

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

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

FDIC Insurance Certificate Number: 35095

**TOWNE BANK**

(Exact name of registrant as specified in its charter)

**VIRGINIA**

(State or other jurisdiction of incorporation or organization)

**54-1910608**

(I.R.S. Employer Identification Number)

**5716 High Street, Portsmouth, VA**

(Address of principal executive offices)

**23703**

(Zip Code)

**(757) 638-7500**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, par value \$1.667 per share	The NASDAQ Global Select Market

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [ ] NO [ X ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [ ] NO [ X ]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES [ X ] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [ X ]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold or the average bid and asked price of such common equity as of the last business day of the registrant's most completed second fiscal quarter: \$334,260,877.28

Number of Shares of Common Stock Outstanding at March 10, 2008: 24,517,887

**DOCUMENTS INCORPORATED BY REFERENCE**

- (1) Portions of the Registrant's 2007 Annual Report to Shareholders are incorporated by reference in Parts I, II, and IV and
- (2) Portions of the Registrant's 2008 Proxy Statement for its Annual Meeting of Shareholders to be held May 22, 2008 are incorporated by reference into Part III.

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# TOWNE BANK

## PART I

### Item 1. BUSINESS

#### **Overview**

TowneBank began operations as a Virginia chartered bank in April 1999 offering retail and commercial banking services to the Greater Hampton Roads region in Southeastern Virginia. We place special emphasis on serving the financial needs of individuals and small- and medium-size businesses. We offer a diversified range of financial services through our banking and non-banking subsidiaries. Our principal subsidiaries include TowneBank Investment Corporation; Towne Investments, LLC; Towne Insurance Agency, Inc. (“Towne Insurance”), which includes Lawyers Escrow and Title, LLC (“LET”); TowneBank Commercial Mortgage, LLC; TFA Benefits (“TFA”), which encompasses Benefit Design Group (“BDG”) and The Frieden Agency, Inc.; Towne Mortgage, LLC; NewTowne Mortgage, LLC; and GSH Residential Real Estate Corporation (“GSH”). We also have two controlled divisions: Towne Investment Group, which provides investment and asset management services, and TowneBank Mortgage, which originates mortgage loans and sells them to investors on the national secondary market. Unless indicated otherwise, the terms “Company,” “we,” “us,” and “our” refer to TowneBank and our consolidated subsidiaries.

Our foundation was built on providing banking services and, since inception, we have expanded to provide our members with complete residential real estate services, mortgage, personal and commercial insurance services, title related services for both residential and commercial transactions, employee benefit services, and investment services.

Our common stock is listed on the NASDAQ Global Select Market under the symbol TOWN. Our bank headquarters is located at 5716 High Street, Portsmouth, Virginia 23703 (telephone number 757-638-7500), and our Corporate Administration and Member Service Center is located at 6001 Harbour View Boulevard, Suffolk, Virginia 23435 (telephone number 757-638-6700). We have established banking offices in Chesapeake, Hampton, Newport News, Norfolk, Portsmouth, Virginia Beach, Williamsburg, and York County. These locations are centrally located in core areas of each community, providing convenient access to both individual and business members.

Additional information relating to our business and our subsidiaries is included in the information on pages 14-21 and 72-75 in the Annual Report and incorporated herein by reference.

#### **Organization**

We were organized and incorporated under the laws of the Commonwealth of Virginia on September 1, 1998 and commenced operations on April 8, 1999. We have three reportable segments: Banking, Realty and Insurance.

*Banking Segment.* The Banking segment provides loan and deposit services to retail and commercial customers. We also provide commercial mortgage brokerage services and a variety of investment and asset management services. The Banking segment includes the operations of TowneBank Investment Corporation; Towne Investments, LLC; TowneBank Commercial Mortgage, LLC; and Towne Investment Group.

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*Realty Segment.* The Realty segment provides complete residential real estate services, originations of a variety of mortgage loans, and commercial residential title insurance. It includes TowneBank Mortgage; GSH; Towne Mortgage, LLC; NewTowne Mortgage, LLC; and LET.

*Insurance Segment.* The Insurance segment provides property and casualty insurance as well as employee and group benefits through Towne Insurance and TFA Benefits. Through Towne Insurance, we offer a full line of commercial and consumer insurance products and financial services.

### **Operating Philosophy**

Our operating philosophy emphasizes the making of marketing and member decisions at the local level (within centrally mandated and monitored control standards) with administrative and operational decisions at the central company level. In order to accomplish this, we have established a “TowneBanking Group” (“Banking Group”) for each of our targeted markets.

We maintain a “hometown” banking image by providing each Banking Group with its own president, commercial loan officers, and local board of directors who are active and visible in their respective communities. It is the responsibility of each local board, acting under delegated authority of the Company’s Board of Directors, to direct our overall development in their respective markets. The separate Banking Groups allow us to more effectively identify and respond to the financial needs of our members with local decision-making authority.

The Board of Directors believes that the separate Banking Groups strategy facilitates member service by ensuring that senior management is actively involved in each community and is available on a day-to-day basis to respond to the needs of the members in each community. From a member perspective, each TowneBanking Group is marketed as a separate bank headquartered in its respective community.

Our strategic plan places increased emphasis on developing and generating noninterest, or fee, income. Such development involves looking for opportunities to grow that income source, including acquisitions of non-bank financial service providers. Noninterest income includes income generated by our subsidiaries and divisions, as well as service charges on deposit accounts and gains on securities available-for-sale.

### **Services**

We provide our members with high-quality, responsive, and technologically advanced services. Members have easy access to our decision-makers and enjoy continuity in service relationships, allowing fast response to meet their needs.

*Banking and Other Financial Services.* The foundation of our banking services is built on being a reliable and consistent source of credit with loans that are priced based upon the overall banking relationship. Our capitalization provides a lending capacity to meet the credit needs of our targeted market segment. Further, we have various loan participation agreements with other financial institutions should the need arise to meet the additional credit needs of our members.

