

ITEM 2.02 - RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On January 31, 2012, TowneBank issued a press release regarding its results of operations and financial condition for the fourth quarter and year ended December 31, 2011. A copy of the press release announcing the Registrant's results for the fourth quarter and year ended December 31, 2011 is attached hereto as Exhibit 99.1 and incorporated by reference herein.

ITEM 9.01 - FINANCIAL STATEMENTS AND EXHIBITS

Exhibit 99.1: News Release dated January 31, 2012.

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 1, 2012

News Release

FOR IMMEDIATE RELEASE

For more information contact:

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

TOWNEBANK REPORTS RECORD FOURTH QUARTER AND ANNUAL EARNINGS

Suffolk, Va. – Hampton Roads based TowneBank (NASDAQ: TOWN) reported record earnings of \$33.32 million for the year ended December 31, 2011, a 10.06% increase, or \$3.05 million, over the \$30.28 million reported for 2010. Net income available to common shareholders for 2011 increased 9.40% to \$22.89 million after accretion and preferred dividend payments of \$10.43 million. Fully diluted earnings of \$0.79 per share grew 8.22%, as compared to \$0.73 in 2010.

For the fourth quarter, earnings increased 14.69% to a new quarterly high of \$8.99 million up from \$7.84 million in the comparative period of 2010. Net income available to common shareholders increased 24.52% to \$6.85 million after preferred dividend payments of \$2.14 million. Fully diluted earnings per share increased 21.05% to \$0.23 per share compared to \$0.19 per share for the comparative period of 2010.

The Company's results for 2011 include a \$1.86 million one-time reduction in net income available to common shareholders from accelerated accretion charges as a result of the Company's redemption of preferred stock investment held by the Treasury under the Capital Purchase Program on September 22, 2011.

The redemption of the shares came through the approval of TowneBank as a participant in the United States Treasury's Small Business Lending Fund. The \$76.46 million provided under the Small Business Program carries a 5% preferred dividend rate that can be reduced to as little as 1%

based on the growth of the bank's small business loan portfolio.

Due to the significant loan growth experienced to date, the current rate has been reduced to 3.92% for the first quarter of 2012 and will be further reduced to 2.28% for the second quarter.

The lowering of the dividend rate combined with the elimination of \$830,000 in accretion discount experienced in 2011 will serve to increase the income available to common shareholders in future periods.

The Bank's common dividend remained at \$0.32 per share for the year with the common dividend totaling \$9.43 million.

Earnings Highlights

The growth in annual earnings was positively affected by an 11.08% increase in net interest income to \$136.22 million, a \$13.59 million improvement from 2010. The bank's net interest margin on a fully tax equivalent basis increased to 3.94%, up from 3.76% in 2010. The increase reflects the continued favorable repricing of deposit liabilities coupled with the reduction in higher costing borrowings as deposit growth exceeded loan growth allowing us to continue the favorable repositioning of our liabilities. For the fourth quarter of 2011, net interest income increased \$849,000, or 2.54%, compared to the fourth quarter of 2010.

Noninterest income, excluding gains on available for sale securities, increased by \$3.96 million, or 6.59%, to \$64.05 million in 2011. In the fourth quarter of 2011, noninterest income, excluding gains on available for sale securities, increased by \$2.57 million, or 19.19%, compared to the same quarter of 2010. The majority of the improvement in both the annual and quarterly periods is attributable to the acquisition of two property and casualty insurance agencies during 2011. The acquisitions fueled an increase in insurance fees and commissions of \$2.36 million for the annual period and an increase of \$770,000 in the comparative quarterly period.

The bank also recognized a gain on available for sale securities of \$3.68 million for the year as

compared to the \$5.96 million recorded for the same period in 2010 as the bank continues to reposition its securities portfolio while taking advantage of market volatility.

Noninterest expense increased by \$22.08 million, or 17.98%, to \$144.82 million in 2011. In the fourth quarter of 2011, noninterest expense increased by \$6.43 million, or 20.97%, compared to the same quarter of 2010. In comparison to 2010, a significant portion of the increase is due to the December 2010 acquisition of the banking offices of the Bank of Currituck along with the acquisitions of two insurance agencies and the expansion of our mortgage operations in 2011. Additionally, the bank experienced a full year of expenses related to our new Virginia Beach and Suffolk banking centers that opened during 2010. This growth related activity resulted in an incremental increase in noninterest expenses of \$9.82 million in 2011 as compared to the prior year. The bank also incurred several nonrecurring expenses related to an office closure and other professional and administrative costs totaling \$2.04 million in 2011, along with increased OREO related expenses of \$4.87 million in 2011, as the company managed its portfolio of foreclosed properties. Excluding the costs associated with the aforementioned items, noninterest expense increased \$5.43 million, or 4.42%, from the comparative prior year period.

