

**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, 2013

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, 2013, TowneBank issued a press release regarding its results of operations and financial condition for the second quarter ended June 30, 2013. A copy of the press release announcing the Registrant's results for the second quarter ended June 30, 2013 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, 2013.

## **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, 2013



## *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 SECOND QUARTER EARNINGS *EARNINGS PER SHARE UP 19% OVER 2012***

**Suffolk, Va.** – Hampton Roads based TowneBank (the “Bank”) (NASDAQ: TOWN) reported record earnings of \$11.20 million for the quarter ended June 30, 2013, a 17.54% increase, or \$1.67 million, over the \$9.53 million reported for the comparative period in 2012. Earnings for the year-to-date period increased 14.26% to \$21.67 million as compared to the \$18.97 million earned in the same period last year.

Net income available to common shareholders increased 24.31% to \$9.86 million after preferred dividend payments of \$1.34 million. Fully diluted earnings per share increased 19.23% to \$0.31 per share compared to \$0.26 per share for the comparative period of 2012. For the six-month period ended June 30, 2013, fully diluted earnings per share increased 22.0% to \$0.61 from \$0.50 in the comparative prior year period.

The Bank’s common dividend was \$0.09 per share for the quarter with the common dividend totaling \$2.89 million. The current dividend represents an increase of 12.5% over the dividend paid during the same quarter of 2012.

### **Earnings Highlights**

Net interest income increased to \$36.08 million, a \$173,000, a slight improvement over the second quarter of 2012. The increase in net interest income was driven by a combination of the growth in the Bank’s earning assets and the continued reduction in funding costs. The Bank’s

net interest margin on a fully tax equivalent basis decreased to 3.67%, down from 3.99% in the same period in 2012, and 3.72% in the first quarter of 2013. The declines in net interest margin are primarily due to yield declines on earning assets and are consistent with the continued low interest rate environment.

Noninterest income, excluding gains or losses on investment securities, increased by \$3.72 million, or 17.93%, to \$24.46 million for the second quarter of 2013, compared to the second quarter of 2012. The majority of the increase is attributable to residential mortgage brokerage income, which increased \$2.39 million or 36.63% from the comparative period in 2012 and insurance commissions, which increased \$819,000, or 13.61%, from the comparative period in 2012. The increase in residential mortgage brokerage income was due to the continued expansion of our mortgage operations, while the increase in insurance commissions is largely due to the acquisition of an insurance agency in December 2012.

Noninterest expense increased by \$3.18 million, or 7.82%, compared to the comparative quarter of 2012, and increased \$3.22 million, or 7.93%, compared to the first quarter of 2013. A significant portion of the increase from the comparative period in 2012 is related to expansions of our mortgage operations and the December 2012 insurance agency acquisition.

### **Balance Sheet**

At June 30, 2013, total Bank assets reached \$4.60 billion, an increase of \$364.09 million, or 8.61%, over 2012. The Bank's loan portfolio ended the period at \$3.18 billion representing an increase of 5.91%, or \$177.60 million, from the prior year, while earning assets increased to \$4.23 billion, a 9.68%, or \$373.44 million, increase over June 30, 2012. Loan growth has moderated during the current year as loans increased \$46.60 million, or 1.49%, since December 31, 2012.

Total deposits increased to \$3.51 billion, up \$180.43 million, or 5.42%, from June 30, 2012. The Bank saw continued growth in noninterest bearing demand deposits, which ended the quarter at \$1.08 billion, a 16.76% increase from June 30, 2012. Noninterest deposits represented 30.68% of total deposits at June 30, 2013. Retail deposits, excluding noncore CDARS and brokered

deposits, increased by \$221.39 million, or 7.18%, while noncore CDARS and brokered deposits decreased by \$40.96 million, or 16.61%.

### **Capital Strength**

The Bank's total equity at June 30, 2013 rose to \$571.39 million, an increase of \$24.39 million, or 4.46%, from June 30, 2012. Common equity increased 5.89%, or \$23.91 million, and will be positively affected by the Bank's intention to enact a mandatory conversion of the Bank's 8% Series A Preferred Stock to common stock on September 1, 2013. The balance of the 8% Series A Preferred Stock was \$57.38 million at June 30, 2013. Total risk-based capital remained strong as total risk-based capital, Tier 1 capital, and Tier 1 leverage ratios were 13.95%, 12.85% and 10.54%, respectively. All ratios exceed the current regulatory standards for well capitalized status.