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Through our Banking segment, we offer a full range of deposit products, including checking accounts, NOW accounts, savings accounts, and various types of time deposit services, which range from daily money market accounts to long-term certificates of deposit. The transaction accounts and time certificates are tailored by market area at rates competitive to those offered in the area. In addition, we offer retirement account services, such as Individual Retirement Accounts. All deposit accounts are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (“FDIC”) up to the maximum amount allowed by law (generally, \$100,000 per depositor, subject to aggregation rules) and are solicited from individuals, businesses, associations and organizations, and governmental authorities.

We also offer a full range of short- to medium-term personal and commercial loans. Personal loans include secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. Commercial loans include secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and equipment and machinery purchases. Additionally, we originate fixed and floating-rate mortgage loans, as well as real estate construction and acquisition loans. Through Towne Commercial Mortgage, LLC, we broker larger commercial loans that are not intended to remain in our portfolio

Other services offered include safe deposit boxes, cash management services, travelers’ checks, direct deposit of payroll and social security checks, and automatic drafts for various accounts. In addition, services to facilitate access to banking information such as Internet banking and on-call banking are offered.

Through Towne Investment Group, we offer other financial services such as financial, retirement, and estate planning. We also offer assistance on a variety of investment options, including alternative investments, annuities, margin accounts, convertible bonds, and pension and profit sharing plans. Towne Investment Group is a full-service brokerage division that is supported by an affiliation with Raymond James Financial, Inc.

*Realty Services.* Combining the operations of GSH with TowneBank Mortgage and LET allows our realty segment to realize certain operational synergies in providing quality residential real estate services, originations of a variety of residential mortgages, and title services for residential and commercial title transactions. As discussed on page 6 of this report, we entered into two joint ventures in the mortgage business in 2007. We plan to continue to pursue economically advantageous acquisitions and other strategic opportunities to grow our businesses.

GSH assists customers with the process of buying or selling a home. Additionally, GSH also provides other realty-related services, including relocation services for individuals, families, including those in the military, and property management services for single family homes, condominiums, townhomes, apartments, offices, and retail establishments. TowneBank Mortgage processes residential mortgage loans locally, from acceptance of the application to the closing of the loan and disbursement of the funds. Once finalized, they are packaged and sold principally in the secondary market through purchase commitments from investors that subject us to only *de minimis* market risk. In addition to relocation and property management services, we offer title and settlement services, perform real estate closings for residential properties, and issue title insurance policies for both residential and commercial transactions.

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*Insurance Services.* The Insurance segment provides individual and business members with a wide array of insurance products, including life, property, casualty, and vehicle insurance. Through TFA Benefits, we also offer employee benefit programs, including medical, dental, vision, life, and disability insurance tailored to the member's unique needs using nationally recognized carriers. To further the needs of our members, we can also serve as an administrator for health care and dependent care flexible benefit plans, allowing a member's employee to pay insurance premiums, childcare expenses, and/or health care expenses with tax-free dollars.

### **Competition**

Because we offer a wide variety of services, we compete with other financial institutions as well as other financial service providers, real estate companies, mortgage loan originators, and insurance companies. Competition is based on pricing and quality of products and services offered, level of service, convenience, availability of services, and the degree of expertise and personal manner in which services are offered.

Commercial banking in Virginia is highly competitive. We face competition from other banks, thrift institutions, credit unions, consumer finance companies, insurance companies, real estate companies, and other financial institutions in our targeted market areas. Some of these competitors are not subject to the same degree of regulation that is imposed upon us. Many have broader geographic markets and substantially greater resources and can offer more diversified products and services.

Despite the intense level of competition, we believe that the existing and future banking and financial services market in the Hampton Roads area represents excellent opportunities for a locally owned and managed financial services company. Among other factors, the economic outlook for the area and the size and growth potential of the existing market for banking and other financial services point to a growing demand for such services. Further, in view of the continuing trend in the financial services industry toward consolidations into larger, sometimes impersonal, national institutions, our company fulfills a market for the personal and customized financial services an independent, locally run company can offer.

### **Market Area**

Our primary service area is the Greater Hampton Roads region of Virginia. This market includes the cities and counties of Chesapeake, Gloucester County, Hampton, James City County, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, Williamsburg, and York County; we also service the Outer Banks in North Carolina. The region has a diverse, well-rounded economy supported by a solid manufacturing base and a significant military presence.

Leading employers in the private sector include Stihl, Inc. (chain saws), Sumitomo Machinery Corporation of America (industrial motor drives), Canon Virginia, Inc. (copiers, laser printers, and suppliers), Dollar Tree Stores, Inc. (retail), Norfolk Southern Corporation (transportation), and Mitsubishi Corporation (various manufacturing operations). The U.S. Navy's Atlantic Fleet is headquartered at the Norfolk Naval Base, the largest Navy base in the world, and Portsmouth is the home of the Norfolk Naval Shipyard, the Navy's largest ship repair yard, and the Portsmouth Naval Medical Center, the U.S. Navy's largest hospital. In Newport News, Northrop Grumman Newport News is the

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nation's sole designer, builder, and refueler of nuclear-powered aircraft carriers and one of only two shipyards capable of designing and building nuclear-powered submarines. The area is also home to the National Aeronautics & Space Administration/Langley Research Center in Hampton, the Colonial Williamsburg Foundation (hotels and museums), three marine terminals owned by the Virginia Port Authority (shipping), and Anheuser-Busch, Inc. (beverage) in Williamsburg. Furthermore, the Army, Air Force, and Coast Guard each have a significant presence in Greater Hampton Roads with bases in the region.

The primary service area is encompassed by the Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area, the 34th largest metropolitan area in the United States with a current population of approximately 1.65 million as of July 2006. Several colleges and universities, medical centers, and arts and entertainment facilities contribute to a valued quality of life in the region.

### **Concentrations**

The majority of our depositors are located and doing business in our targeted market areas, and we lend a substantial portion of our capital and deposits to individual and business borrowers in these market areas. Any factors adversely affecting the economy of the Greater Hampton Roads area could, in turn, adversely affect our performance. A geographic concentration exists with our loan portfolio as most of our business activity is with members in the Hampton Roads area of Virginia. There were no significant concentrations to any one customer; however, we have a concentration in residential construction and acquisition and development loans.

