composition is preliminary and does not give effect to purchase accounting adjustments; yield on loans is loan-weighted, cost of deposits is deposit-weighted; presented for illustrative purposes only and does not indicate actual results of the combined company
 Note: Data from regulatory and company filings
 Source: SNL Financial

Branch Location Proximity

Market Highlights

- Significant branch overlap enables substantial cost savings
 - 100% of Monarch Bank branches are within 3 miles of a TowneBank branch
 - 69% are within 1 mile of a TowneBank branch
 - 46% are within half a mile of a TowneBank branch
 - Plan to consolidate 13 locations from the combined company

Map of Branch Overlap



Source: SNL Financial

9

Credit Due Diligence

Due Diligence Approach

- Comprehensive credit review performed by TowneBank internal team
 - Experienced senior team with deep knowledge of the Hampton Roads market
 - Extensive familiarity with many of Monarch's significant relationships
 - Reviewed over 500 loan files representing approximately 42% of total loan exposure
 - Reviewed 100% of classified grades
 - Analyzed underwriting methodologies, policies and portfolio management processes
- Estimated credit mark approach consistent with prior partnerships

Estimated Credit Mark by Segment

Loan Type	Monarch Loan Balances	Preliminary Estimated Future Loss (%)	Preliminary Estimated Future Loss (\$)
1-4 Family	\$ 109,499	1.41%	\$ 1,482
1-4 Family HELOC	61,117	4.19%	2,563
1-4 Family Jr lien	3,358	7.15%	240
Construction and development	182,179	0.57%	1,032
Commercial real estate - OO	109,881	2.14%	2,354
Commercial real estate - NOO	160,867	0.68%	1,101
Multifamily	12,305	0.98%	121
Commercial and industrial	144,442	1.98%	2,864
Consumer and other	7,263	1.78%	128
Total Preliminary Estimate	\$ 790,911	1.51%	\$ 11,885

Pro Forma Financial Impact

Assumptions

- Gross credit mark of 1.5%, \$11.9 million
- Core Deposit Intangible of \$10.9 million amortized over 10 years on a sum-of-the-years' digits basis
- One-time merger related expenses of approximately \$21 million (pre-tax)
- Cost savings expected to be 20% of Monarch's total non-interest expense base; 30% excluding Commissions and Incentives
- 25% of Synergies realized in 2016; 100% in 2017
- Revenue synergies identified not included in modeling
- Redeem outstanding Monarch Trust Preferred
- Projected close Q2/Q3

Pro Forma Analysis

- Financial Impact:
 - **Immediate EPS accretion of approximately 17% in full year 2017**
 - **Low single-digit tangible book value dilution, earned back in approximately 2.5 years**
- Approximate Balance Sheet at Close ¹:
 - Assets: \$7.7 billion
 - Loans: \$5.6 billion
 - Deposits: \$6.1 billion
- Capital Ratios at Close ¹:
 - TCE / TA: 10.2%
 - Tier 1 Leverage: 10.6%
 - Tier 1 Capital: 12.3%
 - Total RBC: 12.9%

(1) Presented for illustrative purposes only and does not indicate actual results of the combined company

Transaction Multiples & Contribution Analysis

Transaction Multiples		
	TOWN / MNRK	Comparable Transactions ²
Transaction Price per Share ¹	\$18.57	-
1-Day Market Premium (\$12.16)	52.7%	15.8%
Price / Current Yr. EPS (\$1.10)	16.9x	22.2x
Price / Next Yr. EPS (\$1.14)	16.3x	22.9x
Price / Stated Tangible Book Value (\$9.69)	192%	176%

Contribution Analysis



(1) Based on TOWN's closing price of \$21.03 as of 12/16/2015

(2) Includes nationwide transactions announced between January 1, 2014 and 12/16/2015 with deal values between \$200mm and \$400mm

Benefits to Stakeholders

Customers

- High-touch, exquisite service
- Enhanced product and services offering

Employees

- Both Companies have been recognized as one of the “Best Places to Work” by Inside Business and Virginia Business
- Companies familiarity should ensure smooth integration
- TOWN is an experienced acquirer, having completed 29 financial services acquisitions over the last 16 years

Shareholders

- TOWN has a long track record of superior financial results: recognized by SNL as one of the top 15 consistently high-performing banks since 2003
- Increased shareholder liquidity with pro forma market cap of \$1.3 billion
- Pro forma ROAA of 1.3% and ROATCE of 13.4% in 2017
- Immediate EPS accretion of 15% and low single-digit tangible book value dilution, earned back in approximately 2.5 years
- Strong pro forma capital, with TCE/TA above 10%, supports growth and capital management strategies

Community

- Both companies have a legacy of philanthropic support to their communities
- TOWN and TowneBank Foundation have provided more than \$34 mm in community support since its founding in 1998