“In 2011, we took advantage of several opportunities to continue the growth of our core businesses and to invest in the future of our company,” stated G. Robert Aston, Chairman and Chief Executive Officer. “While we remain careful in our analysis of potential targets, we will continue to explore possibilities for growth that we believe will be beneficial to our bank and our shareholders.”

Balance Sheet

At December 31, 2011, total bank assets reached \$4.08 billion, an increase of \$210.75 million over 2010. The bank’s loan portfolio ended the period at \$2.79 billion representing an increase of 2.26%, or \$61.84 million, from the prior year, while earning assets increased to \$3.71 billion, a 4.94%, or \$174.87 million, increase over the same period.

The Bank continued to experience strong deposit growth with total deposits increasing 8.00% to \$3.19 billion. Growth in noninterest bearing demand deposits continued to outpace overall deposit

growth, ending the year at \$839.21 million, an 18.86% increase. Noninterest deposits represented 26.30% of total deposits at year-end 2011.

Capital Strength

The bank's total equity at December 31, 2011 climbed to \$520.49 million. Common equity increased 5.46% or \$19.65 million. Additionally, common equity will be positively affected by the mandatory conversion of the Company's 8% Series A Preferred Stock to common stock on September 1, 2013. The balance of the 8% Series A Preferred Stock was \$58.09 million at December 31, 2011. In 2011, the bank paid dividends of \$4.68 million on the 8% Series A Preferred Stock, which reduced net income available to common shareholders. Total risk-based capital remained strong in the face of balance sheet growth during the year as total risk-based capital, Tier 1 capital, and Tier 1 leverage ratios were 14.17%, 12.51% and 10.24%, respectively. All ratios exceed the current regulatory standards for well capitalized status.

Credit Quality

The bank's loan portfolio continued to perform comparatively well during 2011. At December 31, 2011, nonperforming assets totaled \$85.62 million or 2.10% of bank assets as compared to \$77.62 million or 2.01% at December 31, 2010.

However, nonperforming assets decreased for the third consecutive quarter from 2.21% of total assets at September 30, 2011, 2.28% at June 30, 2011, and 2.38% at March 31, 2011.

The provision for loan losses declined 39.72% or \$8.96 million and 80.08% or \$4.27 million compared to the full year and the fourth quarter of 2010, respectively.

Net charge-offs declined 29.26% to \$12.52 million in 2011 compared to \$17.70 million in 2010.

Asset Quality Indicators*(in thousands)*

	<u>12/31/2011</u>	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>
Nonperforming loans	\$55,801	\$62,574	\$65,265	\$70,936	\$57,167
Foreclosed property	29,819	26,553	26,255	23,699	20,452
Total nonperforming assets	<u>\$85,620</u>	<u>\$89,127</u>	<u>\$91,520</u>	<u>\$94,635</u>	<u>\$77,619</u>
Quarterly net loans charged off	\$2,263	\$2,246	\$5,556	\$2,457	\$2,616
Year-to-date net loans charged off	\$12,522	\$10,259	\$8,013	\$2,457	\$17,698

“We are pleased to report these results and remain committed to building a community asset,” added Aston. “I believe our record earnings for the fourth quarter and the full year of 2011 are a reflection of our commitment to providing exceptional service to our members while, at the same time, building greater franchise value for our shareholders.”

As one of the top community banks in Virginia and North Carolina, TowneBank operates 26 banking offices serving Chesapeake, Hampton, Newport News, Norfolk, Portsmouth, Suffolk, Virginia Beach, Williamsburg, James City County and York County in Virginia along with Moyock, Grandy, Camden, Southern Shores, Corolla and Kill Devil Hills 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, Prudential Towne Realty, Towne 1031 Exchange, LLC, and Corolla Classic Vacations. Through its strategic partnership with William E. Wood and Associates, the bank also offers mortgage services in all of their offices in Hampton Roads and Northeastern North Carolina. 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 \$4.08 billion as of December 31, 2011, TowneBank is one of the largest banks headquartered in Virginia.

Forward-Looking Statements:

This release contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. 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 competitive pressures in the banking industry that may increase significantly; changes in the interest rate environment may reduce margins and/or the volumes and values of loans made or held as well as the value of other financial assets held; general economic conditions, either nationally or regionally, 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, may adversely affect our business; costs or difficulties; related to the integration of the business and 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; 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 regards to our market area and its heavy concentration of U. S. military bases and related personnel. We assume no obligation to update information contained in this release.