### **Governmental Monetary Policies**

Our earnings and growth are affected not only by general economic conditions but also by the monetary policies of various governmental regulatory authorities, particularly the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). The Federal Reserve Board implements national monetary policy through its open market operations in United States Government securities, control of the discount rate, and establishment of reserve requirements against both member and nonmember financial institutions' deposits.

These actions have a significant effect on the overall growth and distribution of loans, investments and deposits, and rates earned on loans or paid on deposits. Federal Reserve Board monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to do so in the future. Management is unable to predict the effect of possible changes in monetary policies upon our future operating results.

### **Development of Business**

The following is a summary of the major developments in our business since January 1, 2007:

- On January 1, 2007, Towne Insurance acquired The Frieden Agency, Inc., an employee benefit affiliate of The Frieden Agency, which is southeastern Virginia's leading provider of employee benefit and individual health insurance programs. It combined efforts, as a wholly-owned subsidiary of Towne Insurance, with BDG to further our position in the industry of employee benefit services.

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- On February 5, 2007, TowneBank opened our second branch in Norfolk located at 1 Colley Avenue in the Fort Norfolk area of downtown Norfolk.
- In early 2007, we entered into a business arrangement with William E. Wood & Associates (“Wood”) to form Towne Mortgage, LLC, a mortgage brokerage and mortgage lending business. Through this arrangement, we offer mortgage services in 21 real estate brokerage offices of Wood. This was a reorganization of a previous business relationship.
- On April 1, 2007, Towne Insurance acquired the remaining 50% of Beneflex, a benefits administration agency.
- On May 31, 2007, Towne Insurance acquired most of the assets and operations of B. Martin Weber, Inc., a group benefits agency.
- On July 13, 2007, we filed an application to list our common stock on the NASDAQ Global Select Market. The application was approved and we began trading on the NASDAQ as “TOWN” on October 9, 2007.
- On October 31, 2007, we formed NewTowne Mortgage, LLC, a joint venture with McCardle Realty, to engage in the residential mortgage business.
- On January 3, 2008, we acquired the assets of Corolla Classic Vacations, LLC and Corolla Village Realty, LLC. These acquisitions marked our entrance into resort property management and will allow us to further our presence in the Outer Banks area of North Carolina.

We anticipate concentrating on the further development of each market by opening additional banking offices as business and other conditions warrant and by expanding into new markets as opportunities arise. The regulatory approval process for the opening of additional banking offices takes into account a number of factors, including, among others, a determination that we have capital in an amount deemed necessary to warrant additional expansion and a finding that the public interest will be served. Additionally, we will continue to place a focus on the development of noninterest income sources and will look for growth opportunities, which could include additional acquisitions of non-bank financial service providers.

### **Regulation**

We are regulated extensively under both federal and state law. The following is a brief summary of the material statutes, rules, and regulations that affect us. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below and is not intended to be an exhaustive description of the statutes or regulations applicable to our business.

*General.* We are organized as a Virginia chartered banking corporation and are regulated and supervised by the Bureau of Financial Institutions of the Virginia State Corporation Commission (“Bureau of Financial Institutions”). In addition, we are regulated and supervised by the FDIC, which serves as our



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primary federal regulator. The Bureau of Financial Institutions and the FDIC conduct regular examinations of us, reviewing the adequacy of our loan loss reserves, the quality of our loans and investments, the appropriateness of management practices, compliance with laws and regulations, and other aspects of our operations. In addition to these regular examinations, we must furnish to the FDIC quarterly and annual reports containing detailed financial statements and schedules. Federal and Virginia banking laws and regulations govern all areas of our operations, including reserves, loans, mortgages, capital, issuance of securities, payment of dividends, and establishment of branches. The FDIC and the Bureau of Financial Institutions have authority to impose penalties, initiate civil and administrative actions, and take other steps intended to prevent us from engaging in unsafe or unsound practices. In this regard, the FDIC has adopted capital adequacy requirements.

*Capital Requirements.* The federal bank regulatory agencies have adopted risk-based capital requirements for assessing bank capital adequacy. Virginia chartered banks must also satisfy the capital requirements adopted by the Bureau of Financial Institutions. The federal capital standards define capital and establish minimum capital requirements in relation to assets and off-balance sheet exposure as adjusted for credit risk.

The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profile among bank holding companies and banks, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The minimum standard for the ratio of capital to risk-weighted assets (including certain off-balance sheet obligations, such as stand-by letters of credit) is 8.0%. At least half of the risk-based capital must consist of common equity, retained earnings, and qualifying perpetual preferred stock less deductions for goodwill and various other intangibles (“Tier 1 capital”). The remainder (“Tier 2 capital”) may consist of a limited amount of subordinated debt, certain hybrid capital instruments and other debt securities, preferred stock, and a limited amount of the general valuation allowance for loan losses. The sum of Tier 1 capital and Tier 2 capital is “total risk-based capital.” The FDIC has also adopted regulations that supplement the risk-based guidelines to include a minimum leverage ratio of Tier 1 capital to quarterly average assets of 4.0%.

At December 31, 2007, we had the following risk-based capital and leverage ratios relative to regulatory minimums.

<u>Ratio</u>	<u>TowneBank</u>	<u>Minimum</u>
Tier 1 risk-based capital	8.48%	4.00%
Total risk-based capital	11.34%	8.00%
Leverage	7.68%	4.00%

The FDIC is authorized by federal legislation and regulations to take various enforcement actions against any undercapitalized insured depository institution and any insured depository institution that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the FDIC. These powers include, among other things, requiring a bank to be recapitalized, prohibiting asset growth,

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restricting interest rates paid, requiring prior approval of capital distributions, requiring divestiture by the institution of its subsidiaries, requiring new election of directors, and requiring the dismissal of directors and officers.

*Dividends.* The amount of dividends payable depends upon our earnings and capital position and is limited by federal and state laws, regulations, and policies. In addition, under Virginia law, the Bureau of Financial Institutions may limit the ability of the bank to pay dividends. No dividend may be declared or paid that would impair a bank's paid-in capital.

