

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

FORM 8-K

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

July 26, 2012

Date of Report (Date of earliest event reported)

TOWNE BANK

(Exact name of registrant as specified in its charter)

<u>Virginia</u>	<u>35095</u>	<u>54-1910608</u>
(State or other jurisdiction of incorporation)	(FDIC Insurance Cert. No.)	(IRS Employer Identification No.)

<u>5716 High Street Portsmouth, Virginia</u>	<u>23703</u>
(Address of principle executive offices)	(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 2.02 - RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On July 26, 2012, TowneBank issued a press release regarding its results of operations and financial condition for the second quarter ended June 30, 2012. A copy of the press release announcing the Registrant's results for the second quarter ended June 30, 2012 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 July 26, 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: July 26, 2012



News Release

FOR IMMEDIATE RELEASE

For more information contact:

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

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

TOWNEBANK REPORTS RECORD SECOND QUARTER EARNINGS

Suffolk, Va. – Hampton Roads based TowneBank (NASDAQ: TOWN) reported record earnings of \$9.53 million for the quarter ended June 30, 2012, a 26.94% increase, or \$2.02 million, over the \$7.51 million reported for the comparative period in 2011. Earnings for the six month year to date period increased 19.96% to \$18.97 million as compared to the \$15.81 million earned in the same period last year.

Net income available to common shareholders increased 53.26% to \$7.93 million after preferred dividend payments of \$1.6 million. Fully diluted earnings per share increased 52.94% to \$0.26 per share compared to \$0.17 per share for the comparative period of 2011.

The Bank's common dividend remained at \$0.08 per share for the quarter with the common dividend totaling \$2.55 million.

Earnings Highlights

The growth in earnings was substantially driven by a \$5.25 million or 33.89% increase in noninterest income. The increase is primarily attributable to continued growth in residential mortgage brokerage income, which increased \$3.71 million or 131.37% from the comparative period in 2011. The increase was driven by the expansion in our mortgage operations, including the November 1, 2011, acquisition of Benchmark, a mortgage company affiliated with TowneBank Mortgage.

Additionally, net interest income increased by 6.34% to \$35.90 million, a \$2.14 million improvement over the second quarter of 2011. The improvement was fueled by the growth in the bank's loan portfolio, which ended the period at \$3.0 billion, representing an increase of 8.73%, or \$241.19 million, from the prior year. The bank's net interest margin on a fully tax equivalent basis increased to 3.99%, up from 3.91% in the same period in 2011, and up from 3.93% in the first quarter of 2012. "For the second consecutive quarter, loan growth has exceeded our expectations. The increase in loan demand is indicative of an improvement in the health of our local businesses and the strengthening of our local economy," said G. Robert Aston, Jr., Chairman and Chief Executive Officer.

Noninterest expense increased by \$4.32 million, or 11.89%, compared to the comparative quarter of 2011, and increased \$7.55 million, or 10.68%, compared to the first six months of 2011. A significant portion of the increase from the comparative periods in 2011 is related to the acquisitions of two insurance agencies and the expansion of our mortgage operations in 2011.

Balance Sheet

At June 30, 2012, total bank assets reached \$4.23 billion, an increase of \$213.27 million over 2011.

The Bank continued to experience strong deposit growth with total deposits increasing 7.45% to \$3.33 billion. Growth in noninterest bearing demand deposits continued to outpace overall deposit growth, ending the quarter at \$922.29 million, an 18.35% increase. Noninterest deposits represented 27.70% of total deposits at June 30, 2012.

Capital Strength

The bank's total equity at June 30, 2012 climbed to \$547.0 million. Common equity increased 9.65% or \$35.70 million, from June 30, 2011. During the first quarter we converted our 8% subordinated notes into common stock, adding \$13.8 million to Tier 1 capital and saving \$1.1 million a year in interest expense. 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 13.44%, 12.29% and 10.76%, 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 the second quarter of 2012. At June 30, 2012, nonperforming assets totaled \$80.89 million, or 1.91%, of bank assets as compared to \$91.52 million, or 2.28%, at June 30, 2011 and \$88.46 million, or 2.13%, at March 31, 2012.

The provision for loan losses decreased 43.70%, or \$3.20 million, compared to the second quarter of 2011, while net charge-offs were \$3.79 million compared to \$5.56 million in the comparative period of 2011 and \$3.80 million in the first quarter of 2012.

Asset Quality Indicators

(in thousands)

	<u>6/30/2012</u>	<u>3/31/2012</u>	<u>12/31/2011</u>	<u>9/30/2011</u>	<u>6/30/2011</u>
Nonperforming loans	\$51,117	\$56,253	\$55,801	\$62,574	\$65,265
Foreclosed property	29,775	32,211	29,819	26,553	26,255
Total nonperforming assets	<u>\$80,892</u>	<u>\$88,464</u>	<u>\$85,620</u>	<u>\$89,127</u>	<u>\$91,520</u>
Quarterly net loans charged off	\$3,787	\$3,803	\$2,263	\$2,246	\$5,556
Year-to-date net loans charged off	\$7,590	\$3,803	\$12,522	\$10,259	\$8,013

"We are pleased to report another quarter of record quarterly earnings," added Aston. "We are particularly encouraged by the improvement in loan growth during the quarter as our bankers continue to win new customers and serve the businesses in our local community."