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Selected Financial Highlights (unaudited)

TOWNEBANK

December 31, 2011

(dollars in thousands)

Three Months Ended December 31,	2011	2010	Increase/ (Decrease)	% Increase/ (Decrease)
Results of Operations:				
Net interest income	\$ 34,277	\$ 33,428	\$ 849	2.54%
Noninterest income (1)	15,970	13,399	2,571	19.19%
Gain on available for sale securities	3	3	-	-
Noninterest expenses	37,104	30,673	6,431	20.97%
Provision for loan losses	1,062	5,330	(4,268)	(80.08%)
Pretax Income	12,092	10,786	1,306	12.11%
Provision for income tax expense	3,105	2,951	154	5.22%
Net income attributable to TowneBank	8,986	7,835	1,151	14.69%
Preferred stock dividends and accretion	2,140	2,337	(197)	(8.43%)
Net income available to common shareholders	6,846	5,498	1,348	24.52%
Net income per common share - basic	0.24	0.19	0.05	26.32%
Net income per common share - diluted	0.23	0.19	0.04	21.05%
Period End Data:				
Total assets	\$ 4,081,770	\$ 3,871,018	\$ 210,752	5.44%
Total assets - tangible	3,966,832	3,762,072	204,760	5.44%
Earning assets (2)	3,712,187	3,537,322	174,865	4.94%
Loans (net of unearned income)	2,793,193	2,731,352	61,841	2.26%
Allowance for loan losses	39,740	38,660	1,080	2.79%
Goodwill and other intangibles	114,938	108,946	5,992	5.50%
Nonperforming assets	85,620	77,619	8,001	10.31%
Noninterest bearing deposits	839,211	706,040	133,171	18.86%
Interest bearing deposits	2,351,576	2,248,474	103,102	4.59%
Total deposits	3,190,787	2,954,514	236,273	8.00%
Total equity	520,489	499,512	20,977	4.20%
Total equity - tangible	405,551	390,566	14,985	3.84%
Common equity	379,686	360,038	19,648	5.46%
Common equity - tangible	264,749	251,092	13,657	5.44%
Book value per common share	13.03	12.46	0.57	4.57%
Book value per common share - tangible	9.08	8.69	0.39	4.49%
Daily Average Balances:				
Total assets	\$ 4,049,883	\$ 3,794,991	\$ 254,892	6.72%
Total assets - tangible	3,934,515	3,697,737	236,778	6.40%
Earning assets (2)	3,660,185	3,465,418	194,767	5.62%
Loans (net of unearned income), excluding nonaccrual loans	2,692,055	2,625,537	66,518	2.53%
Allowance for loan losses	40,958	35,848	5,110	14.25%
Goodwill and other intangibles	115,368	97,254	18,114	18.63%
Noninterest bearing deposits	845,665	706,300	139,365	19.73%
Interest bearing deposits	2,318,090	2,170,358	147,732	6.81%
Total deposits	3,163,755	2,876,658	287,097	9.98%
Total equity	519,288	503,242	16,046	3.19%
Total equity - tangible	403,920	405,989	(2,069)	(0.51%)
Common equity	378,422	363,723	14,699	4.04%
Common equity - tangible	263,054	266,469	(3,415)	(1.28%)
Key Ratios:				
Return on average assets	0.88%	0.82%	0.06%	7.32%
Return on average assets - tangible	0.91%	0.84%	0.07%	8.33%
Return on average equity	6.87%	6.18%	0.69%	11.17%
Return on average equity - tangible	8.83%	7.66%	1.17%	15.27%
Return on average common equity	7.18%	6.00%	1.18%	19.67%
Return on average common equity - tangible	10.33%	8.19%	2.14%	26.13%
Net interest margin-fully tax equivalent (2)(3)	3.94%	4.02%	(0.08%)	(1.99%)
Net interest margin (2)	3.83%	3.91%	(0.08%)	(2.05%)
Average earning assets/total average assets	90.38%	91.32%	(0.94%)	(1.03%)
Average loans/average deposits	85.09%	91.27%	(6.18%)	(6.77%)
Average noninterest deposits/total average deposits	26.73%	24.55%	2.18%	8.88%
Allowance for loan losses/period end loans	1.42%	1.42%	-	-
Nonperforming assets to period end assets	2.10%	2.01%	0.09%	4.47%
Period end equity/period end total assets	12.75%	12.90%	(0.15%)	(1.16%)
Efficiency ratio (1)	73.84%	65.50%	8.34%	12.73%

(1) Excludes gain on available for sale securities

(2) Includes bank-owned life insurance

(3) Presented on a tax-equivalent basis

Selected Financial Highlights (unaudited)