The Bureau of Financial Institutions and the FDIC have the general authority to limit dividends paid if such payments are deemed to constitute an unsafe and unsound practice. In particular, Section 38 of the Federal Deposit Insurance Act would prohibit us from making a dividend if we were "undercapitalized" or if such dividend would result in us becoming "undercapitalized."

*FDIC Insurance Assessments.* Our members' deposit accounts are insured by the FDIC, and therefore, we are subject to insurance assessments imposed by the FDIC. On November 2, 2006, the FDIC adopted final regulations establishing a risk-based assessment system that is intended to more closely tie each bank's deposit insurance assessments to the risk it poses to the FDIC's deposit insurance fund. Under the new risk-based assessment system, which became effective in the beginning of 2007, the FDIC evaluates each bank's risk based on three primary factors: (1) its supervisory rating, (2) its financial ratios, and (3) its long-term debt issuer rating, if applicable. The new rates may vary between 5 and 43 cents for every \$100 of domestic deposits, depending on the insured institution's risk category as described above. In 2007, TowneBank was in the lowest risk category and paid \$1.13 million in FDIC deposit premiums.

*Community Reinvestment Act.* Banks are subject to the provisions of the Community Reinvestment Act of 1977 ("CRA") that requires the appropriate federal bank regulatory agency, the FDIC in our case, to assess our record in meeting the credit needs of the communities we serve.

The CRA assessment is required by any bank that has applied to, among other things, establish a new branch office that will accept deposits, relocate an existing office, or merge, consolidate with, or acquire the assets, or assume the liabilities of, a federally regulated financial institution. We received an "Outstanding" rating in our last CRA examination.

*Federal Deposit Insurance Corporation Improvement Act.* The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") became effective July 2, 1993. FDICIA requires insured institutions with \$1 billion or more in total assets at the beginning of their fiscal year to submit independently audited annual reports to the FDIC and the appropriate agency.

These publicly available reports must include: (a) annual financial statements prepared in accordance with accounting principles generally accepted in the United States and such other disclosure requirements as required by the FDIC or the appropriate agency, and (b) a management report signed by the Chief Executive Officer and the Chief Financial Officer or Chief Accounting Officer of the institution that contains a statement of management's responsibilities for: (i) preparing the annual financial statements; (ii) establishing and maintaining an adequate internal control structure and procedures for financial reporting; and (iii) complying with the laws and regulations designated by the FDIC relating to safety and soundness and an assessment of: (aa) the effectiveness of the system of

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internal control and procedures for financial reporting as of the end of the fiscal year and (bb) the institution's compliance during the fiscal year with applicable laws and regulations designated by the FDIC relating to safety and soundness.

With respect to any internal control report, the institution's independent public accountants must attest to, and report separately on, certain assertions of the institution's management contained in such report. Any attestation by the independent accountant is to be made in accordance with auditing standards generally accepted in the United States for attestation engagements.

*USA Patriot Act of 2001.* In October 2001, the USA Patriot Act of 2001 was enacted in response to the terrorist attacks in New York, Pennsylvania, and Washington, D.C. that occurred on September 11, 2001. The Patriot Act is intended to strengthen U.S. law enforcement and the intelligence communities' abilities to work cohesively to combat terrorism on a variety of fronts. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening and rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. The continuing and potential impact of the Patriot Act and related regulations and policies on financial institutions of all kinds is significant and wide-ranging.

*Reporting Obligation Under Securities Laws.* We are subject to the periodic reporting requirements of the Securities Exchange Act of 1934 ("Exchange Act") as adopted by the FDIC, including the filing of annual, quarterly, and other reports with the FDIC. As an Exchange Act reporting bank with over \$500 million in assets, we are directly affected by the Sarbanes-Oxley Act of 2002 and regulations promulgated thereunder, which are aimed at improving corporate governance and reporting procedures. We are complying with the rules and regulations implemented pursuant to the Sarbanes-Oxley Act and intend to comply with any applicable rules and regulations implemented in the future.

### **Employees**

As of December 31, 2007, we had 612 full-time employees and 85 part-time employees, excluding GSH agents. There were 323 GSH sales agents at December 31, 2007. GSH agents are independent contractors and not included as our employees. None of our employees are represented by any collective bargaining agreements, and relations with employees are considered good.

### **Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports are filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are accessible at no cost on our Web site, [www.townebankonline.com](http://www.townebankonline.com), as soon as reasonably practicable after those reports have been filed or furnished to the FDIC. These materials are available free of charge in print to stockholders who request them by writing to: TowneBank, Attn: Clyde E. McFarland, Jr., 6001 Harbour View Boulevard, Suffolk, Virginia 23435. A copy of the statements of beneficial ownership of our equity securities filed by our directors, officers, and 10% or greater shareholders under Section 16 of the Securities Exchange Act of 1934 may also be obtained through our Web site.

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The public may read and copy any of the reports that are filed with the FDIC at the FDIC's Accounting and Securities Disclosure Section, Division of Supervision and Consumer Protection, 550 17<sup>th</sup> Street, N.W., Washington D.C. 20429. The public may contact the FDIC at 202-898-8913 should they require a copy of a filing be sent directly to them.

### **Item 1A. RISK FACTORS**

In addition to the other information contained in this report, the following risks may affect us. This listing should not be considered all-inclusive. Additional risks and uncertainties, including those not presently known to us or that we currently consider immaterial, may also impair our business, financial condition, or operating results.

#### ***Dependence on uncontrollable economic conditions could have a material adverse impact on our financial condition and results of operations.***

Substantially all of our business is located in the Greater Hampton Roads region. As a result, the financial condition and results of operations may be affected by changes in the Hampton Roads economy. Although it is anticipated that economic conditions will continue to be favorable in the Hampton Roads area, no assurance can be given that these economic conditions will continue. Adverse changes in economic conditions in the Hampton Roads area would likely impair the ability to collect loans and could otherwise have a material adverse effect on our financial condition and results of operations.

