

Notice of Mandatory Conversion of TowneBank 8% Convertible Subordinated Capital Notes

The Board of Directors of TowneBank has elected to convert all of the TowneBank 8% Convertible Subordinated Capital Notes (the "Notes") into TowneBank common stock on March 19, 2012. This mandatory conversion will be in accordance with Section 10.04 of the Indenture, dated October 20, 2009, between TowneBank and U.S. Bank, National Association, as Trustee.

At the close of business on March 19, 2012, all \$13,604,000 in outstanding Notes will be converted into shares of TowneBank common stock at the current conversion price of \$13.38 per share (equal to a conversion rate of 149.48 shares per \$2,000 principal amount of Notes), plus cash in lieu of fractional shares. To receive your shares of common stock, you must complete the attached Letter of Transmittal. Your Note certificate and completed Letter of Transmittal may then be taken to any TowneBank branch location on or after March 19, 2012, or sent to Registrar and Transfer Company at 10 Commerce Drive, Cranford, NJ 07016, Attention: Reorg./Exchange Dept. Any Note certificate mailed directly to Registrar and Transfer should be insured for 1.5% of the current market value of the Note. A statement evidencing the credit of book entry shares on the records of Registrar and Transfer Company for the number of shares of TowneBank common stock into which the Notes are converted (and cash in lieu of any fractional shares) will be sent, in separate mailings, as soon as practicable after the receipt of the Note certificate and completed Letter of Transmittal.

If you are unable to locate your Note certificate, please complete the "Affidavit for Lost Note Certificates" portion of the Letter of Transmittal and include the surety bond fee necessary to replace the certificate. You may contact Registrar and Transfer Company at 1-800-368-5948 or Debbie Todd, TowneBank's Investor Relations Officer, at 757-638-6794 for more information.
