

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C. 20429

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Corporation Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to § 240.14a-12

TOWNEBANK
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- 1) Title of each class of securities to which transaction applies: _____
- 2) Aggregate number of securities to which transaction applies: _____
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): _____
- 4) Proposed maximum aggregate value of transaction: _____
- 5) Total fee paid: _____

- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount Previously Paid: _____
- 2) Form, Schedule or Registration Statement No.: _____
- 3) Filing Party: _____
- 4) Date Filed: _____

PRELIMINARY PROXY MATERIALS

MARCH 31, 2017

PRELIMINARY PROXY STATEMENT, DATED MARCH 31, 2017

- SUBJECT TO COMPLETION -

TOWNE BANK

April , 2017

Dear Fellow Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of TowneBank. It will be held on Wednesday, May 24, 2017, at 11:30 a.m. at the Virginia Beach Convention Center, 1000 19th Street in Virginia Beach, Virginia.

At the meeting, we will vote to elect 14 directors; ratify the appointment of members to the respective boards of directors of each of the TowneBanking Groups and Towne Financial Services; ratify the appointment of Dixon Hughes Goodman LLP as TowneBank's independent auditors for 2017; approve, on a non-binding advisory basis, TowneBank's named executive officer compensation; approve the TowneBank 2017 Stock Incentive Plan; and approve the Annual Incentive Compensation Plan of TowneBank. Furthermore, we will report to you on our progress during 2016 and our plans for the future.

We hope you will be with us on May 24th. Whether you plan to attend or not, please cast your vote over the Internet or by telephone, or complete, sign, date, and return the enclosed proxy card as soon as possible in the postage-paid envelope provided.

We greatly appreciate and value your continuing support.

Sincerely,

G. Robert Aston, Jr.
Chairman and Chief Executive Officer

J. Morgan Davis
President and Chief Banking Officer

TOWNE BANK

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be Held on May 24, 2017

The Annual Meeting of Stockholders of TowneBank will be held at the Virginia Beach Convention Center, 1000 19th Street, Virginia Beach, Virginia, on Wednesday, May 24, 2017, at 11:30 a.m. for the following purposes:

1. To elect nine (9) directors to serve for a three-year term, two (2) directors to serve for a two-year term, and three (3) directors to serve for a one-year term;
2. To ratify the appointment of members to the respective boards of directors of each of the TowneBanking Groups and Towne Financial Services;
3. To ratify the selection of Dixon Hughes Goodman LLP, independent certified public accountants, as auditors of TowneBank for 2017;
4. To approve, on a non-binding advisory basis, TowneBank's named executive officer compensation;
5. To approve the TowneBank 2017 Stock Incentive Plan;
6. To approve the Annual Incentive Compensation Plan of TowneBank; and
7. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The Board of Directors has fixed March 31, 2017, as the record date for determination of stockholders entitled to notice of and to vote at the meeting and any adjournments thereof.

By Order of the Board of Directors

Karen R. Minkoff
Secretary to the Board

April , 2017

YOUR VOTE IS IMPORTANT

Whether or not you plan to attend the Annual Meeting of Stockholders, we urge you to vote and submit your proxy by telephone, the Internet or mail as promptly as possible to ensure the presence of a quorum for the meeting. For additional instructions on voting by telephone or the Internet, please refer to your proxy card. To vote and submit your proxy by mail, please complete, sign and date the enclosed proxy card and return it in the enclosed postage-paid envelope. If you attend the meeting, you may, if you desire, revoke the proxy and vote in person. If you hold your shares through an account with a brokerage firm, bank or other nominee, please follow the instructions you receive from them to vote your shares. In accordance with Securities and Exchange Commission rules, you may access our proxy materials at www.envisionreports.com/TOWN, which does not have "cookies" that identify visitors to the site.

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
May 24, 2017

GENERAL

We are providing these proxy materials in connection with the solicitation of proxies by the Board of Directors of TowneBank for the 2017 Annual Meeting of Stockholders (the “Annual Meeting”) of the Company to be held on Wednesday, May 24, 2017. In this proxy statement, we refer to the Board of Directors as the “Board” and to TowneBank as “we,” “us,” or the “Company.” The approximate mailing date of this proxy statement and accompanying proxy is April , 2017.

Voting Rights of Stockholders

Only stockholders of record of the Company’s common stock at the close of business on March 31, 2017, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the close of business on March 31, 2017, there were **OPEN** shares of the Company’s common stock outstanding and entitled to vote at the Annual Meeting. The Company has no other class of voting stock outstanding. Each share of common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting.

A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business. Shares for which the holder has elected to abstain or to withhold the proxies’ authority to vote on a matter will count toward a quorum, but will not be included in determining the number of votes cast with respect to such matter. Shares held by brokers or banks in street name (“broker shares”) that are voted on any matter are included in the quorum. Broker shares that are not voted on any matter will not be included in determining whether a quorum is present.

Voting of Proxies

We encourage you to complete and return the proxy card accompanying this proxy statement, regardless of whether you plan to attend the Annual Meeting. For your convenience, a postage-paid return envelope is enclosed. You may also vote over the Internet, which we encourage if you have Internet access, at the website shown on your proxy card, or by telephone through the number shown on your proxy card. Proxies will extend to, and will be voted at, any adjourned session of the Annual Meeting.

Revocation of Proxies

Execution of a proxy will not affect a stockholder’s right to attend the Annual Meeting and to vote in person. Any stockholder who has executed and returned a proxy may revoke it by attending the Annual Meeting and requesting to vote in person. A stockholder may also revoke his or her proxy at any time before it is exercised by filing a written notice with the Company or by submitting a proxy bearing a later date.

Solicitation of Proxies

The cost of solicitation of proxies will be paid by the Company. Solicitation is being made by mail and, if necessary, may be made in person, by telephone or by special letter by officers and employees of the Company, acting without compensation other than regular compensation. The Company will also request brokerage firms, banks, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares of common stock as of the record date and will reimburse such persons for the cost of forwarding the proxy materials in accordance with customary practice.

ELECTION OF DIRECTORS — PROPOSAL ONE

The Company's Board of Directors is divided into three classes (I, II and III), and the term of office for the Class I directors will expire at the Annual Meeting. Each of the Class I nominees currently serves as a director of the Company, including Jeffrey F. Benson and Brad E. Schwartz, who joined the Board as members of the class on June 24, 2016 in connection with TowneBank's acquisition of Monarch Financial Holdings, Inc. and Monarch Bank (together, "Monarch"). If elected, the Class I nominees will serve until the Annual Meeting of Stockholders held in 2020. The Board is also nominating Robert M. Oman and Elizabeth T. Patterson to serve as Class II directors and E. Neal Crawford, William T. Morrison, and Dwight T. Schaubach to serve as Class III directors. If elected, the Class II nominees will serve until the Annual Meeting of Stockholders held in 2018 and the Class III nominees will serve until the Annual Meeting of Stockholders held in 2019. Messrs. Crawford, Morrison, Oman, and Schaubach and Ms. Patterson joined the Board as members of their respective classes on June 24, 2016 in connection with TowneBank's acquisition of Monarch. The persons named in the proxy will vote for the election of the nominees named below unless authority is withheld. If, for any reason, the persons named as nominees below should become unavailable to serve, an event which management does not anticipate, proxies will be voted for such other persons as the Board of Directors may designate.

The affirmative vote of a plurality of the votes cast at the Annual Meeting is required for the election of directors. This means that the nominees receiving the greatest number of affirmative votes cast at the Annual Meeting will be elected. A properly returned proxy indicating "withhold" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated. Broker non-votes will not be counted as votes cast on the proposal and will have no effect on the election of directors.

The following tables provide certain biographical information with respect to each director and director nominee for election at the Annual Meeting, followed by a statement regarding the specific experience, qualifications, attributes or skills that led the Board to conclude that each director or director nominee should serve as a director of the Company.

The Board of Directors recommends the nominees, as set forth below, for election and that stockholders vote "FOR" these nominees.