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 \$4.23 billion as of June 30, 2012, 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.

####

Selected Financial Highlights (unaudited)
TOWNEBANK
June 30, 2012
(dollars in thousands)

Three Months Ended June 30,	2012	2011	Increase/ (Decrease)	% Increase/ (Decrease)
Results of Operations:				
Net interest income	\$ 35,904	\$ 33,763	\$ 2,141	6.34%
Noninterest income (1)	20,743	15,493	5,250	33.89%
Gain on investment securities	1,753	3,629	(1,876)	(51.69%)
Noninterest expenses	40,640	36,321	4,319	11.89%
Provision for loan losses	4,122	7,322	(3,200)	(43.70%)
Income before income tax and noncontrolling interest	13,638	9,242	4,396	47.57%
Provision for income tax expense	3,401	2,613	788	30.16%
Net income	10,237	6,629	3,608	54.43%
Net (income) loss attributable to noncontrolling interest	(709)	877	(1,586)	(180.84%)
Net income attributable to TowneBank	9,528	7,506	2,022	26.94%
Preferred stock dividends and accretion	1,600	2,333	(733)	(31.42%)
Net income available to common shareholders	7,928	5,173	2,755	53.26%
Net income per common share - basic (2)	0.26	0.17	0.09	52.94%
Net income per common share - diluted (2)	0.26	0.17	0.09	52.94%
Period End Data:				
Total assets	\$ 4,230,993	\$ 4,017,719	\$ 213,274	5.31%
Total assets - tangible	4,117,289	3,904,307	212,982	5.46%
Earning assets (3)	3,856,565	3,659,445	197,120	5.39%
Loans (net of unearned income)	3,002,513	2,761,326	241,187	8.73%
Allowance for loan losses	40,370	41,787	(1,417)	(3.39%)
Goodwill and other intangibles	113,704	113,411	293	0.26%
Nonperforming assets	80,892	91,521	(10,629)	(11.61%)
Noninterest bearing deposits	922,294	779,262	143,032	18.35%
Interest bearing deposits	2,407,345	2,319,420	87,925	3.79%
Total deposits	3,329,639	3,098,682	230,957	7.45%
Total equity	546,995	508,719	38,276	7.52%
Total equity - tangible	433,291	395,308	37,983	9.61%
Common equity	405,724	370,027	35,697	9.65%
Common equity - tangible	292,020	256,616	35,404	13.80%
Book value per common share (2)	12.93	12.36	0.57	4.61%
Book value per common share - tangible (2)	9.31	8.57	0.74	8.63%
Daily Average Balances:				
Total assets	\$ 4,128,116	\$ 3,988,736	\$ 139,380	3.49%
Total assets - tangible	4,014,039	3,874,851	139,188	3.59%
Earning assets (3)	3,735,432	3,596,003	139,429	3.88%
Loans (net of unearned income), excluding nonaccrual loans	2,879,798	2,680,352	199,446	7.44%
Allowance for loan losses	40,428	41,053	(625)	(1.52%)
Goodwill and other intangibles	114,078	113,886	192	0.17%
Noninterest bearing deposits	878,114	754,746	123,368	16.35%
Interest bearing deposits	2,357,483	2,313,512	43,971	1.90%
Total deposits	3,235,597	3,068,258	167,339	5.45%
Total equity	544,561	510,262	34,299	6.72%
Total equity - tangible	430,484	396,376	34,108	8.61%
Common equity	403,709	370,590	33,119	8.94%
Common equity - tangible	289,632	256,704	32,928	12.83%
Key Ratios:				
Return on average assets	0.93%	0.75%	0.18%	24.00%
Return on average assets - tangible	0.95%	0.78%	0.17%	21.79%
Return on average equity	7.04%	5.90%	1.14%	19.32%
Return on average equity - tangible	8.90%	7.60%	1.30%	17.11%
Return on average common equity	7.90%	5.60%	2.30%	41.07%
Return on average common equity - tangible	11.01%	8.08%	2.93%	36.26%
Net interest margin-fully tax equivalent (3)(4)	3.99%	3.91%	0.08%	2.05%
Net interest margin (3)	3.91%	3.83%	0.08%	2.09%
Average earning assets/total average assets	90.49%	90.15%	0.34%	0.38%
Average loans/average deposits	89.00%	87.36%	1.64%	1.88%
Average noninterest deposits/total average deposits	27.14%	24.60%	2.54%	10.33%
Allowance for loan losses/period end loans	1.34%	1.51%	(0.17%)	(11.26%)
Nonperforming assets to period end assets	1.91%	2.28%	(0.37%)	(16.23%)
Period end equity/period end total assets	12.93%	12.66%	0.27%	2.13%
Efficiency ratio (1)	71.74%	73.74%	(2.00%)	(2.71%)

(1) Excludes gain on investment securities

(2) Prior period was restated to reflect 3% common stock dividend paid June 12, 2012