Currently, there is a decline in the level of real estate sales in the Hampton Roads region and there is a corresponding increase in inventory levels in the market.

#### ***Changes in interest rates could have a negative impact on the results of operations.***

Our profitability is dependent to a large extent on our net interest income, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. We are now and will continue to be affected by changes in general interest rate levels and other economic factors beyond our control. For example, in periods of rising interest rates, consumer demand for new mortgages and refinancings decreases, which adversely affects profitability in our Realty segment.

#### ***Impairment of goodwill and other intangible assets may negatively affect our financial condition and results.***

When we acquire a business, a substantial portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable assets. Under current accounting standards, if we determine that goodwill or intangible assets are impaired, we will be required to write down the value of such assets. An impairment may result in a negative effect on our financial results.

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### ***Loss of any of our key personnel could disrupt our operations and result in reduced revenues.***

We are a relationship-driven organization. A key aspect of our business strategy is to have our senior officers have primary contact with our customers. Our growth and development to date have been, in large part, a result of these personalized relationships with our customer base.

The senior officers have considerable experience in the banking industry and related financial services and are extremely valuable and would be difficult to replace. The loss of the services of these officers could have a material adverse effect upon future prospects. Although we have entered into employment contracts with our Chairman and Chief Executive Officer and our other senior executive officers, and purchased key man life insurance policies to mitigate the risk of an unforeseen departure or death of certain of our senior executive officers, we cannot offer any assurance that they and other key employees will remain employed by us. The unexpected loss of services of one or more of these key employees could have a material adverse effect on operations and possibly result in reduced revenues.

### ***Restrictions relating to the acquisition of our common stock may discourage an acquisition.***

Certain provisions of our articles of incorporation and bylaws could delay or frustrate the removal of incumbent directors and could make a merger, tender offer, or proxy contest more difficult, even in instances where shareholders deem the proposed transaction to be beneficial to their interests. These provisions, among others, provide for staggered terms for the Board of Directors and that a plan of merger, share exchange, sale of all or substantially all of our assets, or similar transaction must be approved and recommended by the affirmative vote of two-thirds of the directors in office or by the affirmative vote of the holders of 80% of our outstanding shares, and limit the ability of shareholders to call a special meeting. In addition, certain provisions of state and federal law may also have the effect of discouraging or prohibiting a future takeover attempt in which our shareholders might otherwise receive a substantial premium for their shares over then-current market prices. To the extent that these provisions discourage or prevent takeover attempts, they may tend to reduce the market price for our common stock and the notes.

### ***Continued growth may require raising additional capital which may dilute current shareholders' ownership percentage.***

In order to meet applicable regulatory capital requirements, we may, from time to time, need to raise additional capital to support continued growth. If selling our equity securities raises additional funds, the relative ownership interests of our existing shareholders would likely be diluted.

### ***Risks associated with acquisitions and the resulting integrations may affect costs and revenue.***

A component of our business strategy includes growth through acquisitions. Costs or difficulties related to integrating the acquired business with the Company might be greater than expected. Further, expected revenue and/or operational synergies and cost savings associated with pending or recently completed acquisitions may not be fully realized or realized within the expected timeframe. We cannot provide assurance that we will be successful in overcoming these risks or any other issues encountered in connection with acquisitions.

# TOWNE BANK

## PART I

### ***Focus on commercial loans may increase the risk of substantial credit losses.***

We offer a variety of loan products, including residential mortgage, consumer, construction, and commercial loans. At December 31, 2007, approximately 42.60% of loans were commercial loans, including those secured by commercial real estate. It is expected that, as we grow, this percentage will remain fairly constant.

Commercial lending is more risky than mortgage and consumer lending because loan balances are greater and the borrower's ability to repay is contingent on the successful operation of a business. Risk of loan defaults is unavoidable in the banking industry. We attempt to limit exposure to this risk by monitoring carefully the amount of loans in specific industries and by exercising prudent lending practices. However, the risk that substantial credit losses could result in reduced earnings or losses cannot be eliminated.

### ***Our allowance for loan losses may prove to be insufficient to absorb potential losses in the loan portfolio.***

We maintain an allowance for loan losses that is believed to be adequate to provide for any potential losses in our loan portfolio. Our management determines the amount of this allowance through a periodic review and consideration of several factors, including:

- an ongoing review of the quality, size, and diversity of the loan portfolio;
- an evaluation of nonperforming loans;
- our historical loan loss experience;
- the amount and quality of collateral, including guarantees securing the loans; and
- the review of peer banks' performance.

Although we believe our loan loss allowance is adequate to absorb probable losses in the loan portfolio, we cannot predict such losses or that our allowance will be adequate. Excess loan losses could have a material adverse effect on our financial condition and results of operations.

### ***Strong competition in our primary market areas may limit asset growth and profitability.***

We encounter strong competition from other financial institutions in our primary market area. In addition, established financial institutions not already operating in our primary market area may open branches at future dates. In the conduct of certain aspects of our business, we also compete with savings institutions, credit unions, mortgage banking companies, consumer finance companies, insurance companies, real estate companies, and other institutions, some of which are not subject to the same degree of regulation or restrictions as is imposed upon us. Many of these competitors have substantially greater resources and lending limits than we have and offer services that we do not provide. In addition, many of these competitors have numerous branch offices located throughout their extended market areas that provide them with a competitive advantage. No assurance can be given that such competition will not have an adverse impact on the financial condition and results of operations.

# TOWNE BANK

## PART I

### *Extensive government regulation and monetary policy could adversely affect operations.*

As part of the financial services industry, we are subject to extensive governmental supervision, regulation, and control that have materially affected the business of financial institutions in the past and are likely to do so in the future. Regulations affecting the financial services industry, and therefore, us may be changed at any time, and the interpretation of those regulations by examining authorities of the financial services industry is also subject to change. There can be no assurance that future changes in legislation, administrative regulations, or governmental policy will not adversely affect the financial services industry and our business.