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
2017 Class (Director Nominees to Serve Until the 2020 Annual Meeting):		
Jeffrey F. Benson (55)*	2016	<p>Mr. Benson has served as Vice Chairman of the Board of Directors of TowneBank since the merger of Monarch with TowneBank in June 2016. Mr. Benson has served as a Partner of Overton Family Partnership, L.P. (real estate development and management), in Suffolk, Virginia, since 1985. Mr. Benson served as a director of Monarch until the merger with TowneBank in June 2016.</p> <p>Mr. Benson's companies are involved in the development and management of commercial real estate, residential development and construction, as well as office and industrial development. Mr. Benson is very active in local youth activities. He also serves on the Board of Directors of Liberty University. Mr. Benson's significant involvement in the residential and commercial real estate markets provides meaningful value and insight to the Board.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
Douglas D. Ellis (72)*	2010	<p>Mr. Ellis has served as President of Ellis-Gibson Development Group (real estate development and property management), Virginia Beach, Virginia, since 1988.</p> <p>Mr. Ellis has over 40 years of experience in commercial real estate, including over 25 years as founder and President of the Ellis-Gibson Development Group. He has also served on the boards of several civic and business organizations, including the Virginia Beach Development Authority since 2001 and as a TowneBank regional director since 2005. Mr. Ellis' extensive business, civic, and real estate experience in the local community, combined with his service as a TowneBank regional director, makes him a valuable asset to the Board.</p>
John W. Failes (72)*	1999	<p>Mr. Failes, a retired Certified Public Accountant, was the founder and owner of one of the largest local public accounting firms in the state of Virginia.</p> <p>Mr. Failes spent over 30 years in public accounting, working with a diverse cross-section of businesses in the local community, including banking institutions. Mr. Failes also has two decades of experience as a director of banking institutions and has served as a member on many civic and nonprofit boards.</p>
William I. Foster III (61)	2005	<p>Mr. Foster has served as President of TowneBank Virginia Beach since July 2011. He served as President of TowneBank Norfolk from February 2005 to June 2011. Previously, Mr. Foster was employed as the Chief Financial Officer of IntraNexus, Inc. (information systems provider), Virginia Beach, Virginia, from January 2002 to August 2003. He served as the Hampton Roads Regional President of Central Fidelity Bank from 1993 to 1998.</p> <p>Mr. Foster has over 30 years of experience in the banking industry, with a background in retail and commercial real estate. Mr. Foster's extensive experience in banking and commercial real estate provides significant insight and expertise to our Board.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
Stephanie J. Marioneaux, M.D. (58)*	2010	<p>Dr. Marioneaux has served as an ophthalmologist in Chesapeake, Virginia, since 1989.</p> <p>Dr. Marioneaux has over 15 years of experience serving on a regional board of TowneBank. She has also served the local community as an ophthalmologist since 1989 and has been active in civic and professional organizations. Dr. Marioneaux has been recognized for her high ethical standards and volunteerism. She was one of five recipients of the Benjamin F. Boyd Humanitarian Medal for Services to the Americas in 2011, presented by the Pan-American Association of Ophthalmology, for her successful efforts to ship over \$500,000 of ophthalmology equipment to Haiti after the earthquake in 2011. Dr. Marioneaux provides our Board with a valuable combination of community service experience and banking industry expertise.</p>
Juan M. Montero, II, M.D. (75)*	1999	<p>Dr. Montero is retired from practice as a General and Thoracic Surgeon.</p> <p>Dr. Montero has over 25 years of experience serving on the boards of banking institutions, including TowneBank. He also served the local community as a general/thoracic surgeon for 15 years. Dr. Montero brings a unique perspective to our Board by combining banking industry expertise with a strong focus on service in the community.</p>
Thomas K. Norment, Jr. (71)*	2009	<p>Mr. Norment has served as a professor at the College of William & Mary since 2008 and as a Commissioner of Accounts for the City of Williamsburg, Virginia, and James City County, Virginia, since 2009. In addition, he is “of counsel” at Kaufman & Canoles, P. C., where he was formerly a partner. A Virginia State Senator who serves on the Senate Finance Committee, Mr. Norment has represented the 3rd Senatorial District since 1992.</p> <p>Mr. Norment’s experience as an elected public official provides insight into the workings of state government and the issues facing constituents, many of whom reside in the Hampton Roads area.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
Brad E. Schwartz (54)	2016	<p>Mr. Schwartz has served as Senior Executive Vice President and Chief Operating Officer of TowneBank since June 2016, when Monarch was merged into TowneBank. Previously, he served as Chief Executive Officer of Monarch Bank from 2009 until June 2016 and as Chief Financial Officer/Chief Operating Officer of Monarch Bank from 2004 until 2009.</p> <p>Mr. Schwartz has approximately 30 years of banking experience and has served as a safety and soundness examiner for the Virginia State Corporation Commission’s Bureau of Financial Institutions, the primary regulator of Virginia-chartered financial institutions. He has also served on the Board of Directors for the Federal Reserve Bank of Richmond, the Virginia Bankers Association, and the Board of Visitors for Longwood University. Mr. Schwartz’s experience, leadership, and skills in the financial services industry bring value to the Board and the Company.</p>
Alan S. Witt (61)*	2004	<p>Mr. Witt has served as Chief Executive Officer of PBMares, LLP (accounting and business consulting firm), Newport News, Virginia, since its formation in January 2013. He previously served as Chief Executive Officer of Witt Mares, PLC from 1989 to December 2012, before its merger with PBGH, LLP in January 2013. He also served as a director of Harbor Bank from July 1996 until its merger with TowneBank in March 2004.</p> <p>Mr. Witt is a licensed CPA, practicing in public accounting and serving numerous clients in various industries, giving him broad-based experience and expertise in financial operating and reporting matters. Mr. Witt also has prior experience serving on the boards of several banking institutions. During his career, Mr. Witt served on the AICPA Credit Union Committee, and for a period of time served as the chairman of the subcommittee tasked with writing the AICPA Audit Guide – Audits of Credit Unions, issued in 1986. Mr. Witt provides an expertise in technical auditing and reporting matters related to financial institutions, which, combined with his experience as chief executive officer of a large regional public accounting and business consulting firm, is a unique and valuable asset to the Board.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
2018 Class (Director Nominees to Serve Until the 2018 Annual Meeting):		
Robert M. Oman (62)*	2016	<p>Mr. Oman has served as the President of Oman Funeral Homes, Inc., Chesapeake, Virginia, since 1985. He also serves as President of Hampton Roads Crematory, LLC, Simply Cremation, Inc., O & O Properties, LLC, and Oman Insurance Agency, LLC. Mr. Oman served as a director of Monarch until the merger with TowneBank in June 2016.</p> <p>Mr. Oman currently is President of the Virginia State Funeral Directors Association, where he also serves as Chairman of its Legislative Committee. Mr. Oman has the distinct honor of having been named a recipient of “Virginia’s Outstanding Funeral Director of the Year” by the Virginia Funeral Directors Association. He is a former member and past-President of the Virginia State Board of Funeral Directors and Embalmers and is a guest lecturer and instructor at Old Dominion University, Tidewater Community College, and the Chesapeake Public School System. He is a former four-term Chairman and currently serves as the senior member and Chairman of the Chesapeake Hospital Authority. Mr. Oman is a former President of the Tidewater Funeral Directors Association and is past-President and member of the board of the Chesapeake Hospice Council. As a small business owner and native of Chesapeake, Mr. Oman brings value and insight into our business banking focus as well as the community.</p>
Elizabeth T. Patterson (68)*	2016	<p>Ms. Patterson has served as President of Waypoint Advisors, LLC, a family office specializing in wealth management, legacy and philanthropic services for families and foundations, since 2001. Ms. Patterson served as a director of Monarch until the merger with TowneBank in June 2016.</p> <p>Ms. Patterson holds an M.B.A. in Finance and is a Certified Financial Planner. She is an active leader in the community, and has served on the boards of numerous civic and non-profit organizations. Previously, she served as Vice-Chair of the Chesapeake School Board. Ms. Patterson brings investment experience, analytical ability and leadership skills to her role on our Board.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
2019 Class (Director Nominees to Serve Until the 2019 Annual Meeting):		
E. Neal Crawford, Jr. (54)	2016	<p>Mr. Crawford has served as President of Towne Financial Services Group since June 2016, when Monarch was merged into TowneBank. Previously, he served as President and Corporate Director of Monarch Financial Holdings, Inc. since 2010 and President of Monarch Bank since 2009.</p> <p>Mr. Crawford has worked in the banking industry for over 25 years, including as president of a commercial mortgage brokerage company and as community president for a large regional banking company. Mr. Crawford's civic and community activities include serving as treasurer for the East Carolina University Alumni Foundation, serving on the Board of Visitors of East Carolina University, serving on the Board and Executive Committee of the Greater Norfolk Company, and serving on the boards of Virginia Beach Vision, Visit Norfolk, and Retail Alliance. Mr. Crawford's experience, leadership, and skills in the banking field add value as a member of our executive management team and as a director.</p>
William T. Morrison (54)	2016	<p>Mr. Morrison has served as the Chairman and Chief Executive Officer of the TowneBank Mortgage and Realty Group since June 2016, when Monarch was merged into TowneBank. Previously, he served as Chief Executive Officer of Monarch Mortgage from 2011 until June 2016 and Executive Vice President and Chief Operating Officer of Monarch Mortgage from 2007 until 2011.</p> <p>Mr. Morrison has approximately 30 years of banking experience and has previously served as chief operating officer and chief credit officer at local community banks. Mr. Morrison's civic and community activities include having served on the Old Dominion University Executive Advisory Council for the College of Business and Public Administration, the Virginia Beach Community Service Board, the United Way Funds Distribution Committee, the Virginia Beach Youth Foundation, and the Virginia Beach Forum. Mr. Morrison's experience, leadership, and skills in the financial and mortgage lending industries are critical in leading our mortgage division and bring significant value to our Board.</p>
Dwight C. Schaubach (74)*	2016	<p>Mr. Schaubach has served as Chief Executive Officer and President of Schaubach Companies of Virginia, Inc., Norfolk, Virginia, since 1975. Mr. Schaubach served as a director of Monarch until June 2016, when Monarch was merged into TowneBank.</p> <p>Mr. Schaubach has served as both an owner of several small and medium sized businesses and an entrepreneur. Mr. Schaubach's experience allows him to provide insight into the community and bring meaningful value to our business banking focus.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
2018 Class (Continuing Directors to Serve Until the 2018 Annual Meeting):		
Jacqueline B. Amato (67)	2000	<p>Ms. Amato served as Chairman and Chief Executive Officer of TowneBank Mortgage from October 2012 to December 2016. Previously, she was President of TowneBank Mortgage from October 2000 to October 2012.</p> <p>Ms. Amato has over 30 years of experience running a successful mortgage company. Ms. Amato's extensive experience with corporate strategy and the mortgage industry provide invaluable insight and guidance to our Board.</p>
Richard S. Bray (71)*	2006	<p>Judge Bray has served as President, Chief Executive Officer, and Chairman of Beazley Foundation, Inc. (private foundation), Portsmouth, Virginia, since September 2002. He retired as Senior Judge, Court of Appeals of Virginia, in 2002.</p> <p>Judge Bray's legal career spanned 32 years, culminating with him serving as Senior Judge on the Court of Appeals of Virginia. He has over 15 years of experience serving on the boards of three banking institutions, including TowneBank. Judge Bray's experience in the legal community and his experience gained serving as a director in the banking industry are valuable assets to the Board.</p>
Paul J. Farrell (79)*	1999	<p>Mr. Farrell has served as President of Rosewell Corporation (real estate development), Chesapeake, Virginia, since March 1981, and President of Rosewell Homes, Inc. (home building), Chesapeake, Virginia, since November 2004.</p> <p>Mr. Farrell has over 50 years of experience in construction and real estate development. He also brings over 10 years of service as a regional director of banking institutions prior to his service with TowneBank. Mr. Farrell brings to our Board extensive knowledge of real estate and its related investment and financing activities, and provides insight into the state of the local economy.</p>
Andrew S. Fine (80)	1999	<p>Mr. Fine serves as President of The Runnymede Corporation (real estate development), Virginia Beach, Virginia.</p> <p>Mr. Fine has an extensive legal, business, and banking background. He has served as a director on the board of banking institutions, including TowneBank, for over 35 years. Mr. Fine's background as an executive officer and his expertise in banking and legal matters make him a valuable member of the Board.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
Gordon L. Gentry, Jr. (80)	2004	<p>Mr. Gentry has served as Chairman of the Board of Directors of TowneBank Peninsula since April 2004. Mr. Gentry previously served as President and Chief Executive Officer of Harbor Bank from July 1995 until its merger with TowneBank in March 2004.</p> <p>Mr. Gentry began his banking career in 1960 and has served as president, regional executive, chief executive officer, and chairman of banking organizations since 1976. Mr. Gentry brings to our Board a wealth of leadership experience and community banking expertise.</p>
John R. Lawson, II (65)*	2004	<p>Mr. Lawson serves as President and Chief Executive Officer, W.M. Jordan Company, Inc. (general construction contractor), Newport News, Virginia. He was a director of Harbor Bank from July 1996 to March 2004, when it was acquired by TowneBank.</p> <p>Mr. Lawson provides the valuable perspective gained from more than 30 years of leading a company with over \$450 million in annual revenue as the Chief Executive Officer of W. M. Jordan Company, Inc.</p>
W. Ashton Lewis (71)*	1999	<p>Mr. Lewis has served as President of Lewis Gibbs Corporation (automobile dealership holding company), Chesapeake, Virginia, and Treasurer of First Team Automotive Group, Chesapeake, Virginia, since 1999.</p> <p>Mr. Lewis has over 40 years of experience as the owner/operator of new auto dealerships and over 30 years of experience as a director of banking institutions. Mr. Lewis' experience as a local entrepreneur and his banking industry experience make him an asset to the Board.</p>
R. Scott Morgan (72)	1999	<p>Mr. Morgan retired from service as President and Senior Loan Officer of TowneBank in June 2011. He served as President and Senior Loan Officer of TowneBank from April 1999 to June 2011.</p> <p>During Mr. Morgan's 45 years in banking and financial services, he served in numerous leadership roles focusing on lending, policy, review, and management. As one of the founding officers of TowneBank, Mr. Morgan brings to our Board a deep understanding of our Company's business, history, and organization, as well as extensive leadership, community banking expertise, and management experience.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
R.V. Owens, III (60)	2011	<p>Mr. Owens is President and Chief Executive Officer of R.V. Owens Enterprises LLC (real estate development firm), Kill Devil Hills, North Carolina. He also served as owner of R.V.'s Restaurant in Nags Head, North Carolina.</p> <p>Mr. Owens' experience as the owner and President of a local retail business, combined with his extensive knowledge of the local communities in northeastern North Carolina, makes him a valuable asset to the Board.</p>
Richard T. Wheeler, Jr. (70)	2015	<p>Mr. Wheeler was Chairman, President and Chief Executive Officer of Franklin Financial Corporation and Franklin Federal Savings Bank (together, "Franklin") until the merger with TowneBank in January 2015. Mr. Wheeler joined Franklin in 1992. Previously, he was a partner with KPMG LLP.</p> <p>Mr. Wheeler's extensive experience in the local banking industry, prior experience as the Virginia banking industry leader for KPMG LLP, and involvement in business and civic organizations in the Richmond, Virginia community provides valuable insight regarding our business and operations.</p>

2019 Class (Continuing Directors to Serve Until the 2019 Annual Meeting):

G. Robert Aston, Jr. (72)	1999	<p>Mr. Aston has served as Chairman of the Board and Chief Executive Officer since the founding of TowneBank in 1998. He served as President and Chief Executive Officer of BB&T of Virginia from January 1995 to June 1998 and as President and Chief Executive Officer of Commerce Bank from April 1985 to January 1995. Mr. Aston began his career at Citizens Trust Company in 1964 and rose through the ranks to serve as President and Chief Executive Officer from 1981 to 1985.</p> <p>Through his over 50 years of service to the community as a hometown banker and the leader of several community banks, Mr. Aston has gained a significant level of management experience in all aspects of community banking. During his career, he has served in numerous senior management positions, including that of senior lending officer, chief administrative officer and chief operating officer.</p>
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<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
E. Lee Baynor (77)*	1999	<p>Mr. Baynor has served as President of HBMD, LLC (land developer), Chesapeake, Virginia, since 2006 and President of Lee Baynor, Inc. (real estate development and home building company), Chesapeake, Virginia, since 1989. Mr. Baynor also served as President of Baynor Furniture, Inc., Chesapeake, Virginia, from 1960 to October 2010.</p> <p>Mr. Baynor has over 50 years of experience as the President of a local retail business, along with many years in residential and commercial construction, land development and commercial leasing. Mr. Baynor's extensive business experience in the local community, combined with over 25 years of service as a director at banking institutions, make him a valuable asset to the Board.</p>
Thomas C. Broyles (86)*	1999	<p>Mr. Broyles has served as Vice Chairman of the Board of Directors of TowneBank since 1999. Mr. Broyles is retired from Kaufman & Canoles, P.C. (law firm), Norfolk/Virginia Beach, Virginia, where he was formerly a partner.</p> <p>Mr. Broyles' extensive legal background serves as an asset to the Board in matters of corporate governance, while his business and investing experience benefits the Board in operational and financial matters. Prior to his service on the Board of TowneBank, Mr. Broyles previously served on the boards of two banking institutions, including serving as Chairman of the Board of Commerce Bank.</p>
Bradford L. Cherry (76)*	1999	<p>Mr. Cherry has served as Chairman of the Board and Secretary of Cherry Carpet, Inc. since December 2010 and President of Cherry Properties Associates, L.C., Portsmouth, Virginia, since 1989. Mr. Cherry also served as President and Chief Executive Officer of Cherry Carpet, Inc. from 1989 to December 2010.</p> <p>Mr. Cherry's senior management experience and financial expertise obtained as the Chief Executive Officer of a local business and his director experience at TowneBank and other banking institutions provide a valuable benefit to the Board of Directors.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
J. Morgan Davis (66)	1999	<p>Mr. Davis has served as President and Chief Banking Officer of TowneBank since July 2011. He served as President of Towne Financial Services Group from March 2005 to June 2011, and as President of TowneBank Virginia Beach from May 1999 to March 2005.</p> <p>Mr. Davis is a 37-year banking veteran and served as the founding president of a local banking institution for 13 years and served as President of TowneBank Virginia Beach for six years. Mr. Davis has served as a key negotiator in several of TowneBank’s acquisitions and has served on the boards of several prominent community organizations. Mr. Davis provides vital senior management experience and business acumen to our Board of Directors.</p>
Harry T. Lester (71)*	2010	<p>Mr. Lester served as President of Eastern Virginia Medical School (“EVMS”), Norfolk, Virginia, from 2005 until April 2013. Previously, Mr. Lester was a member of the EVMS Board of Visitors for five years and served a portion of that time as Rector of the EVMS Board.</p> <p>During his tenure as President of EVMS, Mr. Lester was a catalyst for positive change throughout the school, including implementation of a series of strategic initiatives, forging stronger relationships with other educational institutions and with EVMS’ teaching hospitals, and securing additional funding to accommodate the growth of the school. Previously, he served as an officer in the U.S. Navy and had a successful career in commercial real estate of over 30 years. An active community leader, he serves on numerous boards, including serving 16 years as a regional director for TowneBank. Mr. Lester’s extensive senior management and community service experience, coupled with his knowledge of banking and commercial real estate, provides significant benefits to our Board.</p>
Elizabeth W. Robertson (64)*	2015	<p>Ms. Robertson currently serves as Chief Financial Officer of Monument Restaurants, LLC, Richmond, Virginia. She was a director of Franklin until the merger with TowneBank in January 2015. Previously, she worked with KPMG LLP and Virginia Resources Authority.</p> <p>Ms. Robertson has extensive experience in audit and public accounting. Her involvement in multiple business and civic organizations in the Richmond, Virginia community provides valuable insight regarding our business and operations.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
Richard B. Thurmond (65)	2000	Mr. Thurmond currently serves as the Southeast Regional President of Howard Hanna Real Estate Services. He served as President of William E. Wood and Associates (realty company), Virginia Beach, Virginia, from 1990 until its merger with Howard Hanna Real Estate Services in December 2013. Mr. Thurmond's background as an executive officer and his extensive knowledge of the real estate industry bring a valuable perspective to the Board.
F. Lewis Wood (78)*	2003	Mr. Wood has served as President of Hampton Chevrolet-Mazda, Hampton, Virginia, since 1971. Mr. Wood has over 45 years of experience managing retail auto dealerships. He also served as a director of various banking institutions. Mr. Wood's experience has led to a knowledge of the local business environment and the banking industry, making him a particularly valuable component of the Board.

* An "independent director" as defined in Rule 5605(a)(2) of the Marketplace Rules of The NASDAQ Stock Market, LLC ("NASDAQ").

Board of Directors and Committees

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of the director's duties, including attendance at Board and committee meetings. There were 12 meetings of the Board of Directors in 2016. Excluding Messrs. Benson, Crawford, Morrison, Oman, Schaubach, Schwartz and Ms. Patterson, who joined the Board on June 24, 2016 in connection with the merger of Monarch with Townebank, no incumbent director attended fewer than 75% of the meetings of the Board of Directors and its committees in 2016. Directors are encouraged to attend stockholders' meetings, and 25 of 26 of our incumbent directors, excluding Messrs. Benson, Crawford, Morrison, Oman, Schaubach, and Schwartz and Ms. Patterson, attended the Annual Meeting of Stockholders held May 18, 2016.

There are no family relationships among any of the directors or among any director and any officer, except for Messrs. Wood and Lewis, who are first cousins; Mr. Andrew S. Fine and Mr. Matthew D. Fine (Norfolk TowneBanking Group Board), who are father and son, respectively; Judge Richard S. Bray and J. Robert Bray (Portsmouth TowneBanking Group Board), who are brothers; and R.V. Owens, III and R.V. Owens, Jr. (Dare County TowneBanking Group) who are son and father, respectively.

The Board of Directors of the Company has established various committees, including Executive, Audit and Risk, Compensation, and Nominating. The Board has reviewed the definition of "independent director" as defined in NASDAQ Marketplace Rule 5605(a)(2) in connection with determining independence.

Leadership. The positions of Chairman of the Board and Chief Executive Officer of the Company are currently combined, with Mr. Aston serving as Chairman and Chief Executive Officer. The Company believes this leadership structure is appropriate at this time because it allows the Company to fully benefit from the leadership ability, industry experience and history with the Company that Mr. Aston possesses.