### **Credit Quality**

The Bank's asset quality continued to improve as nonperforming assets totaled \$59.34 million, or 1.29%, of Bank assets at June 30, 2013, as compared to \$80.89 million, or 1.91%, at June 30, 2012, and \$64.01 million, or 1.46%, at March 31, 2013. At June 30, 2013, nonperforming loans decreased to \$11.75 million, or 0.37% of total period-end loans, from \$51.12 million, or 1.70%, at June 30, 2012, and \$17.39 million, or 0.55%, at March 31, 2013.

As a result of consistent improvements in credit quality, combined with a reduction in historical loss ratios and healthier economic conditions, a negative provision for loan losses of \$202,000 was recorded in the second quarter 2013. The provision for loan losses decreased \$4.32 million compared to the second quarter of 2012 and \$3.77 million compared to the linked quarter. Net charge-offs were \$1.41 million compared to \$3.79 million in the comparative period of 2012 and \$3.35 million in the linked quarter. The decreases in net charge-offs from the prior quarter and second quarter of last year were driven primarily by lower commercial real estate and construction and development loan charge-offs.

**Asset Quality Indicators***(in thousands)*

	<u>6/30/2013</u>	<u>3/31/2013</u>	<u>12/31/2012</u>	<u>9/30/2012</u>	<u>6/30/2012</u>
Nonperforming loans	\$11,746	\$17,389	\$40,691	\$51,519	\$51,117
Foreclosed property	<u>47,596</u>	<u>46,622</u>	<u>30,297</u>	<u>30,910</u>	<u>29,775</u>
Total nonperforming assets	<u>\$59,342</u>	<u>\$64,011</u>	<u>\$70,988</u>	<u>\$82,429</u>	<u>\$80,892</u>
Quarterly net loans charged off	\$1,410	\$3,349	\$1,868	\$6,010	\$3,787
Year-to-date net loans charged off	\$4,759	\$3,349	\$15,468	\$13,600	\$7,590

“We are pleased to report another solid quarter of financial performance. We were particularly pleased with the 19% increase in earnings per share to \$0.31 per share,” said G. Robert Aston, Jr., Chairman and Chief Executive Officer. “I am proud of the efforts of our staff members and directors as they strive every day to provide exquisite service to our clients, our members, and our 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 \$4.60 billion as of June 30, 2013, 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, 2013**