(3) Includes bank-owned life insurance

(4) Presented on a tax-equivalent basis

Selected Financial Highlights (unaudited)
TOWNEBANK
June 30, 2012
(dollars in thousands)

Six Months Ended June 30,	2012	2011	Increase/ (Decrease)	% Increase/ (Decrease)
Results of Operations:				
Net interest income	\$ 70,689	\$ 67,859	\$ 2,830	4.17%
Noninterest income (1)	40,515	31,260	9,255	29.61%
Gain on investment securities	2,531	3,681	(1,150)	(31.24%)
Noninterest expenses	78,173	70,627	7,546	10.68%
Provision for loan losses	8,220	11,140	(2,920)	(26.21%)
Income before income tax and noncontrolling interest	27,342	21,033	6,309	30.00%
Provision for income tax expense	7,454	6,011	1,443	24.01%
Net income	19,888	15,022	4,866	32.39%
Net (income) loss attributable to noncontrolling interest	(923)	787	(1,710)	(217.28%)
Net income attributable to TowneBank	18,965	15,809	3,156	19.96%
Preferred stock dividends and accretion	3,517	4,667	(1,150)	(24.64%)
Net income available to common shareholders	15,448	11,142	4,306	38.65%
Net income per common share - basic (2)	0.51	0.37	0.14	37.84%
Net income per common share - diluted (2)	0.50	0.37	0.13	35.14%
Period End Data:				
Total assets	\$ 4,230,993	\$ 4,017,719	\$ 213,274	5.31%
Total assets - tangible	4,117,289	3,904,307	212,982	5.46%
Earning assets (3)	3,856,565	3,659,445	197,120	5.39%
Loans (net of unearned income)	3,002,513	2,761,326	241,187	8.73%
Allowance for loan losses	40,370	41,787	(1,417)	(3.39%)
Goodwill and other intangibles	113,704	113,411	293	0.26%
Nonperforming assets	80,892	91,521	(10,629)	(11.61%)
Noninterest bearing deposits	922,294	779,262	143,032	18.35%
Interest bearing deposits	2,407,345	2,319,420	87,925	3.79%
Total deposits	3,329,639	3,098,682	230,957	7.45%
Total equity	546,995	508,719	38,276	7.52%
Total equity - tangible	433,291	395,308	37,983	9.61%
Common equity	405,724	370,027	35,697	9.65%
Common equity - tangible	292,020	256,616	35,404	13.80%
Book value per common share (2)	12.93	12.36	0.57	4.61%
Book value per common share - tangible (2)	9.31	8.57	0.74	8.63%
Daily Average Balances:				
Total assets	\$ 4,100,637	\$ 3,949,767	\$ 150,870	3.82%
Total assets - tangible	3,986,247	3,836,793	149,454	3.90%
Earning assets (3)	3,709,192	3,563,870	145,322	4.08%
Loans (net of unearned income), excluding nonaccrual loans	2,830,280	2,678,202	152,078	5.68%
Allowance for loan losses	40,144	39,698	446	1.12%
Goodwill and other intangibles	114,389	112,974	1,415	1.25%
Noninterest bearing deposits	854,370	738,036	116,334	15.76%
Interest bearing deposits	2,354,899	2,294,626	60,273	2.63%
Total deposits	3,209,269	3,032,662	176,607	5.82%
Total equity	535,621	507,101	28,520	5.62%
Total equity - tangible	421,232	394,127	27,105	6.88%
Common equity	394,812	367,498	27,314	7.43%
Common equity - tangible	280,422	254,524	25,898	10.18%
Key Ratios:				
Return on average assets	0.93%	0.81%	0.12%	14.81%
Return on average assets - tangible	0.96%	0.83%	0.13%	15.66%
Return on average equity	7.12%	6.29%	0.83%	13.20%
Return on average equity - tangible	9.05%	8.09%	0.96%	11.87%
Return on average common equity	7.87%	6.11%	1.76%	28.81%
Return on average common equity - tangible	11.08%	8.83%	2.25%	25.48%
Net interest margin-fully tax equivalent (3)(4)	3.96%	3.99%	(0.03%)	(0.75%)
Net interest margin (3)	3.88%	3.91%	(0.03%)	(0.77%)
Average earning assets/total average assets	90.45%	90.23%	0.22%	0.24%
Average loans/average deposits	88.19%	88.31%	(0.12%)	(0.14%)
Average noninterest deposits/total average deposits	26.62%	24.34%	2.28%	9.37%
Allowance for loan losses/period end loans	1.34%	1.51%	(0.17%)	(11.26%)
Nonperforming assets to period end assets	1.91%	2.28%	(0.37%)	(16.23%)
Period end equity/period end total assets	12.93%	12.66%	0.27%	2.13%
Efficiency ratio (1)	70.30%	71.25%	(0.95%)	(1.33%)

(1) Excludes gain on investment securities

(2) Prior period was restated to reflect 3% common stock dividend paid June 12, 2012

(3) Includes bank-owned life insurance

(4) Presented on a tax-equivalent basis