Lead Director. In February 2017, the Board of Directors established the position of Lead Director and selected Ret. Judge Richard S. Bray as Lead Director. The responsibilities and duties of the Lead Director

include (i) presiding at meetings of the Board of Directors at which the Chairman is not present, including executive sessions of the independent directors; (ii) serving as the principal liaison between the Chairman and the independent directors on sensitive issues; (iii) calling special meetings or executive sessions of the independent directors; (iv) facilitating communication between the Board and senior management, including advising the Chairman of the Board's informational needs regarding meeting agendas and schedules and the types and forms of information supplied to directors; (v) serving as an additional point of contact for Board members and shareholders and being available for consultation and direct communication with major shareholders; and (vi) working with the Chairman to ensure that the Board is provided with the resources, including external advisors and consultants as considered appropriate, to permit the Board to carry out its responsibilities and duties. The Lead Director is elected annually by a majority vote of the independent directors. Although elected annually, the Lead Director is generally expected to serve for more than one year. The Lead Director may be removed or replaced at any time with or without cause by a majority vote of the independent members of the Board of Directors.

Executive Committee. The Executive Committee is composed of Messrs. Bray (Chairman), Aston, Benson, Broyles, Farrell, Fine, Lawson, Morgan, Schwartz, Wheeler, and Witt. The committee, which is subject to the supervision and control of the Board of Directors, has been delegated substantially all of the powers of the Board of Directors to act between meetings of the Board, except for certain matters reserved to the Board by law. The Executive Committee also considers new loan applications that are in excess of individual officer limits and monitors, with management, the Company's loan portfolio. In 2016, there were 19 meetings of the Executive Committee.

Audit and Risk Committee. The Audit and Risk Committee is composed of Ms. Robertson (Chairman), Messrs. Baynor, Failes, Lewis, Montero, Witt and Ms. Patterson. Serving as consultants to the Audit and Risk Committee are Dr. C. Fred Bateman, a Director of the Chesapeake TowneBanking Group board; Mr. Michael J. Blachman, a Director of the Portsmouth TowneBanking Group board; Mr. W. Arthur Hudgins, a Director of the Williamsburg TowneBanking Group board; Mr. Daniel N. Ryan, Sr., a Director of the Virginia Beach TowneBanking Group board; and Mr. Robert E. Yancey, a Director of the Peninsula TowneBanking Group board. The seven committee members are considered "independent directors" as defined by NASDAQ Marketplace Rule 5605(a)(2). The Board of the Company has established that the Company has four Audit and Risk Committee financial experts: Mr. John W. Failes, Ms. Elizabeth T. Patterson, Ms. Elizabeth W. Robertson, and Mr. Alan S. Witt. The Board has determined that Mr. Failes, Ms. Patterson, Ms. Robertson, and Mr. Witt possess the requisite accounting and related financial management expertise to qualify for the position. Pursuant to the written charter of the Audit and Risk Committee, the functions of the committee are to review and approve the selection of independent certified public accountants; to review the reports of examination by the regulatory agencies, the independent accountants and the internal auditor; and to issue its report to the Board of Directors. A copy of the charter of the Audit and Risk Committee is available on the "Investor Relations" page of the Company's website at <https://www.townebank.com> under the heading "Governance Documents."

The Audit and Risk Committee is responsible for reviewing all transactions between the Company and any officer or director of the Company or any entity in which an officer or director has a material interest. Any such transactions must be on terms no less favorable than those that could be obtained on an arm's-length basis from independent third parties. The Audit and Risk Committee met eight times in 2016. The Audit and Risk Committee Report begins on page 49.

Compensation Committee. The Compensation Committee is composed of Messrs. Lewis (Chairman), Bray, Broyles, Lester, Montero, and Wood. The six committee members are considered "independent directors" as defined by NASDAQ Marketplace Rule 5605(a)(2). Pursuant to the written charter of the Compensation Committee, the primary function of the committee is to provide independent oversight of TowneBank's compensation practices and to determine compensation or provide recommendations to the Board for the compensation of the Chief Executive Officer and all other executive officers of TowneBank. The committee also monitors all incentive and equity compensation plans for the benefit of Company officers and directors eligible to participate in such plans. The Compensation Committee met four times

in 2016. The Compensation Committee Report is included on page 31. A copy of the charter of the Compensation Committee is available on the “Investor Relations” page of the Company’s website at <https://www.townebank.com> under the heading “Governance Documents.”

Compensation Committee Interlocks and Insider Participation. During 2016, there were transactions between TowneBank and certain members of the Compensation Committee, or their associates, primarily consisting of extensions of credit and purchases of goods and services by the Company in the ordinary course of its business. Each transaction was made on substantially the same terms, including interest rates, lease rates, purchase prices, collateral and repayment terms, as those prevailing at the time for comparable transactions with the general public. In the opinion of management, none of the transactions involve more than the normal risk of collectibility or present other unfavorable features.

Risk Oversight. In accordance with NASDAQ requirements, the Audit and Risk Committee is primarily responsible for overseeing the risk management function at TowneBank on behalf of the Board. In carrying out its responsibilities, the Audit and Risk Committee works closely with TowneBank’s senior risk officer, internal audit, and other members of TowneBank’s management team.

In addition to the Audit and Risk Committee, the other committees of the Board consider the risks within their areas of responsibility. For example, the Compensation Committee considers the risks that may be implicated by our executive compensation programs. For a discussion of the Compensation Committee’s review of TowneBank’s senior executive officer compensation plans and employee incentive compensation plans and the risks associated with these plans, see “Compensation Discussion and Analysis” beginning on page 31 of this proxy statement.

TowneBank’s Director Nominations Process

The Company’s Board of Directors has adopted a Director Nominations Policy (the “Nominations Policy”). The purpose of the Nominations Policy is to describe the process by which candidates for possible inclusion in the Company’s recommended slate of director nominees (the “Candidates”) are selected. The Nominations Policy is administered by the Nominating Committee.

Nominating Committee. The Nominating Committee is composed of Messrs. Broyles (Chairman), Bray, and Wood. The Nominating Committee reviews the qualifications of potential director candidates and makes recommendations to the full Board. The factors considered by the committee and the Board in its review of potential candidates include the following:

Minimum Criteria for Board Members. Each Candidate must possess at least the following specific minimum qualifications:

- Each Candidate shall be prepared to represent the best interests of all of the Company’s stockholders and not just one particular constituency.
- Each Candidate shall be an individual who has demonstrated integrity and ethics in his or her personal and professional life and has established a record of professional accomplishment in his or her chosen field.
- No Candidate, family member (as defined by NASDAQ rules), affiliate or associate (each as defined in Rule 405 under the Securities Act of 1933) of a Candidate shall have any material personal, financial or professional interest in any present or potential significant competitor of the Company.
- Each Candidate shall be prepared to participate fully in Board activities, including committee assignments. Attendance at, and active participation in, meetings of the Board and the committee of which he or she is a member is expected. There should be no other personal or professional

commitments that would, in the Nominating Committee's sole judgment, interfere with or limit his or her ability to do so.

Desirable Qualities and Skills. In addition, the Company also considers it desirable that Candidates possess the following qualities or skills:

- Each Candidate should contribute to the Board's overall diversity – diversity being broadly construed to mean a variety of opinions, perspectives, personal and professional experiences and backgrounds, such as gender, race and ethnicity differences, as well as other differentiating characteristics.
- Each Candidate should contribute positively to the existing chemistry and collaborative culture among Board members.

Internal Process for Identifying Candidates. The Company has a primary method for identifying Candidates (other than those proposed by the Company's stockholders, as discussed below). On a periodic basis, the Company solicits ideas for possible Candidates from a number of sources: members of the Board, senior-level Company executives, individuals personally known to the members of the Board, and research.

The Nominations Policy divides the process for Candidates proposed by stockholders into the general nomination right of all stockholders and proposals by "Qualified Stockholders" (as defined below).

General Nomination Right of All Stockholders. Any stockholder of the Company may nominate one or more persons for election as a director of the Company at the annual meeting of stockholders if the stockholder complies with the notice, information and consent provisions contained in the Company's bylaws. The Company has an advance notice bylaw provision. In order for the director nomination to be timely, a stockholder's notice must be delivered to the Company's principal executive offices not less than 60 nor more than 90 days prior to the anniversary of the preceding year's annual meeting, subject to certain exceptions if the meeting date is not held within the same general time period.

The procedures described in the next section are meant to establish an additional means by which certain stockholders can have access to the Company's process for identifying and evaluating Candidates, and are not meant to replace or limit stockholders' general nomination rights in any way.

Proposals by Qualified Stockholders. In addition to those Candidates identified through the Company's own internal processes, in accordance with the Nominations Policy, the Nominating Committee will evaluate a Candidate proposed by any single stockholder or group of affiliated stockholders who has beneficially owned more than 5% of the Company's common stock for at least one year (and will hold the required number of shares through the annual stockholders' meeting) and who satisfies the notice, information and consent provisions in the Nominations Policy (a "Qualified Stockholder").

All Candidates (whether identified internally or by a Qualified Stockholder) who, after evaluation, are then recommended by the Nominating Committee and approved by the Board, will be included in the Company's recommended slate of director nominees in its proxy statement.

In order to be considered by the Nominating Committee for an upcoming annual meeting of stockholders, a notice from a Qualified Stockholder regarding a potential Candidate must be received by the Company not less than 120 calendar days before the anniversary of the date of the Company's proxy statement released to stockholders in connection with the previous year's annual meeting. If the Company changes its annual meeting date by more than 30 days from year to year, the notice must be received by the Company no later than the close of business on the 10th day following the day on which notice of the date of the upcoming annual meeting is publicly disclosed.

Any Candidate proposed by a Qualified Stockholder must be independent of the Qualified Stockholder in all respects as determined by the Nominating Committee or by applicable law. Any Candidate submitted by a Qualified Stockholder must also meet the definition of an “independent director” under NASDAQ Marketplace Rule 5605(a)(2).

Evaluation of Candidates. The Nominating Committee will consider all Candidates identified through the processes described above, and will evaluate each of them, including incumbents, based on the same criteria. If, based on the committee’s initial evaluation, a Candidate continues to be of interest, certain members of the Nominating Committee will interview the Candidate and communicate their evaluation to the other committee members, the Chairman of the Board, and the Chief Executive Officer.

The Nominating Committee and senior management will conduct later reviews. Ultimately, background and reference checks will be conducted and the Nominating Committee will meet to finalize a list of recommended Candidates for the Board’s consideration.

Timing of the Identification and Evaluation Process. The Company’s fiscal year ends each year on December 31. The Nominating Committee meets on an as-needed basis to consider, among other things, Candidates to be recommended to the Board for inclusion in the Company’s recommended slate of director nominees for the next annual meeting and the Company’s proxy statement.

Future Revisions to the Nominations Policy. The Nominations Policy is intended to provide a flexible set of guidelines for the effective functioning of the Company’s director nominations process. The Nominating Committee intends to review the Nominations Policy periodically and anticipates that modifications will be necessary from time to time as the Company’s needs and circumstances evolve.

APPOINTMENT OF DIRECTORS OF TOWNEBANKING GROUPS AND TOWNE FINANCIAL SERVICES — PROPOSAL TWO

The Company has established a “TowneBanking Group” for each of its nine targeted banking markets, and has established a board for Towne Financial Services (“TFS”). The separate Banking Groups allow the Company to identify more effectively customer needs and to respond to those financial needs with local decision-making authority. It is the responsibility of each local board, acting under delegated authority of the Board of Directors, to direct the Company’s overall development of its respective market. To facilitate corporate governance, the Company established TFS to oversee the operations of its non-bank divisions.

The members of the boards of directors of each TowneBanking Group and TFS are set forth on the following pages. You are being asked to ratify their appointment to their respective TowneBanking Group boards and TFS board. Although ratification is not required by our bylaws or otherwise, the Board of Directors is submitting the ratification of their appointment as a matter of good corporate governance. If their appointment is not ratified, the Board of Directors will reconsider the composition of the boards of directors of the TowneBanking Groups and TFS. The ratification of the appointment of the members of each TowneBanking Group board and the Towne Financial Services board requires that the votes cast “for” exceed the number of votes cast “against” the proposal. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

The Board of Directors recommends that you vote “FOR” the ratification of the appointment of the members of each TowneBanking Group board and the Towne Financial Services Board.

TowneBank Chesapeake:

Robert D. Jones, Chairman

Attorney, The Jones Firm, PLC

Jeffrey W. Ainslie

President, Ainslie Group, Inc.

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

Wesley E. Barnes, Jr., CPA

Barnes, Brock, Cornwell, & Painter, PLC

Dr. C. Fred Bateman

*Executive Director, Urban Superintendents
Association of America*

E. Lee Baynor

President, Lee Baynor, Inc.;
President, HBMD, LLC

Jeffrey F. Benson

Builder/Developer, Overton Family Partnership, L.P.

W. Michael Bryant

Owner, OBBCO Safety & Supply, Inc.

Rickard E. Burnell

*President, Atlantic Commercial Real Estate
Services, Inc.*

Vonda W. Chappell

Managing Director, Kaufman & Canoles, P.C.

Brian M. Clements

Owner, TitleQuest Companies/ Land Ventures, LLC

Ray A. Conner

*Commissioner of the Revenue (Retired), City of
Chesapeake*

William A. Copeland, Jr.*

President, TowneBank Chesapeake (Retired)

William E. Crawley

Chief Financial Officer, TST Construction

Floyd M. Cross, Jr.

President, Standard Calibrations, Inc.

Stacy Cummings

Executive, Priority Auto Group

Douglas W. Davis

Attorney, Davis Law Group

J. Morgan Davis

President & Chief Banking Officer, TowneBank

Joseph A. Falk

President, Little Joe's Auto

Paul J. Farrell*

President, Rosewell Homes, Inc.

Taylor B. Grissom

Land Developer, Prempay Development, LLC

Larry R. Hill

President, L.R. Hill Custom Builders, Inc.

John G. Horton, Jr.

President, Horton & Dodd, P.C.

Kevin L. Hubbard, Esquire

Attorney, Hubbard Law Group

Stephanie J. Marioneaux, M.D.

Ophthalmologist, Stephanie Marioneaux, M.D., P.C.

Dacia Marxrieser

Owner, Manufacturing & Design Technology, Inc.

Juan M. Montero, II, M.D.

General and Thoracic Surgeon (Retired)

John R. Newhart*

Sheriff, City of Chesapeake (Retired)

Thomas O'Grady

*Director of Business Development, Clancy & Theys
Construction Company*

Jim O'Sullivan

Sheriff, City of Chesapeake

Robert M. Oman

President, Oman Funeral Homes

Patrick L. Reynolds, CCIM

President, Ashby Development

Ronald C. Ripley

President, Ripley Heatwole Company, Inc.

David K. Ropp

City President, TowneBank

Jeffrey A. Saunders

President & CEO, Bakefresh Company, L.L.C.

Barbara L. Smith, CPA/APV, CVA

Partner, Cherry Bekaert, LLP

Douglas C. Smith

*Vice President Construction & Sales, Hearndon
Construction Corporation*

William D. Stevenson, Sr.

Chairman of the Board, Stevenson Tractor, Inc.

David W. Stockmeier

*Investment Advisor Representative, The Summit Group
of Virginia, L.L.P.*

Mervin R. Troyer

President, Cypress Point Enterprises, Inc.

TowneBank Chesapeake (Continued):

S. Grey Folkes, Jr.

CEO, Hassell & Folkes, PC

Dawn S. Glynn

*President & Regional Executive Officer, TowneBank
Chesapeake/Portsmouth/Suffolk/North Carolina*

* Director Emeritus

Shepelle Watkins-White

*Attorney, ShepelleWatkinsWhite Consulting & Law,
PLLC*

Thomas T. Winborne

Chairman Emeritus, Clark Nexsen

TowneBank of Currituck:

Stanley D. Griggs, Chairman

*Director, Currituck County Emergency
Management Services (Retired)*

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

The Honorable Richard S. Bray

*President, Beazley Foundation; Senior Judge, Court
of Appeals of Virginia (Retired)*

William Brumsey, IV

Brumsey & Brumsey, PLLC

W.E. Curling, Sr.