### **Item 1B. UNRESOLVED STAFF COMMENTS**

None

### **Item 2. PROPERTIES**

Our bank headquarters is located in Portsmouth, Virginia, and our corporate administration and member service center is located in Suffolk, Virginia; we own both of these locations. We occupy an additional 36 properties, of which we own nine, in the cities and counties in which we operate. Additional information with respect to the amounts at which company premises and equipment are carried and commitments under long-term leases is set forth in Note 5 on page 57 in the Annual Report and incorporated herein.

### **Item 3. LEGAL PROCEEDINGS**

In the ordinary course of operations, we are a party to various legal proceedings. Based upon information currently available, management believes that such legal proceedings, in the aggregate, will not have a material adverse effect on our business, financial condition, or results of operations.

### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

# TOWNE BANK

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER'S PURCHASES OF EQUITY SECURITIES

#### Market Information

Effective October 9, 2007, our common stock became listed on the NASDAQ Global Select Market under the symbol TOWN. Prior to that date, it was listed on the OTC Bulletin Board. The following chart shows the high and low quarterly closing stock prices in 2007 and 2006.

Quarter	2007		2006	
	High	Low	High	Low
First	\$ 20.80	\$ 18.85	\$ 22.50	\$ 19.19
Second	19.25	16.25	23.00	19.40
Third	19.75	16.50	21.00	19.00
Fourth	21.30	15.50	20.10	19.19

#### Holdings

As of December 31, 2007, we had issued and outstanding 24,104,418 shares of common stock. These shares were held by approximately 8,603 shareholders of record.

#### Dividends

During the last two years, we have paid several cash dividends. On January 25, 2006, we declared a special shareholder cash dividend of \$0.23 per common share payable on March 10, 2006. On November 22, 2006, we declared a special shareholder cash dividend of \$0.30 per common share payable on January 16, 2007.

On January 25, 2007, the Board of Directors approved the first quarterly cash dividend of \$0.08 per share and set a tentative schedule for the remainder of the year. These dividends were paid on April 16, 2007, July 16, 2007, October 11, 2007, and January 10, 2008. All dividends paid are limited by the requirement to meet capital guidelines issued by regulatory authorities, and future declarations are subject to financial performance and regulatory guidelines.

Our future dividend policy is subject to the discretion of the Board of Directors and will depend upon a number of factors, including future earnings, financial condition, cash requirements, and general business conditions. We are also subject to certain restrictions imposed by the reserve and capital requirements of federal and Virginia banking statutes and regulations.

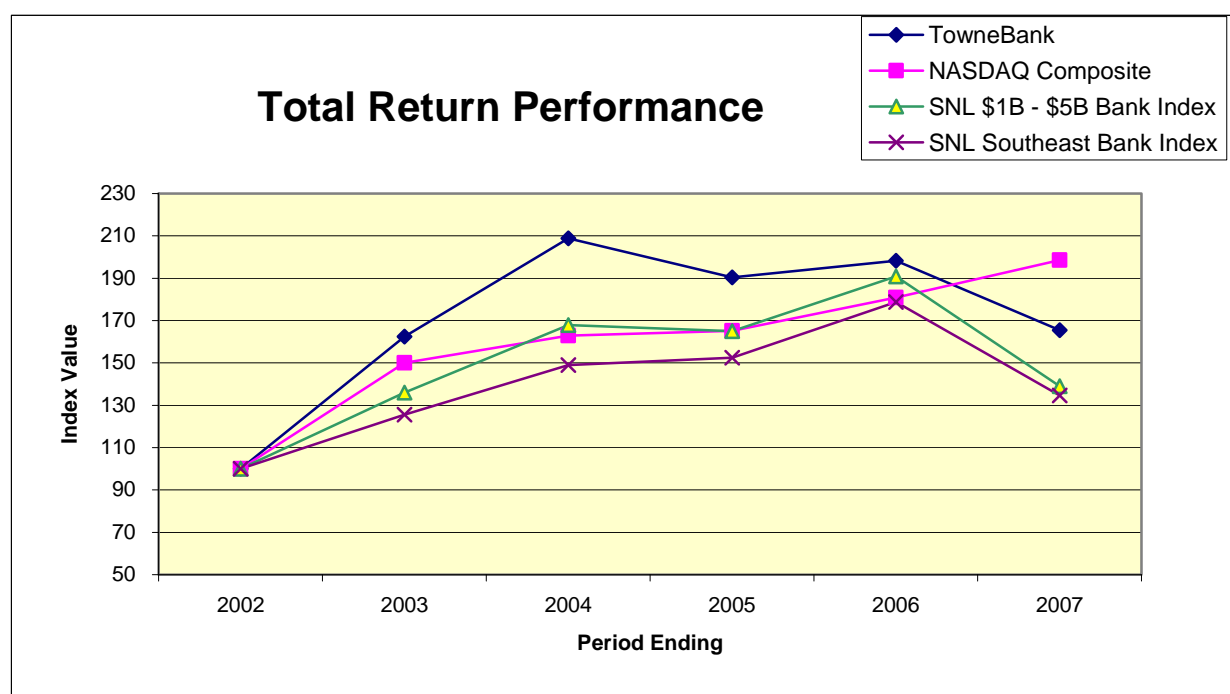


# TOWNE BANK

## PART II

### Stock Performance Graph

The following stock performance graph presents the cumulative total return comparison through December 31, 2007 of stock appreciation for our common stock, the NASDAQ Composite Index measuring all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market (“NASDAQ Composite”), the SNL Securities index including banks between \$1 billion and \$5 billion in total assets (“SNL \$1B-\$5B Bank Index”), and the SNL Securities index including only banks in the Southeast (“SNL Southeast Bank Index”). Returns assume an initial investment of \$100 at the market close of December 31, 2002 and reinvestment of dividends.



<u>Index</u>	<u>12/31/2002</u>	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>
TowneBank	100.00	162.41	208.86	190.34	198.28	165.52
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
SNL \$1B - \$5B Bank Index	100.00	135.99	167.83	164.97	190.90	139.06
SNL Southeast Bank Index	100.00	125.58	148.92	152.44	178.78	134.65

### Item 6. SELECTED FINANCIAL DATA

Reference is made to the information in the section entitled “Selected Financial Highlights” of our Annual Report to Shareholders (“Annual Report”) for the year ended December 31, 2007, which is incorporated herein by reference.