**(dollars in thousands)**

<b>Three Months Ended June 30,</b>	<b>2013</b>	<b>2012</b>	<b>Increase/ (Decrease)</b>	<b>% Increase/ (Decrease)</b>
<b>Results of Operations:</b>				
Net interest income	\$ 36,077	\$ 35,904	\$ 173	0.48%
Noninterest income (1)	24,463	20,743	3,720	17.93%
Gain (loss) on investment securities	(208)	1,753	(1,961)	(111.87%)
Noninterest expenses	43,817	40,640	3,177	7.82%
Provision for loan losses	(202)	4,122	(4,324)	(104.90%)
Income before income tax and noncontrolling interest	16,717	13,638	3,079	22.58%
Provision for income tax expense	4,707	3,401	1,306	38.40%
Net income	12,010	10,237	1,773	17.32%
Net income attributable to noncontrolling interest	(811)	(709)	(102)	(14.39%)
Net income attributable to TowneBank	11,199	9,528	1,671	17.54%
Preferred stock dividends	1,344	1,600	(256)	(16.00%)
Net income available to common shareholders	9,855	7,928	1,927	24.31%
Net income per common share - basic	0.32	0.26	0.06	23.08%
Net income per common share - diluted	0.31	0.26	0.05	19.23%
<b>Period End Data:</b>				
Total assets	\$ 4,595,087	\$ 4,230,993	\$ 364,094	8.61%
Total assets - tangible	4,477,114	4,117,289	359,825	8.74%
Earning assets (2)	4,230,005	3,856,565	373,440	9.68%
Loans (net of unearned income)	3,180,110	3,002,513	177,597	5.91%
Allowance for loan losses	39,037	40,370	(1,333)	(3.30%)
Goodwill and other intangibles	117,973	113,704	4,269	3.75%
Nonperforming assets	59,342	80,892	(21,550)	(26.64%)
Noninterest bearing deposits	1,076,898	922,294	154,604	16.76%
Interest bearing deposits	2,433,169	2,407,345	25,824	1.07%
Total deposits	3,510,067	3,329,639	180,428	5.42%
Total equity	571,388	546,995	24,393	4.46%
Total equity - tangible	453,415	433,291	20,124	4.64%
Common equity	429,636	405,724	23,912	5.89%
Common equity - tangible	311,663	292,020	19,643	6.73%
Book value per common share	13.61	12.93	0.68	5.26%
Book value per common share - tangible	9.87	9.31	0.56	6.02%
<b>Daily Average Balances:</b>				
Total assets	\$ 4,439,414	\$ 4,128,116	\$ 311,298	7.54%
Total assets - tangible	4,321,112	4,014,039	307,073	7.65%
Earning assets (2)	4,064,556	3,735,432	329,124	8.81%
Loans (net of unearned income), excluding nonaccrual loans	3,150,527	2,879,798	270,729	9.40%
Allowance for loan losses	40,127	40,428	(301)	(0.74%)
Goodwill and other intangibles	118,302	114,078	4,224	3.70%
Noninterest bearing deposits	1,023,045	878,114	144,931	16.50%
Interest bearing deposits	2,354,032	2,357,483	(3,451)	(0.15%)
Total deposits	3,377,077	3,235,597	141,480	4.37%
Total equity	571,955	544,561	27,394	5.03%
Total equity - tangible	453,653	430,484	23,169	5.38%
Common equity	430,652	403,709	26,943	6.67%
Common equity - tangible	312,350	289,632	22,718	7.84%
<b>Key Ratios:</b>				
Return on average assets	1.01%	0.93%	0.08%	8.60%
Return on average assets - tangible	1.04%	0.95%	0.09%	9.47%
Return on average equity	7.85%	7.04%	0.81%	11.51%
Return on average equity - tangible	9.90%	8.90%	1.00%	11.24%
Return on average common equity	9.18%	7.90%	1.28%	16.20%
Return on average common equity - tangible	12.66%	11.01%	1.65%	14.99%
Net interest margin-fully tax equivalent (2)(3)	3.67%	3.99%	(0.32%)	(8.02%)
Net interest margin (2)	3.60%	3.91%	(0.31%)	(7.93%)
Average earning assets/total average assets	91.56%	90.49%	1.07%	1.18%
Average loans/average deposits	93.29%	89.00%	4.29%	4.82%
Average noninterest deposits/total average deposits	30.29%	27.14%	3.15%	11.61%
Allowance for loan losses/period end loans	1.23%	1.34%	(0.11%)	(8.21%)
Nonperforming assets to period end assets	1.29%	1.91%	(0.62%)	(32.46%)
Period end equity/period end total assets	12.43%	12.93%	(0.50%)	(3.87%)
Efficiency ratio (1)	72.38%	71.74%	0.64%	0.89%