President, W.E. Curling, Inc.

J. Morgan Davis

President & Chief Banking Officer, TowneBank

Diane H. Ferebee

Realtor, Howard Hanna

Dawn S. Glynn

*President & Regional Executive Officer, TowneBank
Chesapeake/Portsmouth/Suffolk/North Carolina*

Cecil E. Hobbs, Jr.

*Senior Executive Vice President & Senior Loan
Administrator, TowneBank*

Sam T. Moore, Jr.

CEO, The Bank of Currituck (Retired)

Jerry L. Old

President, Currituck Homes, Inc.

J. Wesley Peoples, Jr.

President, Peoples Auction Co, Inc.

H. Taylor Sugg

President, TowneBank of Currituck-Outer Banks

Clark S. Twiddy

Vice President, Twiddy & Company

TowneBank Dare County:

Rufus Pritchard, Jr., Chairman

Owner, The Dunes Restaurant/Grits Grill

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

Tim A. Beacham

Owner, Earth Resources, Inc.

The Honorable Richard S. Bray

President, Beazley Foundation; Senior Judge, Court of Appeals of Virginia (Retired)

Allison L. Breaux

President, Sun Realty of Nags Head

Timothy M. Cafferty

Realtor, Outer Banks Blue, LLC, Sandbridge Blue, LLC

J. Morgan Davis

President & Chief Banking Officer, TowneBank

Robert Flintoff

Owner, Carolina Bark Products; President, Sea Scape Golf Links

Dawn S. Glynn

President & Regional Executive Officer, TowneBank Chesapeake/Portsmouth/Suffolk/North Carolina

Charles E. Hardy

Owner, Hardy Moving and Storage

Robert F. Harrell

President, Robert F. Harrell & Associates

John M. Harris

Owner, Kitty Hawk Kites

Myra S. Ladd-Bone

Owner, Atlantic Realty Kitty Hawk, LLC

Joseph Lamb, II

Company Attorney, Joe Lamb, Jr. Associates, Inc.

Robert Lawson

Owner, R. Lawson Construction Co., Inc.

Timothy W. Midgett

President, Midgett Realty

Robert Outten

County Manager, Attorney, Dare County

R.V. Owens, Jr.

Owens Restaurant (Retired)

R.V. Owens, III

President & CEO, R.V. Owens Enterprises, LLC

James Perry

Owner, Jim Perry & Company

H. Taylor Sugg

President, TowneBank of Currituck-Outer Banks

Paul Tine

Manager, Algonac Properties, Inc.

James C. Ward

President, Beach Realty of North Carolina, Inc.

Robert E. Wells

President, Southern Insurance Agency

W. Ray White

Vice Chairman, Dare County Board of Directors, TowneBank

TowneBank Norfolk:

Anita O. Poston, Chair

Partner, Vandeventer Black, LLP

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

David J. Benjack

President & Owner, Chesapeake Drywall & Acoustics, Inc.

William M. Bethea, Jr., M.D., FACP*

BOA & Staff Physician, Volunteers in Medicine of Martin County

Alonzo C. Brandon

Vice President for University Advancement & Executive Director of Foundations, Old Dominion University

Michael B. Burnette

Owner, Burnette Development

James H. Carraway, M.D.

Professor & Chairman, Division of Plastic Surgery, Eastern Virginia Medical School

A. J. Kalfus

Partner, Kalfus & Nachman, PC

John T. Kavanaugh

Admiral, U.S. Navy (Retired)

Richard F. Kiefner, Jr.

Insurance Broker, Northwestern Mutual Life Insurance Company

John P. Matson

President, TowneBank Norfolk

Michael W. McCabe, Sr.

Vice Chairman, Harvey Lindsey Commercial Real Estate

Caroline McCartney

Agent, Berkshire Hathaway HomeServices, Inc. Towne Realty

Charles V. McPhillips

Partner, Kaufman & Canoles, P.C.

TowneBank Norfolk (continued):

Adam Casagrande

Executive Vice President & General Counsel, ADS Tactical, Inc.

Webster M. Chandler, III

President, Nancy Chandler Associates

Charles T. Church

President & Owner, Getem Services Termite and Pest Control

Erik S. Cooper

President & Treasurer, Cooper Realty, Inc.

Joe P. Covington, Jr.

President, Covington Contracting, Inc.

Robert W. Cross

Executive Director, Virginia Arts Festival

R. Gatewood Dashiell

President & CEO, R.G. Electric Company, Inc.

J. Morgan Davis

President & Chief Banking Officer, TowneBank

Peter G. Decker, III

Partner, Decker, Cardon, Thomas & Weintraub & Neskis, PC

John W. Domanski

President, Accurate Marine Environmental, Inc.

Norma J. Dorey

President & Owner, Changes City Spa-Jakes Place

Joseph A. Dorto

CEO & General Manager, Virginia International Terminals (Retired)

Matthew D. Fine

President, The Safe Place Mini Storage

Paul D. Fraim

President, Fraim & Fiorella, P.C.

Robert S. Friedman

President, Harbor Group Management Company, LLC

D. Bart Frye, Jr.

CEO, Frye Properties, Inc.

David Host

Chairman, President, and CEO, T. Parker Host, Inc.

W. Sheppard Miller, III

Trident Utility Contracting, LLC

Keith H. Newby, M.D., F.A.C.C.

President, Fort Norfolk Plaza Cardiology Associates

Susan C. Pilato

President, PC&A Business Environments

Vito Piraino*

Consul of Italy; Vice President, Mediterranean Shipping Company, (USA) Inc. (Retired)

D. Scott Pritchett

President & Treasurer, Snow Jr. & King, Inc.

Bradbury N. Robinson, D.C.

Wards Corner Chiropractic, Owner

Thomas V. Rueger

Senior Executive Vice President, TowneBank

Karen J. Scherberger

CEO, Norfolk Festevents, Ltd.

Robert M. Stanton

Chairman, Stanton Partners, Inc.

Michael L. Sterling

Attorney, Vandeventor Black, LP

John R. Stokes

Attorney, Stokes Law Group, PLC

Ulysses Turner

Developer, Atlantic Apartment Rentals

Alvin A. Wall, CPA

Partner, Wall, Einhorn & Chernitzer, P.C.

Edward D. Whitmore

President, Norfolk Tug Company

Walter J. Wilkins, II

President, Bay Automotive

Rolf A. Williams

President, Anders Williams & Company

F. Blair Wimbush

Norfolk Southern Corporation (Retired)

Lauren V. Wolcott, CPA

President, Lauren V. Wolcott, CPA, P.C.

* Director Emeritus

TowneBank Peninsula:

Gordon L. Gentry, Jr., Chairman

Chairman, TowneBank Peninsula (Retired)

Donald B. Allen, Jr.

President, E.T. Lawson

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

M. Clark Baldwin

Senior Vice President, Harvey Lindsey

Commercial Real Estate

Charles A. Banks, III

Group Chief Executive, Wolseley plc (Retired);

Partner, Clayton, Dubilier & Rice

Stephen C. Barrs

President, C.A. Barrs Contractor, Inc.

Thomas J. Bayne, Jr.

President, R&B Corporation of VA

Robert R. Brown

President, Robert Brown & Associates, Inc.

Robert H. Burch

Real Estate Broker, Century 21 Nachman Realty

Arthur S. Casey

Owner, President & CEO, Casey Auto Group

Lawrence G. Cumming

Partner, Kaufman & Canoles, P.C.

J. Morgan Davis

President & Chief Banking Officer, TowneBank

William B. Downey

President & CEO, Riverside Health System

Dawn F. Griggs

Commercial Real Estate Sales/Leasing, Cushman & Wakefield/ Thalheimer Real Estate

Curry C. Hall, III

President & CEO, Bluewater Yacht Sales

Susan H. Harris

Market President, TowneBank

Norma B. Harvey

Business Counselor, Hampton University (Retired)

Robert R. Hatten

Managing Partner, Patten, Wornom, Hatten & Diamonstein, L.C.

Thomas N. Hunnicutt, III

President & CEO, Pembroke Construction Company, Inc.

Herbert V. Kelly, Jr.

Vice President - Partner, Jones, Blechman,

Woltz & Kelly, P.C.

Branch P. Lawson

President, Hampton Roads Division, East West Partners

John R. Lawson, II

President & CEO, W.M. Jordan Company, Inc.

St. George Lee, M.D.

Owner, Dr. St. George Lee Medical Practice

Patrick B. McDermott

President, McDermott & Ward, P.C.

C. Roger McLellon

President, Marquee Homes by C. R. McLellon Builder, Inc.

Donald L. Moore

Attorney & CEO, Craft Bearing Company, Inc.

Jeffrey Morrison, D.O.

Obstetrics & Gynecology Tidewater Physicians

Multispecialty Group

Joseph C. Ritchie, Jr.

President & CEO, Ritchie-Curbow Construction, Inc.

Joyce Schaffer, CPA

Malvin, Riggins & Company, P.C.

Brian K. Skinner

President, TowneBank Peninsula/Williamsburg

Cowles M. "Buddy" Spencer, Sr.

Real Estate Sales & Development, MidAtlantic

Commercial & Residential

Allen C. Tanner, Jr.

Partner, Jones, Blechman, Woltz & Kelly, P.C.

Gary H. Tarpley

President, Cable Associates of Virginia, LLC

Lee Scott Trainum

Senior Managing Director, Trainum, LLC

Helmuth W. Triesmann, Jr., M.D.

Orthopaedic Surgeon, Virginia Medical Center - Hampton (Retired)

Alan S. Witt

CEO, PBMares, LLP

F. Lewis Wood

President, Hampton Chevrolet-Mazda

Robert E. Yancey

President & CEO, John Yancey Companies

TowneBank Portsmouth/Suffolk:

Donald W. Comer, Jr., Chairman

President, Don Comer Ford, Inc. (Retired)

James E. Andrews*

President, Anzell Automotive, Inc. (Retired)

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

Lawton H. Baker

CPA & Investment Advisor, Baker & McNiff, PC

Ikshvanku A. Barot, M.D.

CEO, Arima Health, Inc.

R. Stephen Best

CEO, Southeast Virginia Community Foundation

Michael J. Blachman

Attorney, Bangel, Bangel & Bangel, LLP

J. Robert Bray

Senior Advisor, Kaufman & Canoles Consulting

Allen Bynum, III

President, Bynum Finance Corporation

Bradford L. Cherry

Chairman of the Board, Cherry Carpet, Inc.

Jun K. Chung, M.D.

Executive Director, Cardiovascular Specialists

J. Michael Council, CPA

Jones, Madden & Council, PLC

Robin Smith Cooke

Market President, TowneBank

W. Carroll Creecy

President, Sales Systems, Ltd.

J. Morgan Davis

President & Chief Banking Officer, TowneBank

Dr. Neal P. Davis*

Orthodontist (Retired)

Richard S. Fuller*

President, Smithfield Companies, Inc. (Retired)

Dawn S. Glynn

*President & Regional Executive Officer, TowneBank
Chesapeake/Portsmouth/Suffolk/North Carolina*

Alan E. Gollihue

*President & CEO, Portsmouth General Hospital
Foundation*

James L. Hall

Owner, Allfirst, LLC

Carl L. Hardee

President & CEO, The Lawson Companies

William H. Hargrove, A.I.A.

*Chairman of the Board, HBA Architecture and
Interior Design, Inc.*

William R. Hatcher, D.D.S.

Orthodontist, Hatcher Orthodontics

William T. Hodsdon

EVP, TowneBank (Retired)

F. M. Jones

President, Azalea Realty & Development Corporation

William H. Kline

President, Kline Realty Company

W. Ashton Lewis

*President, Lewis Gibbs Corporation; Treasurer, First
Team Auto Group*

The Honorable L. Louise Lucas

*President, Southside Direct Care Provider, LLC;
Virginia State Senator, State Assembly*

Gene C. Luke*

Fleet Commercial Manager, Hall Chevrolet (Retired)

Brian P. Midgette, D.D.S.

Dentist, Brian P. Midgette, D.D.S., P.C.

R. Scott Morgan

President, TowneBank (Retired)

John P. Motley

Treasurer, Portsmouth Lumber Corporation

Daniel L. Plante

*Executive Vice President, Towne Insurance
Agency, Inc.*

P. Ward Robinett, Jr.

President, TowneBank Portsmouth (Retired)

Eric J. Sasser

President, Sasser Construction, LLC

Dwight C. Schaubach

Owner & CEO, Schaubach Companies of Virginia, Inc.

Robert B. Seal, M.D.

Physician, Dr. R. B. Seal, Ltd. (Retired)

Robert L. Sondej*

Attorney (Retired)

Ned D. Taylor, D.M.D.

Oral and Maxillofacial Surgeon (Retired)

Vasken K. Tenekjian, M.D.

*Physician Advisor, Bon Secours Maryview Medical
Center*

David R. Tynch

*President & Managing Partner, Cooper, Spong &
Davis, P.C.*

Melissa L. Venable

Principle Owner, Land Planning Solutions

Robert T. Williams

President & CEO, Tri-City Developers, LLC

Talmadge H. Yeatts, Jr., D.V.M.

Veterinarian, Churchland Animal Clinic, Inc.

* Director Emeritus

TowneBank Richmond:

Richard T. Wheeler, Jr., Chairman

Chairman, President & CEO, Franklin Financial Corporation and Franklin Federal Savings Bank (Retired)

Neil Amin

CEO, Shamin Hotels

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

Nancy A. Bagranoff

Dean & Professor of Accounting, Robins School of Business, University of Richmond

David Boardman

Private Investor, Kyna Resources, LLC

Brad H. Booker

Executive Vice President, TowneBank Richmond

Brian F. Bortell

President, Chairman & CEO, Timmons Group

T. Patrick Collins

President, TowneBank Richmond

J. Morgan Davis

President & Chief Banking Officer, TowneBank

Jerry P. Fox

CPA, Partner, Cherry Bekaert, LLP (Retired)

B. Keith Fulton

Vice President External Affairs, Verizon Communications, Inc. (Retired)

Hugh T. Harrison II

Attorney, Williams Mullen

S. Tyler Perkinson, D.D.S.

Dentist, Virginia Family Dentistry

Michael Rao, Ph.D.

President, Virginia Commonwealth University & VCU Health Systems

Elizabeth W. Robertson

CFO, Monument Restaurants, LLC

George L. Scott

Partner, KPMG, LLP (Retired)

Isaac L. Wornom, III M.D.

President, Richmond Plastic Surgeons

TowneBank Virginia Beach:

Douglas D. Ellis, Chairman

President, Ellis-Gibson Development Group

Jacqueline B. Amato

TowneBank Mortgage (Retired)

Richard P. Anoaia

Owner, Saveras Corporation

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

Thomas H. Atherton, III

Developer & Contractor, Atherton Construction & Development, Inc.

Thomas A. Barton, III

President, Beach Ford Lincoln Mercury

Robert R. Beasley, Jr.

Senior Vice President, NAI Harvey Lindsay Commercial Real Estate

Randal K. Bregman

Real Estate Investor; Boat Captain, Priority Marine, LLC

Thomas C. Broyles

Attorney, Kaufman & Canoles, P.C. (Retired)

Sandra C. Canada

President, Canada and Associates

Ann Crenshaw

Attorney, Kaufman & Canoles, P.C.