# TOWNE BANK

## PART II

### **Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

Reference is made to the information in the section entitled “Management’s Discussion and Analysis” on pages 4 – 35 of our Annual Report, which is incorporated herein by reference.

### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Reference is made to the information in the section entitled “Management’s Discussion and Analysis” under subsections “Interest Sensitivity,” “Market Risk Management,” “Earnings Simulation Analysis,” “Market Value Simulation,” and “Credit Risk Elements” on pages 31 – 33 of our Annual Report, which is incorporated herein by reference.

### **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Reference is made to the information in the sections entitled “Management’s Report on Internal Control,” “Report of Independent Registered Public Accounting Firm,” and “Consolidated Financial Statements and Notes” of our Annual Report, which is incorporated herein by reference.

### **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

### **Item 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures:* As of December 31, 2007, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are adequate and effective.

*Management’s Report on Internal Control over Financial Reporting:* Reference is made to the information in the sections entitled “Management’s Report on Internal Control,” “Report of Independent Registered Public Accounting Firm,” and “Consolidated Financial Statements and Notes” on pages 37 – 38 of our Annual Report, which is incorporated herein by reference.

*Changes in Internal Control over Financial Reporting:* There were no changes in our internal controls over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. OTHER INFORMATION**

None

### **Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

# TOWNE BANK

## PART III

Reference is made to the information in the sections entitled “Elections of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Board of Directors and Committees: *Audit Committee*” of our Proxy Statement for the Annual Meeting of Stockholders to be held May 22, 2008 (“Proxy Statement”), which sections are incorporated herein by reference.

The following information is provided for those executive officers who are not directors.

<u>Name (Age)</u>	<u>Principal Occupation During Past Five Years</u>
Thomas L. Hasty (52)	Executive Vice President of Risk Management since 1999.
Keith D. Horton (49)	Senior Executive Vice President and Chief Administrative Officer since January 2005; Executive Vice President of Operations from 1999 to January 2005.
Clyde E. McFarland, Jr. (53)	Senior Executive Vice President and Chief Financial Officer since January 2005; Executive Vice President and Chief Financial Officer from 1999 to January 2005.
Philip M. Rudisill (42)	Senior Executive Vice President of Corporate Administration since March 2006; Senior Vice President and City Executive, BB&T from March 2002 to March 2006.
U. Starr Oliver (56)	Executive Vice President of Marketing and Retail Banking since 1999.

### **Code of Ethical Conduct**

We have adopted a Code of Ethical Conduct that applies to our Chief Executive Officer (“CEO”) and executive and senior financial officers, including our Chief Financial Officer (“CFO”), Chief Accounting Officer (“CAO”), Senior Vice President of Accounting, Controller, Corporate Treasurer, Internal Audit members, any person Assistant Vice President and above in an Accounting/Financial position, Senior Financial Analyst, any Regulation O Executive Officers along with any person serving in an equivalent position regardless of whether or not they are designated as executive officers for Regulation O purposes, or any persons serving in equivalent positions within the Company . The Code of Ethical Conduct is included as Exhibit 14. Any changes in or waivers from our Code of Ethical Conduct applicable to the CEO and executive or senior financial officer shall be promptly disclosed through a filing with the FDIC on Form 8-K.

# TOWNE BANK

## PART III

A written copy of our Code of Ethical Conduct is available free of charge to stockholders who request them by writing to: TowneBank, Attn: Clyde E. McFarland, Jr., 6001 Harbour View Boulevard, Suffolk, Virginia 23435. We also provide this information on our Web site, [www.townebankonline.net](http://www.townebankonline.net), under Investor Relations, as incorporated in this filing.

### **Item 11. EXECUTIVE COMPENSATION**

Reference is made to the information in the sections entitled “Compensation Discussion and Analysis,” “Compensation of Management,” “Compensation of Directors,” “Board of Directors and Committees: *Compensation Committee Interlocks and Insider Participation*,” and “Report of Compensation Committee” of the Proxy Statement, which sections are incorporated herein by reference.

### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table summarizes information, as of December 31, 2007, relating to our stock incentive plan, pursuant to which grants of options to acquire shares of common stock may be awarded from time to time.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (A)	Weighted average exercise price of outstanding options, warrants, and rights (B)	Number of securities remaining available for future issuance under equity compensation plans <sup>1</sup> (C)
Equity compensation plans approved by security holders	1,301,678	\$11.78	2,390,337
Equity compensation plans not approved by security holders	-	-	-
Total	<u>1,301,678</u>	<u>\$11.78</u>	<u>2,390,337</u>

<sup>1</sup> Consists of shares available for future issuance under the TowneBank 1999 Stock Incentive Plan.

### **Item 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Reference is made to the information in the sections entitled “Related Party Transactions,” “Election of Directors,” and “Board of Directors and Committees” of the Proxy Statement, which sections are incorporated herein by reference.

### **Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Reference is made to the information in the section entitled “Accounting Firm Fees” of the Proxy Statement, which section is incorporated herein by reference.

# TOWNE BANK

## PART IV

### **Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

a) The following documents are filed as part of this report.

**(1) *Financial Statements***

The following documents are included in the 2007 Annual Report to Shareholders and are incorporated by reference in this report:

Report of Independent Registered Public Accounting Firm  
Management's Report on Internal Control  
Consolidated Balance Sheets  
Consolidated Statements of Income  
Consolidated Statements of Changes in Shareholders' Equity  
Consolidated Statements of Cash Flows  
Notes to Consolidated Financial Statements

**(2) *Financial Statement Schedules***

All financial statement schedules as required by Item 8 and Item 15 of Form 10-K have been omitted because the information requested is not required, not applicable, or is shown in the Consolidated Financial Statements or Notes thereto.