TOWNEBANK

December 31, 2011

(dollars in thousands)

Twelve Months Ended December 31,	2011	2010	Increase/ (Decrease)	% Increase/ (Decrease)
Results of Operations:				
Net interest income	\$ 136,222	\$ 122,635	\$ 13,587	11.08%
Noninterest income (1)	64,051	60,089	3,962	6.59%
Gain on available for sale securities	3,681	5,961	(2,280)	(38.25%)
Noninterest expenses	144,820	122,745	22,075	17.98%
Provision for loan losses	13,602	22,565	(8,963)	(39.72%)
Pretax Income	46,046	42,732	3,314	7.76%
Provision for income tax expense	12,726	12,456	270	2.17%
Net income attributable to TowneBank	33,321	30,276	3,045	10.06%
Preferred stock dividends and accretion	10,434	9,355	1,079	11.53%
Net income available to common shareholders	22,887	20,921	1,966	9.40%
Net income per common share - basic	0.79	0.74	0.05	6.76%
Net income per common share - diluted	0.79	0.73	0.06	8.22%
Period End Data:				
Total assets	\$ 4,081,770	\$ 3,871,018	\$ 210,752	5.44%
Total assets - tangible	3,966,832	3,762,072	204,760	5.44%
Earning assets (2)	3,712,187	3,537,322	174,865	4.94%
Loans (net of unearned income)	2,793,193	2,731,352	61,841	2.26%
Allowance for loan losses	39,740	38,660	1,080	2.79%
Goodwill and other intangibles	114,938	108,946	5,992	5.50%
Nonperforming assets	85,620	77,619	8,001	10.31%
Noninterest bearing deposits	839,211	706,040	133,171	18.86%
Interest bearing deposits	2,351,576	2,248,474	103,102	4.59%
Total deposits	3,190,787	2,954,514	236,273	8.00%
Total equity	520,489	499,512	20,977	4.20%
Total equity - tangible	405,551	390,566	14,985	3.84%
Common equity	379,686	360,038	19,648	5.46%
Common equity - tangible	264,749	251,092	13,657	5.44%
Book value per share	13.03	12.46	0.57	4.57%
Book value per share - tangible	9.08	8.69	0.39	4.49%
Daily Average Balances:				
Total assets	\$ 3,990,783	\$ 3,721,155	\$ 269,628	7.25%
Total assets - tangible	3,877,103	3,622,944	254,159	7.02%
Earning assets (2)	3,604,641	3,392,093	212,548	6.27%
Loans (net of unearned income), excluding nonaccrual loans	2,678,004	2,587,287	90,717	3.51%
Allowance for loan losses	40,928	35,158	5,770	16.41%
Goodwill and other intangibles	113,680	98,211	15,469	15.75%
Noninterest bearing deposits	781,992	649,841	132,151	20.34%
Interest bearing deposits	2,308,099	2,101,692	206,407	9.82%
Total deposits	3,090,091	2,751,532	338,559	12.30%
Total equity	511,724	490,572	21,152	4.31%
Total equity - tangible	398,045	392,361	5,684	1.45%
Common equity	371,950	351,541	20,409	5.81%
Common equity - tangible	258,271	253,331	4,940	1.95%
Key Ratios:				
Return on average assets	0.83%	0.81%	0.02%	2.47%
Return on average assets - tangible	0.86%	0.84%	0.02%	2.38%
Return on average equity	6.51%	6.17%	0.34%	5.51%
Return on average equity - tangible	8.37%	7.72%	0.65%	8.42%
Return on average common equity	6.15%	5.95%	0.20%	3.36%
Return on average common equity - tangible	8.86%	8.26%	0.60%	7.26%
Net interest margin-fully tax equivalent (2)(3)	3.94%	3.76%	0.18%	4.79%
Net interest margin (2)	3.85%	3.68%	0.17%	4.62%
Average earning assets/total average assets	90.32%	91.16%	(0.84%)	(0.92%)
Average loans/average deposits	86.66%	94.03%	(7.37%)	(7.84%)
Average noninterest deposits/total average deposits	25.31%	23.62%	1.69%	7.15%
Allowance for loan losses/period end loans	1.42%	1.42%	-	-
Nonperforming assets to period end assets	2.10%	2.01%	0.09%	4.47%
Period end equity/period end total assets	12.75%	12.90%	(0.15%)	(1.16%)
Efficiency ratio (1)	72.31%	67.18%	5.13%	7.64%

(1) Excludes gain on available for sale securities

(2) Includes bank-owned life insurance

(3) Presented on a tax-equivalent basis