Virginia Cross

Atlantic Land & Development Company, I.I.C.

Aubrey Loving*

CEO, Max Media

John F. Malbon

President & CEO, Papco, Inc.

Jeffrey L. Marks

Partner, Kaufman & Canoles, P.C.

Michael D. Marquart*

President, Windmark, Inc.

William McCutcheon, Jr.

McQ Builders, LLC

Cheryl P. McLeskey

CEO, McLeskey & Associates

Alfred Midgett*

CEO, Noblemen

Augustus C. Miller*

Chairman of the Board & CEO, Miller Oil Co., Inc.

Robert S. Miller, III, P.E., F.NSPE

President, MSA, P.C. Miller-Stephenson & Associates

Vincent A. Napolitano

President, Napolitano Homes

Gordon Parker, Jr.

Founder & Managing Partner Heritage Business Strategies

Elizabeth T. Patterson

Business Owner & Financial Advisor, Waypoint Advisors

TowneBank Virginia Beach (continued):

Herbert A. Culpepper

Owner & Broker, Pungo Realty Company

J. Morgan Davis

President & Chief Banking Officer, TowneBank

Dennis Deans*

McPhillips, Roberts & Deans, P.C.

William DeSteph

COO, DeSteph Enterprises

W. Andrew Dickinson, Jr., M.D.

Cardiologist (Retired)

Gerald S. Divaris

Chairman & CEO, Divaris Real Estate, Inc.

A. Russell Dunnington, Jr., M.D.

President, Arthritis Consultants of Tidewater

W. Jeffrey Dyckman

President, Towne Business Strategy Group

Dennis Ellmer

Owner & President, Priority Automotive

Chris Ettel

Partner, VB Homes

Robert Eveleigh

Executive, Anders Williams & Company, Inc.

John W. Failes

CPA (Retired)

Timothy A. Faulkner

COO, The Breeden Company

Andrew S. Fine

President, The Runnymede Corporation

Linda L. Forehand

President, Forehand Enterprises

William I. Foster III

President, TowneBank Virginia Beach

Jack L. Frieden

President Emeritus, Towne Benefits

Scott M. Gandy

President, Kempsville Building Materials

Valerio M. Genta, M.D.*

Pathologist, General Hospital Pathologists, Ltd.

Edward R. George, M.D., F.A.C.P.

President, Virginia Oncology Associates (Retired)

Bernie J. Grablowski, Ph.D.

President & CEO, United Property Associates

Ernest L. Hudson*

Owner, Hudson Enterprises

Michael Inman

Attorney, Inman & Stricker, PLC

Akhil Jain

President/Owner, Landmark Hotel Group

Michael P. Rashkind*

General Partner, Dam Neck Properties

John W. Richardson

Attorney, Wolcott Rivers Gates

Adam Ritt

Vice President, Hoy Construction

B. Rod Rodriguez

Chairman & CEO, Bay Mechanical, Inc.

Virginia Rountree

Licensed Professional Counselor, Beach Therapy & Consulting

Thomas V. Rueger

Senior Executive Vice President, TowneBank

Daniel N. Ryan, Sr.

President, Dan Ryan's for Men

Lynn G. Sachs

President, The Sachs Group

Warren E. Sachs, D.D.S.

Dentist, Lefcoe, Weinstein, Sachs & Schiff

Marc Sauter

Sommelier, Zoes Restaurant

John R. Savino

President, The John Savino Group/Berkshire Hathaway HomeServices Towne Realty

Michael C. Savvides

Chairman, Savvides Enterprises t/a Black Angus

William R. Shepherd, Jr.*

Chairman & CEO, Southern Hospitality Auto Group

Prescott Sherrod

President & CEO, PEMCCO, Inc.

Jean F. Siebert

President, Siebert Realty

The Honorable Tina E. Sinnen*

Clerk of Court, City of Virginia Beach

Bruce Smith

Owner, Bruce Smith Enterprises

Ramsay Smith

President, Pembroke Commercial Realty

Terri S. Stickle

Real Estate Executive, Rose & Womble Realty

The Honorable Kenneth W. Stolle

Sheriff, City of Virginia Beach

J. Randolph Sutton

President & Co-Owner, Waterfront Marine Construction, Inc. (Retired)

Howard R. Sykes, Jr.

Senior Partner, Sykes, Bourdon, Ahern & Levy, P.C.

TowneBank Virginia Beach (continued):

James Karides, CPA

James Karides, P.C.

Harold B. Kellam, Jr.

Executive Vice President, Towne Insurance Agency, Inc.

Danny Kline

President & Owner, Payday Payroll

Donald E. Lee, Jr.

Attorney, Donald E. Lee, Jr. & Associates, LP

Harry T. Lester

President, Eastern Virginia Medical School (Retired)

Michael H. Levinson

Attorney, Michael Levinson, Attorney at Law

Victor Lewis, III, M.D.

*Interventional Radiologist, Chesapeake
Radiologists, LTD.*

John T. Litz

*Senior Vice President, S.L. Nusbaum Realty Company
(Retired)*

Richard B. Thurmond

President, Howard Hanna

The Honorable Ronald J.A. Villanueva

*Member, Virginia House of Delegates
Executive Vice President, SEK Solutions, LLC*

M. Nicole Williams

Assistant General Counsel, ADS, Inc.

William Williard

Insurance Sales, Williard Insurance Agency

Katherine C. Willis

Director, Investment Manager Palladium

Barbara M. Wolcott

*Chairman & CEO, Berkshire Hathaway
HomeServices Towne Realty*

Dag Zapatero, DDS

Dentist, Dag Zapatero, DDS

* Director Emeritus

TowneBank Williamsburg:

The Honorable Thomas K. Norment, Jr., Chairman

Partner, Kaufman & Canoles, P.C.;
Virginia State Senator

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

Ronald J. Boyd

Environmental Engineer, Stantec

Charles D. Brooks

Senior Vice President, Towne Insurance Agency, Inc.

Robin D. Carson

General Manager, Kingsmill Resort (Retired)

F. Brian Clare, Jr., M.D.

CEO, EScribe Management Services

Betty Ann Davis, CPBD, A.I.B.D.

President, Davis Design, LLC (Retired)

J. Morgan Davis

President & Chief Banking Officer, TowneBank

Beth M. Duke

*Senior Vice President for Community Relations and
Development, CHKD (Retired)*

B.W. Franks, Jr. (Bill)

President & CEO, BWF Port Logistics Consulting, LLC

Gordon L. Gentry, Jr.

Chairman, TowneBank Peninsula

John Gerdelman

Managing Partner, River2

James R. Golden, Ph.D.

*Vice President, Strategic Initiatives,
The College of William & Mary*

W. Arthur Hudgins

President, Holiday Chevrolet Cadillac, Inc.

Paul Steven Hunter

*Director of Operations Logistics, Philip Morris USA
(Retired)*

William G. Kellam

EVP, TowneBank Williamsburg (Retired)

James E. Lesnick, M.D.

*Senior Vice President, Business and Venture
Development, Riverside Health System*

Gary M. Massie

President, J.S.G. Corporation

Bernard H. Ngo

City President, TowneBank

Deborah L. Nice

Vice President, David A. Nice Builders, Inc.

Catherine P. Pattisall

CEO, The Cheese Shop/Fat Canary

Sylvia C. Payne

*Real Estate, Associate Broker, Berkshire Hathaway
Home Services Towne Realty (Retired)*

Millard Robinson

ARCADIS-US (Retired)

Edgar B. Roesch, Jr.*

President, Service Metal Fabricators, Inc.

Leslie H. Schultz

Vice President, Henderson, Inc.

Brian K. Skinner

President, TowneBank Peninsula/Williamsburg

Brett K. Smith

*General Contractor, Custom Builder, Cleckley &
Smith, Inc.*

Kimber A. Smith

*COO, Berkshire Hathaway HomeServices Towne
Realty*

Carlton A. Stockton

MCI Corporation (Retired)

Jackson C. Tuttle, II

*Williamsburg City Manager, City of Williamsburg
(Retired)*

Peter D. Wendell, DDS, PLLC

Orthodontist, Williamsburg Orthodontics

* Director Emeritus

Towne Financial Services:

Paul J. Farrell, Chairman

President, Rosewell Homes, Inc.

Jacqueline B. Amato

TowneBank Mortgage (Retired)

G. Robert Aston, Jr.

Chairman & CEO, TowneBank

Lawton H. Baker

CPA & Investment Advisor, Baker & McNiff, PC

The Honorable Richard S. Bray

*President, Beazley Foundation; Senior Judge,
Court of Appeals of Virginia (Retired)*

Joe Covington, Jr.

Covington Contracting, Inc.

E. Neal Crawford, Jr.

President, Towne Financial Services

Virginia S. Cross

*Real Estate, Developer, Builder, Ashdon Builders
& Atlantic Land & Development Company*

J. Morgan Davis

President & Chief Banking Officer, TowneBank

John W. Failes

CPA (Retired)

Taylor B. Grissom

Land Developer, Prempay Development, LLC

Gary D. McMahan

President & CEO, Professional Advisory Resources, LLC

William T. Morrison

*Chairman & CEO, TowneBank Mortgage and Realty
Group*

OWNERSHIP OF COMPANY COMMON STOCK

The following table sets forth, as of February 28, 2017, certain information with respect to the beneficial ownership of the Company's common stock held by each director and director nominee, each executive officer named in the Summary Compensation Table below, the directors and all executive officers as a group, and persons known by the Company to be beneficial owners of more than 5% of the outstanding shares of the Company's common stock.

<u>Name</u>	<u>Number of Shares Beneficially Owned (1)</u>	<u>Percent of Class</u>
Jacqueline B. Amato.....	136,391 (2)	*
G. Robert Aston, Jr.	366,056 (2)(3)	*
E. Lee Baynor.....	167,687 (2)	*
Jeffrey F. Benson.....	114,066 (2)	*
Richard S. Bray.....	68,940 (2)	*
Thomas C. Broyles.....	163,909	*
Bradford L. Cherry.....	159,021 (2)	*
E. Neal Crawford, Jr.	82,676 (2)(3)	*
J. Morgan Davis.....	127,818 (2)(3)	*
Douglas D. Ellis.....	185,130	*
John W. Failes.....	51,096 (2)	*
Paul J. Farrell.....	436,371 (2)	*
Andrew S. Fine.....	469,310 (2)	*
William I. Foster III.....	42,314 (3)(4)	*
Gordon L. Gentry, Jr.	203,969 (2)	*
John R. Lawson, II.....	1,953,918 (2)	3.13%
Harry T. Lester.....	40,779 (2)	*
W. Ashton Lewis.....	84,058 (2)	*
William B. Littreal.....	41,504 (3)	*
Stephanie J. Marioneaux, M.D.	26,813 (2)	*
Clyde E. McFarland, Jr.	39,810 (2)	*
Juan M. Montero, II, M.D.	3,143	*
R. Scott Morgan.....	250,727 (2)	*
William T. Morrison.....	123,900 (3)	*
Thomas K. Norment, Jr.	52,721 (2)	*
Robert M. Oman.....	66,945 (2)	*
R.V. Owens, III.....	8,789	*
Elizabeth T. Patterson.....	83,890	*
Elizabeth W. Robertson.....	77,271 (2)	*
Dwight C. Schaubach.....	163,464 (2)	*
Brad E. Schwartz.....	120,906 (2)(3)	*
Richard B. Thurmond.....	130,877 (2)	*
Richard T. Wheeler, Jr.	150,005	*
Alan S. Witt.....	86,288	*
F. Lewis Wood.....	135,032	*
All directors, director nominees and executive officers as a group (42 persons).....	6,597,690 (5)	10.55%
<u>5% Shareholders</u>		
BlackRock, Inc. 55 East 52nd Street New York, New York 10055	3,525,276 (6)	5.70%

* Represents less than 1% of the Company's common stock.

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he or she has or shares the power to vote or direct the voting of the security, the power to

dispose of or direct the disposition of the security, or the right to acquire beneficial ownership of the security within 60 days. The mailing address of the directors and executive officers included in the table is 6001 Harbour View Blvd., Suffolk, Virginia 23435.

- (2) Includes shares held by affiliated corporations, close relatives and children, and shares held jointly with spouses or as custodians or trustees, as follows: Ms. Amato, 2,190 shares; Mr. Aston, 78,515 shares; Mr. Baynor, 47,339 shares; Mr. Benson, 57,557; Mr. Bray, 2,351 shares; Mr. Cherry, 952 shares; Mr. Crawford, 64,484 shares; Mr. Davis, 464 shares; Mr. Failes, 23,339 shares; Mr. Farrell, 423,002 shares; Mr. Fine, 265,889 shares; Mr. Gentry, 162,773 shares; Mr. Lawson, 1,604,889 shares; Mr. Lester, 5,122 shares; Mr. Lewis, 44,876 shares; Dr. Marioneaux, 89 shares; Mr. McFarland, 498 shares; Mr. Morgan, 199,687 shares; Mr. Norment, 18,925 shares; Mr. Oman, 55,417 shares; Ms. Robertson, 76,971 shares; Mr. Schaubach, 2,936 shares; Mr. Schwartz, 84,056 shares; and Mr. Thurmond, 5,550 shares.
- (3) Includes shares of common stock that are restricted stock holdings as follows: Mr. Aston, 34,302 shares; Mr. Crawford, 12,303; Mr. Davis, 12,884 shares; Mr. Foster, 6,646 shares; Mr. Littreal, 19,024 shares; Mr. Morrison, 12,303 shares; and Mr. Schwartz, 14,764. The shares are subject to a vesting schedule, forfeiture risk and other restrictions. These shares can be voted at the Annual Meeting.
- (4) Includes shares of common stock underlying stock options that are currently exercisable as follows: 21,217 shares issuable to Mr. Foster. These shares cannot be voted at the Annual Meeting because the stock options have not been exercised.
- (5) Includes 21,217 shares of common stock underlying stock options that are currently exercisable and 123,711 shares of common stock that are restricted stock holdings. Only the shares that are restricted stock holdings can be voted at the Annual Meeting.
- (6) This information is based on a Schedule 13G filed with the FDIC on January 30, 2017, which reported sole voting power over 3,403,885 shares, sole dispositive power over 3,525,276 shares and shared dispositive power over 0 shares at December 31, 2016.

Stock Ownership Guidelines

The Board of Directors believes that it is in the best interests of the Company to align the financial interests of the directors and executive officers with those of the Company's stockholders, and has adopted minimum stock ownership guidelines applicable to directors and the named executive officers listed in the Summary Compensation Table on page 39 of this proxy statement.

The ownership threshold for directors is \$100,000 aggregate value of the Company's common stock. This ownership amount is in excess of four times the 2016 cash retainer (\$22,000) payable to all directors. The ownership threshold for the named executive officers is based on the following multiples of their base salaries: three times base salary for the Chief Executive Officer; two times base salary for the President; and one times base salary for the other named executive officers. There is a five year accumulation period for new directors and named executive officers.

Shares owned directly by a director and named executive officer or indirectly (e.g., by a spouse, trust or affiliated company) count towards the ownership targets. Restricted stock awards, restricted stock units and other equity-based awards granted under the Company's stock incentive plans that are time-vested awards involving the issuance of shares of common stock are also included as owned for the purposes of the guidelines. Unexercised stock options, unearned performance shares, and any shares pledged to secure a loan or held in a margin account are not counted toward meeting the guidelines. If any director or officer is not in compliance with the ownership guidelines, any shares acquired upon the exercise of a stock option or any shares that vest and are no longer subject to any time-based or performance-based vesting requirement may not be sold or transferred, except for the limited purpose of paying any applicable tax withholding or exercise price.