**(3) *Exhibits***

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

<u>Exhibit No.</u>	<u>Description</u>
(3.1)	Articles of Incorporation, as amended (incorporated herein by reference to our 2004 Form 10-K, previously filed with the FDIC).
(3.2)	Bylaws, as amended (incorporated herein by reference to our Form 8-K, previously filed with the FDIC on November 28, 2007).
(10.1)	TowneBank 1999 Stock Incentive Plan, as amended and restated effective March 24, 2004 (incorporated herein by reference to our 2004 Form 10-K, previously filed with the FDIC).
(10.2)	Employment Agreement, dated October 1, 2005, between TowneBank and Jacqueline B. Amato (incorporated herein by reference to our Form 8-K, previously filed with the FDIC on February 15, 2006).
(10.3)	Form of Employment Agreement entered into between TowneBank and each of G. Robert Aston, Jr., Anne C. H. Conner, J. Morgan Davis, Elizabeth A. Duke, R. Scott Morgan, Gerald L. Passaro, Philip M. Rudisill, and William D. Sessoms (incorporated herein by reference to our 2004 Form 10-K, previously filed with the FDIC).

# TOWNE BANK

## PART IV

### *Exhibits continued*

- (10.4) Form of Employment Agreement entered into between TowneBank and each of Doug Burgoyne, William A. Copeland, Jr., William I. Foster, III, Thomas L. Hasty, III, William T. Hodsden, Keith D. Horton, Clyde E. McFarland, Jr., U. Starr Oliver, and P. Ward Robinett, Jr. (incorporated herein by reference to our 2004 Form 10-K, previously filed with the FDIC).
  - (10.5) Form of Change in Control Agreement entered into between TowneBank and each of G. Robert Aston, Jr., Anne C. H. Conner, J. Morgan Davis, Elizabeth A. Duke, R. Scott Morgan, Gerald L. Passaro, Philip M. Rudisill, and William D. Sessoms (incorporated herein by reference to our 2004 Form 10-K, previously filed with the FDIC).
  - (10.6) Form of Change in Control Agreement entered into between TowneBank and each of Doug Burgoyne, William A. Copeland, Jr., William I. Foster, III, Thomas L. Hasty, III, William T. Hodsden, Keith D. Horton, U. Starr Oliver, and P. Ward Robinett, Jr. (incorporated herein by reference to our 2004 Form 10-K, previously filed with the FDIC).
  - (11) Statement re: Computation of Per Share Earnings (incorporated by reference to our 2007 Annual Report to Shareholders).
  - (13) 2007 Annual Report to Shareholders.
  - (14) Code of Ethical Conduct.
  - (21) Subsidiaries of TowneBank.
  - (31.1) CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - (31.2) CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - (32) Certification Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- b) See (a)(3) above for all exhibits filed herewith and the Exhibit Index.
- c) All schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements or related notes.

# TOWNE BANK

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

February 29, 2008

Date

/s/ G. Robert Aston, Jr.

By: G. Robert Aston, Jr.

Chairman of the Board/Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on February 27, 2008:

## SIGNATURES

/s/ Jacqueline B. Amato

Jacqueline B. Amato

President of TowneBank Mortgage Division,  
Director

/s/ Alvin P. Anderson

Alvin P. Anderson

Director

/s/ G. Robert Aston, Jr.

G. Robert Aston, Jr.

Chairman of the Board,  
Chief Executive Officer

/s/ E. Lee Baynor

E. Lee Baynor

Director

/s/ Richard S. Bray

Richard S. Bray

Director

Thomas C. Broyles

Vice Chairman of the Board

/s/ Bradford L. Cherry

Bradford L. Cherry

Director

# TOWNE BANK

## SIGNATURES

<u>/s/ Anne C.H. Conner</u> Anne C.H. Conner	President of TowneBank Williamsburg, Director
<u>/s/ William A. Copeland</u> William A. Copeland, Jr.	President of TowneBank Chesapeake, Director
<u>J. Morgan Davis</u>	President and CEO of Towne Financial Services Group, Director
<u>/s/ Elizabeth A. Duke</u> Elizabeth A. Duke	Senior Executive Vice President, Chief Operating Officer, Director
<u>/s/ John W. Failes</u> John W. Failes	Vice Chairman of the Board
<u>/s/ Paul J. Farrell</u> Paul J. Farrell	Director
<u>Andrew S. Fine</u>	Director
<u>/s/ Sandra W. Ferebee</u> Sandra W. Ferebee	President, GSH Residential Real Estate, Director
<u>/s/ William I. Foster, III</u> William I. Foster, III	President of TowneBank Norfolk, Director
<u>/s/ Paul D. Fraim</u> Paul D. Fraim	Director
<u>/s/ Gordon L. Gentry, Jr</u> Gordon L. Gentry, Jr.	Director
<u>/s/ Ernest F. Hardee</u> Ernest F. Hardee	Vice Chairman of the Board



<u>William T. Hodsden</u>	Director
<u>/s/ John R. Lawson, II</u> John R. Lawson, II	Director
<u>/s/ W. Ashton Lewis</u> W. Ashton Lewis	Vice Chairman of the Board
<u>/s/ J. Alan Lindauer</u> J. Alan Lindauer	Director
<u>/s/ Clyde E. McFarland, Jr.</u> Clyde E. McFarland, Jr.	Senior Executive Vice President, Chief Financial Officer
<u>/s/ Juan M. Montero, II</u> Juan M. Montero, II	Director
<u>R. Scott Morgan</u>	President and Senior Loan Officer, Director
<u>/s/ Gerald L. Passaro</u> Gerald L. Passaro	President of Real Estate Finance Group, Director
<u>/s/ P. Ward Robinett, Jr.</u> P. Ward Robinett, Jr.	President of TowneBank Portsmouth, Director
<u>/s/ William D. Sessoms, Jr.</u> William D. Sessoms, Jr.	President of TowneBank Virginia Beach, Director
<u>/s/ Richard B. Thurmond</u> Richard B. Thurmond	Director
<u>/s/ Alan S. Witt</u> Alan S. Witt	Director
<u>/s/ F. Lewis Wood</u> F. Lewis Wood	Director