(1) Excludes gain on investment securities

(2) Includes bank-owned life insurance

(3) Presented on a tax-equivalent basis



**Selected Financial Highlights (unaudited)**

**TOWNEBANK**

**June 30, 2013**

**(dollars in thousands)**

<b>Six Months Ended June 30,</b>	<b>2013</b>	<b>2012</b>	<b>Increase/ (Decrease)</b>	<b>% Increase/ (Decrease)</b>
<b>Results of Operations:</b>				
Net interest income	\$ 71,287	\$ 70,689	\$ 598	0.85%
Noninterest income (1)	48,218	40,515	7,703	19.01%
Gain on investment securities	396	2,531	(2,135)	(84.35%)
Noninterest expenses	84,414	78,173	6,241	7.98%
Provision for loan losses	3,369	8,220	(4,851)	(59.01%)
Income before income tax and noncontrolling interest	32,118	27,342	4,776	17.47%
Provision for income tax expense	9,073	7,454	1,619	21.72%
Net income	23,045	19,888	3,157	15.87%
Net income attributable to noncontrolling interest	(1,375)	(923)	(452)	(48.97%)
Net income attributable to TowneBank	21,670	18,965	2,705	14.26%
Preferred stock dividends	2,696	3,517	(821)	(23.34%)
Net income available to common shareholders	18,974	15,448	3,526	22.82%
Net income per common share - basic	0.61	0.51	0.10	19.61%
Net income per common share - diluted	0.61	0.50	0.11	22.00%
<b>Period End Data:</b>				
Total assets	\$ 4,595,087	\$ 4,230,993	\$ 364,094	8.61%
Total assets - tangible	4,477,114	4,117,289	359,825	8.74%
Earning assets (2)	4,230,005	3,856,565	373,440	9.68%
Loans (net of unearned income)	3,180,110	3,002,513	177,597	5.91%
Allowance for loan losses	39,037	40,370	(1,333)	(3.30%)
Goodwill and other intangibles	117,973	113,704	4,269	3.75%
Nonperforming assets	59,342	80,892	(21,550)	(26.64%)
Noninterest bearing deposits	1,076,898	922,294	154,604	16.76%
Interest bearing deposits	2,433,169	2,407,345	25,824	1.07%
Total deposits	3,510,067	3,329,639	180,428	5.42%
Total equity	571,388	546,995	24,393	4.46%
Total equity - tangible	453,415	433,291	20,124	4.64%
Common equity	429,636	405,724	23,912	5.89%
Common equity - tangible	311,663	292,020	19,643	6.73%
Book value per common share	13.61	12.93	0.68	5.26%
Book value per common share - tangible	9.87	9.31	0.56	6.02%
<b>Daily Average Balances:</b>				
Total assets	\$ 4,392,022	\$ 4,100,637	\$ 291,385	7.11%
Total assets - tangible	4,273,464	3,986,247	287,217	7.21%
Earning assets (2)	4,014,059	3,709,192	304,867	8.22%
Loans (net of unearned income), excluding nonaccrual loans	3,126,525	2,830,280	296,245	10.47%
Allowance for loan losses	40,465	40,144	321	0.80%
Goodwill and other intangibles	118,558	114,389	4,169	3.64%
Noninterest bearing deposits	987,648	854,370	133,278	15.60%
Interest bearing deposits	2,358,406	2,354,899	3,507	0.15%
Total deposits	3,346,054	3,209,269	136,785	4.26%
Total equity	568,930	535,621	33,309	6.22%
Total equity - tangible	450,372	421,232	29,140	6.92%
Common equity	427,788	394,812	32,976	8.35%
Common equity - tangible	309,230	280,422	28,808	10.27%
<b>Key Ratios:</b>				
Return on average assets	0.99%	0.93%	0.06%	6.45%
Return on average assets - tangible	1.02%	0.96%	0.06%	6.25%
Return on average equity	7.68%	7.12%	0.56%	7.87%
Return on average equity - tangible	9.70%	9.05%	0.65%	7.18%
Return on average common equity	8.94%	7.87%	1.07%	13.60%
Return on average common equity - tangible	12.37%	11.08%	1.29%	11.64%
Net interest margin-fully tax equivalent (2)(3)	3.69%	3.96%	(0.27%)	(6.82%)
Net interest margin (2)	3.62%	3.88%	(0.26%)	(6.70%)
Average earning assets/total average assets	91.39%	90.45%	0.94%	1.04%
Average loans/average deposits	93.44%	88.19%	5.25%	5.95%
Average noninterest deposits/total average deposits	29.52%	26.62%	2.90%	10.89%
Allowance for loan losses/period end loans	1.23%	1.34%	(0.11%)	(8.21%)
Nonperforming assets to period end assets	1.29%	1.91%	(0.62%)	(32.46%)
Period end equity/period end total assets	12.43%	12.93%	(0.50%)	(3.87%)
Efficiency ratio (1)	70.64%	70.30%	0.34%	0.48%

(1) Excludes gain on investment securities

(2) Includes bank-owned life insurance

(3) Presented on a tax-equivalent basis