The value of the Company's common stock held by a director or named executive officer is based on the average closing price of the Company's common stock for the last 10 trading days of the applicable year. As of January 1, 2017, all of the directors and named executive officers satisfied their respective stock ownership requirements.

No Hedging Policy

The Company has an anti-hedging policy that prohibits directors and executive officers from engaging in hedging transactions designed to hedge or offset any decrease in the market value of the Company's common stock including prepaid variable forward contracts, equity swaps, puts, calls, collars, forwards, exchange funds and other derivative instruments. The policy also prohibits directors and executive officers from engaging in short sale transactions in the Company's common stock.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Pursuant to Section 16(a) of the Securities Exchange Act of 1934, as adopted by the Federal Deposit Insurance Corporation (the "FDIC"), directors and executive officers of the Company are required to file reports with the FDIC indicating their holdings of and transactions in the Company's equity securities.

Based upon a review of filings with the FDIC and written representation that no other reports were required, the Company believes that all of its directors and executive officers were in compliance with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 during 2016 with the following exceptions: one late Form 4 report was filed by Paul J. Farrell reporting the disposition of shares in two transactions, one late Form 4 report was filed by Andrew S. Fine reporting the disposition of shares in one transaction, one late Form 4 report was filed by Thomas K. Norment, Jr. reporting the acquisition of shares in two transactions, and one late Form 4 report was filed by George P. Whitley in connection with one transaction covering the grant of restricted stock.

COMPENSATION COMMITTEE REPORT

The Compensation Committee (the "Committee") has reviewed and discussed the Compensation Discussion and Analysis (the "CD&A") for the year ended December 31, 2016 with management. Based on this review and discussion, the Committee recommended to the Board of Directors that the CD&A be included in this proxy statement.

Submitted by the Compensation Committee of TowneBank:

W. Ashton Lewis, Chairman
Richard S. Bray
Thomas C. Broyles
Harry T. Lester
Juan M. Montero, II, M.D.
F. Lewis Wood

COMPENSATION DISCUSSION AND ANALYSIS

Overview. TowneBank's executive compensation program is designed to attract, retain and motivate exceptional leaders with the ability to foster strong business results and ensure the long-term success of the Company. The Compensation Committee of the Board of Directors has established objectives that capture our overall philosophy toward executive compensation. The goal of the Committee in setting compensation is to motivate executives to achieve a range of performance consistent with strategic and business plans approved by the Board of Directors while ensuring that the financial costs of current or proposed compensation and benefit programs are reasonable and consistent with industry standards and stockholders' interests.

Throughout this proxy statement, the individuals who served as the Company's Chief Executive Officer and Chief Financial Officer during the year ended December 31, 2016, and each of the three next most highly compensated executive officers of TowneBank included in the Summary Compensation Table on page 39, are collectively referred to as the "Named Executive Officers."

The structure of executive compensation programs is a matter of critical importance to TowneBank. Our Board of Directors has established the Committee to assist the Board by recommending, managing and monitoring compensation and benefit plans for our Chief Executive Officer and managing and approving compensation and benefit plans for our other Named Executive Officers. With respect to Chief Executive Officer compensation, the Committee holds its discussions in executive sessions and recommends a final compensation package to the independent directors of the Board for approval.

The Committee considers the results of the stockholder advisory say-on-pay vote in its deliberations regarding Named Executive Officer compensation. At our 2016 Annual Meeting of Stockholders, 92.72% of our stockholders who voted at the meeting voted for the approval of the compensation provided to our Named Executive Officers.

The remainder of this Compensation Discussion and Analysis outlines our compensation philosophy, executive compensation structure, and an analysis of compensation decisions made during 2016.

Philosophy and Objectives. TowneBank's primary goal is to create long-term value for our stockholders. We believe that the quality of our Named Executive Officers and their ability to successfully lead the Company is a critical component of achieving that goal. To that end, TowneBank's executive compensation program is designed to motivate, attract, and retain the leadership deemed essential to ensure the success of the Company. The program attempts to align executive compensation with Company objectives, business strategy, and financial performance. In applying these principles, the Company seeks to:

- Reward executives for enhancing stockholder value;
- Support an environment that rewards performance with respect to Company goals, as well as Company performance relative to industry competitors;
- Integrate compensation programs with the short- and long-term strategic plans of the Company;
- Attract and retain key executives critical to the long-term strategic plans of the Company; and
- Align the interests of executives with the long-term interests of stockholders through award opportunities that can result in ownership of stock.

Role of Executive Officers in Compensation Decisions. The Committee makes all compensation recommendations for the Chief Executive Officer after an annual review of Mr. Aston's performance. With respect to the Company's other Named Executive Officers, the Committee considers salary and incentive recommendations prepared by the Chief Executive Officer to establish compensation and approves equity awards to officers of the Company. The Committee may exercise its discretion in modifying any recommended adjustments to the compensation of the Named Executive Officers. Mr. Aston does not make recommendations or participate in the review of his compensation.

Competitor Groups. The Company competes against a wide range of financial institutions, including local, regional and national banks, as well as numerous other financial service providers. Due to the significant market share position of the regional and national banks in the Company's primary markets, coupled with the Company's growth, the Company primarily competes with these larger institutions for executive talent. The Committee seeks to provide a comprehensive compensation opportunity for its executives commensurate with the market for talent. Accordingly, the Committee utilized Pearl Meyer & Partners, LLC ("Pearl Meyer") for executive compensation consulting services during 2016. Pearl Meyer is an independent compensation consultant without any previous relationship with management or the Company. Pearl Meyer, with input from management and approval from the Committee, constructed a

peer group of banking companies with total assets between \$6 billion and \$15 billion. The Committee reviewed the compensation programs and philosophies of the peer group listed below:

<u>Company Name</u>	<u>Ticker</u>	<u>Company Name</u>	<u>Ticker</u>
Ameris Bancorp	ABCB	Pinnacle Financial Partners, Inc.	PNFP
BancFirst Corporation	BANF	Renasant Corporation	RNST
BancorpSouth, Inc.	BXS	S&T Bancorp, Inc.	STBA
Community Bank System, Inc.	CBU	Simmons First National Corporation	SFNC
First Financial Bankshares, Inc.	FFIN	South State Corporation	SSB
First Merchants Corporation	FRME	Tompkins Financial Corporation	TMP
First Midwest Bancorp, Inc.	FMBI	Trustmark Corporation	TRMK
NBT Bancorp, Inc.	NBTB	Union Bankshares Corporation	UBSH
Old National Bancorp	ONB	WesBanco, Inc.	WSBC
Park National Corporation	PRK		

Role of the Compensation Consultant. Beginning in 2016, the Committee utilized the consulting services of Pearl Meyer to facilitate the executive officer compensation process, including the determination of an appropriate peer group for purposes of comparing the Named Executive Officers' compensation including assisting with the development of a peer group consistent with the Company's strategies and objectives. Pearl Meyer routinely attended Committee meetings during 2016 and provided consulting services to the Committee. Pearl Meyer reported directly to the Committee, which retains sole authority to select, retain, terminate, and approve the fees and other retention terms of its relationship with Pearl Meyer.

Executive Compensation Components

The compensation programs of the Company for its executive officers and key employees are generally administered by or under the direction of the Committee, with the Chief Executive Officer making compensation recommendations for executive officers other than himself, and are reviewed on an annual basis to ensure that remuneration levels and benefits are competitive and reasonable using the principles described above. The particular elements of the compensation programs for such persons are set forth in more detail below.

In approving the compensation of executive officers and key employees for the Board, the Committee considers the overall financial, market, and competitive performance of the Company during the fiscal year under consideration. The Committee also considers the level of and/or increases in return on assets and return on equity, without encouraging short-term profitability through unreasonable risk-taking or a deterioration of long-term asset quality. Beginning in 2016, the Committee reviewed peer group compensation information as described above.

The Committee also takes into account individual as well as combined measures of progress of the Company, including the quality of the loan and investment portfolios, desirable changes in capital ratios, the overall growth of the Company, the improvement in earnings per share, the level of non-performing loans and real estate owned, the performance of the non-bank financial service companies, the results of bank regulatory exams and ratings, and other objectives as may be established by the Board of Directors.

Base Salary. The Company provides the Named Executive Officers and other employees with a base salary to compensate them for services rendered during the year. Base salary levels for the Named Executive Officers are primarily determined by the Committee for each executive based on his or her position and responsibility and what the Committee deems necessary or appropriate to attract the level of competence needed for the position. Length of service, experience, and job performance are also

considered. The Committee reviews base salary levels annually and focuses on individual performance from prior years, current industry conditions, and current market considerations to ensure that base salary levels for the Company's executive officers and key employees are competitive within a range that the Committee considers to be reasonable and necessary. Salary adjustments for the Named Executive Officers other than the Chief Executive Officer are recommended by the Chief Executive Officer, with final approval given by the Committee. All matters pertaining to the Chief Executive Officer's compensation are the exclusive responsibility of the Committee or the Board of Directors.

The base salaries of our Named Executive Officers were increased during 2016 in relation to their contributions to the Company and to ensure that their salaries were in a competitive range when compared to similar positions at peer companies. Mr. Aston voluntarily decreased his base salary to \$950,000 from the Compensation Committee approved amount of \$1,000,000, Mr. Davis' base salary increased to \$750,000, Mr. McFarland's base salary increased to \$390,000, and Mr. Littreal's base salary increased to \$475,000. For further discussion on this topic, see "Compensation Earned by the Chief Executive Officer" in this document on page 37.

Executive Incentive Compensation Program. The Company has in the past provided performance-based incentive compensation to the Named Executive Officers relating to financial achievements during the prior year. When available, the Company uses the incentive compensation as a short-term incentive to drive achievement of annual performance goals by focusing on the achievement of annual financial goals and making awards in cash and/or stock-based compensation. Financial achievements are based on the approved consolidated annual financial plan.

Historically, the Committee establishes performance goals for executive officers, as a group, within the first 90 days of each year. In determining final awards, the Committee may consider adjusting the Company's net income target and other performance measures for unplanned, unusual, or non-recurring items of gain or expense. The Committee did not adjust the target measure for any unplanned, unusual or non-recurring items in 2016. The performance goals for subsequent years may be expanded to include individual and business unit/function performance measures at the discretion of the Committee.

Under the current stockholder-approved Annual Incentive Compensation Plan, eligible executives had a target incentive equal in value to 40% of base salary for 2016. Final awards for the Named Executive Officers, other than the Chief Executive Officer, may be adjusted, at the discretion of the Chief Executive Officer and the Committee, for business segment and individual performance. The final award for the Chief Executive Officer may be adjusted for his individual performance at the discretion of the Committee. Based upon the Company's financial performance, and the achievement of the corporate goals and objectives for 2016, eligible participants earned an award equal in value to 40% of their respective base salaries, which represents full achievement of the target incentive. The Committee, at management's recommendation, determined that 60% of the award would be paid as a cash incentive, which is reported under the Non-Equity Incentive Plan column of the Summary Compensation Table, and the remaining 40% awarded through the issuance of performance-based restricted stock that will vest over a three-year period. The performance-based stock awards were granted in March 2017 under the Company's current stockholder-approved stock incentive plan and consist of three equal tranches, each of which has two vesting components: (1) a performance requirement, which requires that the Company reach a targeted annual return on average assets of 0.90% for the years ended December 31, 2017, 2018 and 2019; and (2) a service requirement, which requires the executive to remain continuously employed through the applicable vesting date. In the event of retirement in accordance with the Company's retirement policy, the shares will continue to vest in accordance with the described vesting components. Because the Summary Compensation Table reports equity-based awards only in the year in which they were granted, the value of the awards will not be reported as compensation to the executives in 2016 despite being related to the Company's 2016 performance.

Ms. Amato and Mr. Morrison did not participate in the Incentive Compensation Plan, as they received performance-based incentive compensation pursuant to the terms of their respective employment agreements. See “Employment Agreements and Change-in-Control Agreements” beginning on page 43.

Stock Incentive Plan. The Company maintains a stock incentive plan that is designed to attract and retain qualified personnel in key positions and provide employees with a proprietary interest in the Company as an incentive to contribute to the success of the Company. The Company’s 2008 stock incentive plan replaced the Company’s 1999 stock incentive plan, and became effective on May 22, 2008, after stockholders approved the plan at the 2008 annual meeting. The stock incentive plan provides for the grant of incentive stock options intended to comply with the requirements of Section 422 of the Internal Revenue Code of 1986 (“incentive stock options”) and nonqualified stock options, as well as restricted stock awards. The Company is proposing that stockholders approve a new stock incentive plan at the Annual Meeting, and if the new plan is approved, the Company will terminate the 2008 stock incentive plan and no shares of common stock will be available for issuance thereunder, other than shares already subject to outstanding equity awards under such plan. See “Approval of the TowneBank 2017 Stock Incentive Plan - Proposal Five” on page 52.

The current stockholder-approved stock incentive plan is administered by the Committee, and each member is a “non-employee director” as defined in Rule 16b-3 under the Securities Exchange Act of 1934. Unless sooner terminated, the stock incentive plan is in effect for a period of ten years from the date of adoption by the Board of Directors, which was February 27, 2008.

Under the stock incentive plan, the Committee or the Board of Directors determines which employees will be granted options, whether such options will be incentive or nonqualified options, the number of shares subject to each option, whether such options may be exercised by delivering other shares of common stock, and when such options become exercisable. The per-share exercise price of an incentive stock option must be at least equal to the fair market value of a share of common stock on the date the option is granted. Company policy does not permit the repricing of options once issued.

Stock options are vested and exercisable in the manner specified by the Committee or the Board of Directors. In general, each stock option or portion thereof shall be exercisable at any time on or after it vests within an exercise period not to exceed 120 months from the date of grant. Generally, stock options are nontransferable except by will or the laws of descent and distribution. Nonqualified stock options may be transferred to immediate family members or a family trust.

The Committee or the Board of Directors also determines which employees will be awarded restricted stock and the number of shares to be awarded. The value of the restricted stock is equal to the fair market value of the Company’s common stock on the date the stock is granted. All shares of restricted stock that have been previously awarded to the Named Executive Officers are subject to a vesting schedule of up to 120 months, forfeiture risk, and other restrictions. The restricted stock award recipient receives dividends and voting rights during the vesting period.

The use of these instruments is intended to provide incentives to the Company’s executive officers and key employees to work toward the long-term growth of the Company by providing them with a benefit that will increase only to the extent the value of the common stock increases. Currently, options and restricted shares are not granted by the Committee or the Board of Directors as a matter of course as part of the regular annual compensation of any executive or key employee. The decision to grant options or restricted shares is based on the perceived incentive that the grant will provide, as well as the benefits that the grant may have on long-term stockholder value. The determination of the number of shares granted is based on the level and contribution of the employee. Consideration is also given to the anticipated contribution to overall stockholder value of the business operations for which the optionee has responsibility.

In 2016, the Company granted restricted stock awards to Messrs. Aston and Littreal. The awards vest in five equal annual installments, respectively, beginning on the first anniversary of the grant date, based on a service requirement, which requires each executive to remain continuously employed through the applicable vesting date. Also in 2016, the Company granted a restricted stock award to Mr. Morrison in accordance with the terms of his employment agreement. The award vests in five equal annual installments beginning on the first anniversary of the grant date, based on a service requirement, which requires the executive to remain continuously employed through the applicable vesting date. There were no other stock awards granted to our Named Executive Officers during 2016.

401(k) Plan. The Company has adopted a defined contribution plan established in accordance with Section 401(k) of the Internal Revenue Code of 1986 (the “401(k) Plan”). Employees of the Company are eligible to participate in their second month of employment. Under the 401(k) Plan, employees may contribute a percentage of their annual salary, subject to statutory limitations. The Company may make matching and discretionary contributions under the 401(k) Plan. Employer contributions, if any, vest 20% after each year of service, until fully vested after five years of service. In 2016, the Company matched employee contributions up to 3.0% of their salary.

Supplemental Executive Retirement Plan (“SERP”). The Company established a SERP on December 1, 2008, to provide supplemental retirement benefits to certain officers covered under the plan as selected by the Committee.

The SERP agreements with the officers provide that upon attainment of retirement age, generally at age 65, the participating officer will be entitled to receive a retirement benefit equal to either (1) a designated percentage, ranging from 30% to 50% of their designated base salary depending on their level of seniority, with an annual 4% increase until retirement, or (2) a fixed targeted benefit amount. The retirement benefit is payable over a 15-year period, beginning at attainment of retirement age. The SERP agreements provide for an annual vesting schedule until the participating officer reaches the planned retirement age. In the case of a participating officer’s voluntary termination of employment, disability, or termination for cause, the annual amount payable under the SERP is equal to the amount of the vested benefit earned as of the date of termination of employment. In the case of involuntary termination without cause or termination of employment for good reason by the participating officer, the participating officer becomes fully vested in the full retirement benefit. Upon termination of employment, payment of the retirement benefit does not begin until the participating officer reaches the designated retirement age set forth in the SERP agreement and is subject to certain loyalty and confidentiality covenants, including non-competition, non-solicitation, and other restrictions. In the event of death, the full amount of the retirement benefit is payable. In addition to the SERP agreements described above, the Company assumed SERP agreements in connection with the merger with Monarch that provide Mr. Morrison with a retirement benefit that is payable over a 10-year period.

The Company invested in bank-owned life insurance as a financing strategy to offset the cost of the nonqualified benefits through a combination of incremental tax-effected earnings and tax-free death benefits to the Company as beneficiary.

Nonqualified Deferred Compensation. The Named Executive Officers, in addition to certain other eligible executives, are entitled to participate in the TowneBank Deferred Compensation Plan. Pursuant to the Deferred Compensation Plan, eligible employees can defer up to 100% of base salary and/or annual bonus on an annual basis. Deferral elections are made by eligible executives in November of each year for amounts to be earned in the following year.

The Company has the option to match an employee’s nonqualified deferred compensation deferrals up to a maximum of 6% of his or her salary. In addition, the Company has the option to make additional matching contributions to employees whose matching contributions were limited in the 401(k) plan due to statutory limitations. The Company does not match deferrals made by employees who are participants in

the Supplemental Executive Retirement Plan or any deferrals related to compensation exceeding \$810,000. Compensation deferred pursuant to the program is invested in a rabbi trust and participants are credited with an annual return equal to 120% of the long-term applicable federal rate as published and effective each July. There was no Company match of contributions made by Named Executive Officers in 2016.

Amounts under the program will be paid as soon as administratively feasible following a distributable event. A distributable event includes termination of employment with the Company, death, change in control of the Company with the Deferred Compensation Plan being immediately terminated, and termination of this Deferred Compensation Plan. For distribution, the Named Executive Officers must have completed five years of service and attained the age of 55. Distributions can be received either as a lump-sum payment or in monthly installments over a period of not more than 15 years.

Health and Welfare Plans. The named executive officers are eligible to participate in Company-sponsored benefit plans on the same terms and conditions as those generally provided to salaried employees. Basic health benefits, dental benefits and similar programs are provided to make certain that access to healthcare and income protection is available to employees and their family members. The cost of Company-sponsored benefit plans is negotiated with the providers of such benefits, and the executive officers contribute to the cost of the benefits. In accordance with terms of their respective employment contracts, the Company also provides postretirement benefits other than pensions for Messrs. Aston, Davis, and McFarland. These postretirement benefits include healthcare, dental care, Medicare Part B reimbursement and life insurance benefits.

Other. The Company has no other long-term incentive, defined benefit or actuarial plans covering employees of the Company.

Compensation Earned by the Chief Executive Officer

In establishing the Chief Executive Officer's base salary, the Committee considers the overall financial, market and competitive performance of the Company during the fiscal year under consideration. The Committee also considers individual and combined measures of progress of the Company, including the quality of the loan and investment portfolios, desirable changes in capital ratios, the overall growth of the Company, the improvement in earnings per share, the level of non-performing loans and real estate owned, the performance of the non-bank financial service companies, and other objectives as may be established by the Board of Directors. Additionally, the Committee takes into account the ratings under the Uniform Financial Institutions Rating System in connection with the Company's most recent examination from the Virginia State Corporation Commission or the Federal Deposit Insurance Corporation. Lastly, the Committee reviewed the compensation and benefit levels of comparable positions at institutions identified in the peer group on page 33. The Committee believes the information shows Mr. Aston's total compensation to be within the range for chief executive officers of other institutions.

162(m) Disclosure

As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code of 1986, which makes compensation paid to certain executives in amounts in excess of \$1 million not deductible unless the compensation is paid under a predetermined objective performance plan meeting certain requirements, or satisfies one of various other exemptions. The Company believes that compensation paid is generally fully deductible for federal income tax purposes. However, in certain situations, the Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation for its executive officers.

Compensation Policies that Affect Risk Management

The Company uses incentive compensation plans for a number of employees in addition to our executive officers. The Company has business unit incentive plans which reward measurable performance across its three major business segments: Banking, Realty, and Insurance. The Company has employment compensation plans and arrangements with non-executive employees that provide for variable cash compensation bonus, commission, or incentive payments. Each arrangement is available to a different set of employees, and the amount received differs depending on level of job responsibility and plan objectives. The majority of these arrangements related to commissions paid to mortgage loan officers, insurance agents, and investment brokers are in lieu of or in addition to a base salary. The mortgage loan officers are compensated based on loan origination volume, which is subject to approval by a separate credit underwriting approval process. The Company does not believe that the risks which may arise from its compensation policies and practices are reasonably likely to have a material adverse effect on the Company.

Clawback of Incentive-Based Compensation

The Board of Directors believes that it is in the best interests of the Company and its stockholders to maintain a culture that emphasizes integrity and accountability. Consistent with that philosophy, the Company has adopted a policy that provides for the recovery of incentive-based compensation paid to the Company's executive officers and certain other employees if the Company has to prepare an accounting restatement. In the event of a restatement, the policy will be triggered and will apply to any incentive-based cash or equity compensation granted, earned or vested, the amount of which was calculated based wholly or in part on the attainment of any financial reporting measure based on: (1) accounting principles using the Company's financial statements; (2) stock price; or (3) total stockholder return. The Company will recover any incentive compensation that is in excess of what would have been paid or granted based on the restated financial information during the three completed fiscal years preceding the date on which the Board of Directors determines an accounting restatement is required to be filed to correct a material non-compliance with any financial reporting requirements under applicable securities laws. The policy applies to each executive officer of the Company, regardless of whether the individual was responsible for the accounting restatement. The policy also applies to an employee who the Board determines was directly responsible for the restatement.

NAMED EXECUTIVE OFFICERS COMPENSATION

The following table sets forth information regarding compensation for services rendered by the Named Executive Officers for the periods indicated.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Non-Equity Incentive Plan Compensation (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (3)	All Other Compensation (4)	Total
G. Robert Aston, Jr. Chairman/CEO TowneBank	2016	\$ 950,000	—	\$ 498,456	\$ 228,000	\$ 1,343,190	\$ 31,900	\$ 3,051,546
	2015	\$ 900,000	—	\$ 129,670	\$ 360,000	\$ 314,825	\$ 32,325	\$ 1,736,820
	2014	\$ 875,000	—	—	\$ 97,825	\$ 147,090	\$ 18,807	\$ 1,138,722
Clyde E. McFarland, Jr. Senior Executive Vice President/CFO TowneBank	2016	\$ 378,125	—	—	\$ 93,600	\$ 257,943	\$ 27,189	\$ 756,857
	2015	\$ 365,000	—	\$ 52,614	\$ 150,000	\$ 338,408	\$ 22,468	\$ 928,490
	2014	\$ 355,000	—	—	\$ 39,689	\$ 198,974	\$ 19,309	\$ 612,972
J. Morgan Davis President/Chief Banking Officer TowneBank	2016	\$ 700,000	—	—	\$ 180,000	\$ 151,335	\$ 42,004	\$ 1,073,339
	2015	\$ 600,000	—	\$ 81,512	\$ 260,000	\$ 523,208	\$ 29,998	\$ 1,494,718
	2014	\$ 550,000	—	—	\$ 61,490	\$ 741,909	\$ 27,398	\$ 1,380,797
William B. Littreal (5) Senior Executive Vice President/Chief Strategy & Investment Relations Officer TowneBank	2016	\$ 431,320	—	\$ 249,993	\$ 114,000	\$ 56,418	\$ 24,940	\$ 876,671
	2015	\$ 388,000	—	\$ 56,014	\$ 159,200	\$ 37,799	\$ 24,849	\$ 665,862
	2014	\$ 378,000	—	—	\$ 42,260	\$ 47,978	\$ 19,618	\$ 487,856
Jacqueline B. Amato (6) Former Chairman/CEO TowneBank Mortgage	2016	\$ 41,600	\$ 918,887	—	\$ 2,619,171	\$ 6,910	\$ 31,823	\$ 3,618,391
	2015	\$ 41,600	\$ 843,509	—	\$ 1,868,300	\$ 17,219	\$ 34,392	\$ 2,805,020
	2014	\$ 41,600	\$ 582,646	—	\$ 883,836	\$ 27,093	\$ 33,015	\$ 1,568,190
William T. Morrison (7) Chairman/CEO TowneBank Mortgage	2016	\$ 206,061	—	\$ 249,997	\$ 1,103,325	\$ 55,759	\$ 6,243	\$ 1,621,385

- (1) Amounts reflect the aggregate grant date fair value of stock awards for 2016 computed in accordance with FASB ASC Topic 718. The assumptions made in the valuation of the restricted stock awards are set forth in note 13 of the Notes to Consolidated Financial Statements in TowneBank's Annual Report on Form 10-K for the year ended December 31, 2016.
- (2) Consists of cash incentive compensation paid to the officers under the Executive Incentive Compensation Program which is described on page 34 other than to Ms. Amato and Mr. Morrison, who earned such compensation pursuant to the terms of their employment agreements with the Company. In 2016, the officers earned an award equal in value to the targeted incentive of 40% of their respective base salaries, 60% of which was paid as a cash award and the remaining 40% awarded through the issuance of performance-based restricted stock granted in March 2017 and not reflected in the table pursuant to instructions of the Securities and Exchange Commission. The awards were calculated based upon Mr. Aston's base salary of \$950,000, Mr. McFarland's base salary of \$390,000, Mr. Davis' base salary of \$750,000, and Mr. Littreal's base salary of \$475,000. The compensation under Ms. Amato's and Mr. Morrison's employment agreements, as is generally customary in the mortgage loan industry, is largely performance-based with commissions and bonuses tied to mortgage loan production and profitability of TowneBank Mortgage (see "Employment Agreements and Change-in-Control Agreements" beginning on page 43).
- (3) Reflects the change in actuarial present value of SERP benefits. All amounts are paid in equal monthly installments over a 15-year period upon attainment of retirement age, other than Mr. Morrison's amount, which includes his Monarch SERP that consists of \$450,000 to be paid in equal monthly installments over a 10-year period. Accounting rules require that the expense be recorded over the participant's remaining service period prior to attainment of retirement eligibility. Pursuant to the instructions of the Securities and Exchange Commission, if the aggregate change in actuarial present value of the SERP benefit is negative, the change in the benefit is not reported in the table.
- (4) For 2016, consists of amounts with respect to (i) deferred compensation plan and 401(k) plan contributions, and group life and long-term disability insurance payments; (ii) personal usage of a company automobile for Mr. Aston, \$3,548; Mr. McFarland, \$5,248; Mr. Davis, \$2,936; Mr. Littreal, \$13,367; Ms. Amato, \$2,138; and Mr. Morrison, \$1,692; and (iii) Company-paid travel for Mr. Aston, \$4,283; Mr. Davis, \$3,232; and Ms. Amato, \$1,680. Each Named Executive Officer is responsible for paying income tax on the amounts other than with respect to plan contributions and insurance premiums.
- (5) Mr. Littreal served as Chief Operating Officer until June 2016.
- (6) Ms. Amato served as Chairman of TowneBank Mortgage until she retired from the Company on December 30, 2016.
- (7) Mr. Morrison became a TowneBank employee upon the consummation of the merger with Monarch on June 24, 2016 and became a Named Executive Officer as of December 31, 2016.

Grants of Plan-Based Awards

The Company's stock incentive plan provides for the grant of both incentive and nonqualified stock options and restricted stock awards to executives and key employees of the Company. Certain awards of performance-based restricted stock are made under the plan in connection with the Executive Incentive Compensation Program. Pursuant to the Executive Incentive Compensation Program, executives and key employees of the Company may also receive incentive compensation in the form of annual cash bonuses.

The following table shows equity and non-equity awards granted to the Named Executive Officers during the year ended December 31, 2016.

Name	Grant Date	Actual Payout (1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (2)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	Grant Date Fair Value of Stock and Option Awards
			Threshold	Target	Maximum	Threshold	Target	Maximum		
G. Robert Aston, Jr.	2/17/16	—	—	—	—	—	—	—	28,986	\$ 498,456
	—	\$ 228,000	—	\$ 380,000	\$ 380,000	—	—	—	—	—
Clyde E. McFarland, Jr.	—	\$ 93,600	—	\$ 156,000	\$ 156,000	—	—	—	—	—
J. Morgan Davis	—	\$ 180,000	—	\$ 300,000	\$ 300,000	—	—	—	—	—
William B. Littreal	6/22/16	—	—	—	—	—	—	—	11,317	\$ 249,993
	—	\$ 114,000	—	\$ 190,000	\$ 190,000	—	—	—	—	—
Jacqueline B. Amato	—	\$2,619,171	—	N/A	N/A	—	—	—	—	—
William T. Morrison	6/27/16	—	—	—	—	—	—	—	12,303	\$ 249,997
	—	\$1,103,325	—	N/A	N/A	—	—	—	—	—

(1) Actual amounts paid in 2017 for the 2016 incentive are also reflected in the Summary Compensation Table under the Non-Equity Incentive Compensation column. See that table and related footnote (2) for more information.

(2) Represents threshold, target and maximum company performance or formulaic annual incentive amounts for 2016.

The following table provides certain information on the unexercised options and value of restricted stock previously awarded to the Named Executive Officers at December 31, 2016.

Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (1)	Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (1)
G. Robert Aston, Jr.	—	—	—	—	—	5,315 (2)	\$ 176,724	—	—
	—	—	—	—	—	—	—	4,366 (3)	\$ 145,170
	—	—	—	—	—	28,986 (2)	\$ 963,785	—	—
Clyde E. McFarland, Jr.	—	—	—	—	—	—	—	1,772 (3)	\$ 58,919
J. Morgan Davis	—	—	—	—	—	13,290 (2)	\$ 441,893	—	—
	—	—	—	—	—	—	—	2,745 (3)	\$ 91,271
William B. Littreal	—	12,875 (4)	—	\$ 15.00	04/02/2021	—	—	—	—
	—	—	—	—	—	8,330 (5)	\$ 276,973	—	—
	—	—	—	—	—	—	—	1,886 (3)	\$ 62,710
	—	—	—	—	—	11,317 (2)	\$ 376,290	—	—
Jacqueline B. Amato	—	—	—	—	—	—	—	—	—
William T. Morrison	—	—	—	—	—	12,303 (2)	\$ 409,075	—	—

- (1) The market value of unearned shares that have not vested is based on the closing market price of the Company's common stock on December 31, 2016 (\$33.25 per share).
- (2) The restricted stock awards vest at the rate of 20%/year beginning on the first anniversary of the grant date, based on a service requirement, which requires each executive to remain continuously employed through the applicable vesting date. In the event of retirement in accordance with the Company's retirement policy, the shares will continue to vest in accordance with the described vesting components.
- (3) The restricted stock awards consist of two equal tranches, each of which has two vesting components: (1) a performance requirement, which requires that the Company reach a targeted annual return on average assets of 0.90% or greater for the years ended December 31, 2015 and 2016; and (2) a service requirement, which requires each executive to remain continuously employed through the applicable vesting date. In the event of retirement in accordance with the Company's retirement policy, the shares will continue to vest in accordance with the described vesting components. Because the information in this table is required to be presented as of December 31, 2016, the shares reflected in the table consist of the second tranche, which vested in February 2017.
- (4) Stock options vest at the rate of 10%/year, with vesting dates starting April 1, 2012. The exercise price has been adjusted to reflect stock splits and dividends.
- (5) Restricted stock vests at the rate of 10%/year, with vesting dates starting April 1, 2012.

Option Exercises and Stock Vested

The following table provides certain information concerning exercises of stock options and the vesting of restricted stock on an aggregate basis for each of the Named Executive Officers during 2016.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting (1)
G. Robert Aston, Jr.	—	—	7,024	\$ 129,283
Clyde E. McFarland, Jr.	—	—	1,771	\$ 33,153
J. Morgan Davis	—	—	9,388	\$ 170,229
William B. Littreal	23,690	\$ 134,270	3,552	\$ 67,410
Jacqueline B. Amato	—	—	—	—
William T. Morrison	—	—	—	—

(1) Value represents the market value of our common stock on the vesting date (closing market price).

Supplemental Executive Retirement Plan

The following table shows the actuarial present value of accumulated benefits payable to each of the participating Named Executive Officers as of December 31, 2016, including the number of years of service credited to each such Named Executive Officer, under the SERP using interest rate and mortality rate assumptions consistent with those used in the Company's financial statements. Benefits under these plans are payable as a monthly annuity for a 15-year period upon attainment of retirement age and remain subject to certain loyalty and confidentiality covenants, including non-competition, non-solicitation, and other restrictions. In addition, Mr. Morrison's Monarch SERP agreements that were assumed by TowneBank in conjunction with the Monarch merger provide for a monthly annuity payable over a 10-year period.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During Last Fiscal Year	Total Percentage Vested	Vested Annual Benefit (1)
G. Robert Aston, Jr.	SERP	8.09	\$ 6,702,464	—	100.00%	\$ 584,929
Clyde E. McFarland, Jr.	SERP	8.09	\$ 1,268,060	—	100.00%	\$ 175,479
J. Morgan Davis	SERP	8.09	\$ 2,835,658	—	100.00%	\$ 247,470
William B. Littreal	SERP	4.38	\$ 178,409	—	40.00%	\$ 354,919
Jacqueline B. Amato	SERP	8.09	\$ 687,515	—	100.00%	\$ 60,000
William T. Morrison	SERP	0.52	\$ 37,624	—	0.00%	\$ 251,239
	SERP (2)	9.34	\$ 166,945	—	100.00%	\$ 30,000
	SERP (2)	6.00	\$ 250,418	—	100.00%	\$ 45,000

(1) Represents projected benefit when fully vested at retirement date.

(2) Plans were assumed by TowneBank in conjunction with the Monarch merger.

Nonqualified Deferred Compensation

The following table provides certain information on nonqualified deferred compensation contributions by the Named Executive Officers, as well as earnings on such compensation, with respect to the Named Executive Officers during 2016. The amounts included in the Executive Contributions column represent voluntary deferrals of salary amounts that are included in the Salary and Non-Equity Incentive Plan Compensation columns of the Summary Compensation Table on page 39.

<u>Name</u>	<u>Executive Contributions in Last Fiscal Year (1)</u>	<u>Registrant Contributions in Last Fiscal Year</u>	<u>Aggregate Earnings in Last Fiscal Year</u>	<u>Aggregate Withdrawals/ Distributions</u>	<u>Aggregate Balance at Last Fiscal Year-End</u>
G. Robert Aston, Jr.	—	—	\$ 24,680	—	\$ 860,804
Clyde E. McFarland, Jr.	\$ 61,200	—	\$ 22,430	—	\$ 816,056
J. Morgan Davis	\$ 28,000	—	\$ 18,611	—	\$ 665,061
William B. Littreal	—	—	—	—	—
Jacqueline B. Amato	—	—	\$ 153,745	—	\$ 5,362,446
William T. Morrison	—	—	—	—	—

(1) The amounts in this column are included in the Salary and Non-Equity Incentive Plan Compensation columns of the Summary Compensation Table.

Employment Agreements and Change-in-Control Agreements

The Company has entered into employment agreements and/or change-in-control agreements with each of the persons named in the Summary Compensation Table who are currently employed by the Company. The agreements were entered into to provide protection for, and thus retain, its well-qualified executive officers notwithstanding any actual or threatened change in control of TowneBank.

Employment Agreements. The Company has employment agreements with each of its Named Executive Officers other than Ms. Amato, who retired from the Company effective December 30, 2016.

The employment agreements for the officers, excluding Ms. Amato and Mr. Morrison as discussed below, are substantially similar, except for the different levels of base salary, and include the following terms and conditions.

The employment agreements have an initial three-year term and renew automatically for additional periods of three years unless either party elects not to renew the agreement prior to the renewal date. The agreements provide for an annual base salary, which may be adjusted annually by the Board of Directors, an annual cash bonus and stock compensation in such amounts as may be determined by the Board, and are subject to non-competition and non-solicitation covenants.

The Company may terminate the employment of an officer at any time for “cause” (as defined in the agreement) without incurring any additional obligations. If the Company terminates the employment of an officer for any reason other than for “cause” or if an officer terminates his or her employment for “good reason” (as defined in the agreement), the Company will be obligated to continue to provide the compensation and benefits specified in the agreement until the expiration of its term.

The employment agreements will terminate in the event that there is a change in control of the Company, at which time the change-in-control agreement described below between the Company and the executive will become effective, and any termination benefits will be determined and paid solely pursuant to the change in control agreement.

Change-in-Control Agreements. The Company also has agreements with the Named Executive Officers, excluding Ms. Amato and Mr. Littreal, which become effective upon a change in control of the Company. Change-in-control agreements protect income for key executives who would likely be involved in decisions regarding and/or successful implementation of merger/acquisition activity and who are at risk for job loss if a takeover occurs. The Board believed it was important to adopt such agreements in order to keep executives employed with the Company.

Under the terms of these agreements, the Company or its successor agrees to continue to employ each officer for a term of three years after the date of a change in control. During the term of the contracts, the executive will retain commensurate authority and responsibilities and compensation benefits. The officers will receive base salaries at least equal to the immediate prior year and bonuses at least equal to the annual bonuses paid prior to the change in control. If an officer's employment is terminated during the three years other than for "cause" or "disability" (as defined in the agreement), or if the officer should terminate employment because a material term of his or her contract is breached by the Company or its successor, the officer will be entitled to a lump-sum payment, in cash, within 30 days after the date of termination. This lump sum amount will be equal to 2.99 times the sum of the officer's base salary, annual bonus and equivalent benefits, other than for Mr. Morrison, whose lump-sum amount will be equal to 2.0 times such compensation up to a maximum cash amount of \$1,200,000.

Other Agreements. On November 9, 2016, the Company and Jacqueline B. Amato, Former Chairman and Chief Executive Officer of TowneBank Mortgage and a current director of the Company, entered into a transition and consulting agreement. Under the terms of the agreement, Ms. Amato retired as an officer and employee of the Company on December 30, 2016 and agreed to provide consulting and advisory services to the Company for a term of five years ending December 31, 2021. In exchange for Ms. Amato providing consulting and advisory services to the Company, she will receive an annual consulting fee as follows: for 2017 - \$600,000; for 2018 - \$500,000; for 2019 - \$400,000; for 2020 - \$300,000; and for 2021 - \$200,000. Under the terms of Ms. Amato's previous employment agreement, she received an initial base salary of \$40,000, subject to annual increases. As is customary in the mortgage loan industry, Ms. Amato was also eligible for incentive compensation in the form of commissions and incentive plan payments based on the mortgage loan production and profitability of TowneBank Mortgage. Ms. Amato's employment agreement provided for an annual incentive plan payment, which was not based on commissions, in an amount equal to a fixed percentage of the net pre-tax operating income (as defined in the agreement) of TowneBank Mortgage for the calendar year. This incentive plan payment was not subject to any minimum or maximum amount.

Upon her retirement, Ms. Amato became Chairman Emeritus, TowneBank Mortgage. Ms. Amato will continue to serve as a director of the Company until her current term expires at the 2018 annual meeting of stockholders and thereafter subject to re-nomination by the Nominating Committee of the Company's Board of Directors and election by stockholders. She also will serve as a director of Towne Financial Services during the consulting term.

The Company and William T. Morrison, Chairman and Chief Executive Officer of TowneBank Mortgage and Realty Group and a director of the Company, entered into an employment agreement on December 16, 2015 in connection with the Monarch merger. The employment agreement, which became effective upon the closing of the merger on June 24, 2016, has a term that expires on December 31, 2019, subject to automatic two year renewals unless notice of nonrenewal is given by the Company no later than 12 months prior to the expiration of the then current term. Under the agreement, Mr. Morrison receives a

minimum base salary of \$400,000. In addition, in lieu of the opportunity to receive a cash bonus from the Company like other executive officers, Mr. Morrison's employment agreement provides for him to receive an amount equal to (i) 10% of the first \$17,000,000 of the annual pre-tax profit contribution (as defined in the agreement) of TowneBank Mortgage, and (ii) 5% of the annual pre-tax profit contribution of TowneBank Mortgage in excess of \$17,000,000. This incentive plan payment is not subject to any minimum or maximum amount. Mr. Morrison may voluntarily terminate his employment under the agreement at any time and the agreement does not include a provision for termination by him for "good reason." The Company may terminate Mr. Morrison's employment with or without "cause" (as defined in the agreement) by giving him written notice of termination. Mr. Morrison's employment agreement will terminate in the event that there is a change in control of the Company, at which time the change in control agreement described above between the Company and the executive will become effective, and any termination benefits will be determined and paid solely pursuant to the change in control agreement.

The following table provides information on the potential payment upon termination of employment or a change in control of the Company for the Named Executive Officers, assuming a termination or change in control occurring December 31, 2016.

Potential Payments Upon Termination or Change in Control

<u>Name</u>	<u>Benefit</u>	<u>Before Change in Control Termination Without Cause or for Good Reason</u>	<u>After Change in Control Termination Without Cause or for Good Reason</u>	<u>Death Benefit</u>	<u>Disability Benefit</u>
G. Robert Aston, Jr.	Post-Termination Compensation	\$ 2,850,000	\$ 3,580,500	\$ —	\$ 79,167
	Early Vesting of Restricted Stock	1,285,678	2,080,565	2,080,565	2,080,565
	Health Care Benefits Continuation	88,600	321,860	—	7,383
	Retirement Benefit (1)	8,773,939	8,773,939	8,773,939	—
	Excise Tax Gross-up	—	274,612	—	—
	Total Value	\$ 12,998,217	\$ 15,031,476	\$ 10,854,504	\$ 2,167,115
Clyde E. McFarland, Jr.	Post-Termination Compensation	\$ 1,170,000	\$ 1,472,100	\$ —	\$ 32,500
	Early Vesting of Restricted Stock	117,805	190,639	190,639	190,639
	Health Care Benefits Continuation	67,711	564,671	—	5,643
	Retirement Benefit (1)	2,632,182	2,632,182	2,632,182	—
	Excise Tax Gross-up	—	165,759	—	—
	Total Value	\$ 3,987,698	\$ 5,025,351	\$ 2,822,821	\$ 228,782
J. Morgan Davis	Post-Termination Compensation	\$ 2,250,000	\$ 2,802,500	\$ —	\$ 62,500
	Early Vesting of Restricted Stock	533,164	862,799	862,799	862,799
	Health Care Benefits Continuation	67,711	478,592	—	5,643
	Retirement Benefit (1)	3,712,051	3,712,051	3,712,051	—
	Excise Tax Gross-up	—	352,577	—	—
	Total Value	\$ 6,562,926	\$ 8,208,519	\$ 4,574,850	\$ 930,942
William B. Littreal	Post-Termination Compensation	\$ 950,000	\$ 950,000	\$ —	\$ 39,583
	Early Vesting of Restricted Stock	715,972	715,972	715,972	715,972
	Early Vesting of Stock Options	43,260	43,260	43,260	43,260
	Health Care Benefits Continuation	85,902	85,902	—	7,158
	Retirement Benefit (1)	5,323,786	5,323,786	5,323,786	—
	Excise Tax Gross-up	—	—	—	—
	Total Value	\$ 7,118,920	\$ 7,118,920	\$ 6,083,018	\$ 805,973
Jacqueline B. Amato	Post-Termination Compensation (2)	\$ 2,000,000	\$ 2,000,000	n/a	n/a
	Early Vesting of Restricted Stock	—	—	n/a	n/a
	Health Care Benefits Continuation	—	—	n/a	n/a
	Retirement Benefit (1)	—	—	n/a	n/a
	Excise Tax Gross-up	—	—	n/a	n/a
	Total Value	\$ 2,000,000	\$ 2,000,000	n/a	n/a
William T. Morrison	Post-Termination Compensation	\$ 1,038,508	\$ 1,200,000	\$ —	\$ 33,333
	Early Vesting of Restricted Stock	—	409,075	409,075	409,075
	Health Care Benefits Continuation	41,349	41,349	—	3,446
	Retirement Benefit (1)	3,768,584	3,768,584	3,768,584	—
	Excise Tax Gross-up	—	—	—	—
	Total Value	\$ 4,848,441	\$ 5,419,008	\$ 4,177,659	\$ 445,854

(1) Amounts shown reflect the total of payments to be made to the executive. SERP benefits vest immediately upon death or termination without cause or for good reason. All amounts are paid in equal monthly installments over a 15-year period commencing within 90 days of the death of a participant or upon attainment of retirement age, other than Mr. Morrison's amount, which includes his Monarch SERP that consists of \$450,000 to be paid in equal monthly installments over a 10-year period.

(2) Ms. Amato retired from the Company effective December 30, 2016. In accordance with her transition and consulting agreement, the Company would be required to pay Ms. Amato certain scheduled amounts for the term of the agreement if it is terminated by the Company without cause. See "Employment Agreements and Change-in-Control Agreements" beginning on page 43 for additional information.

COMPENSATION OF DIRECTORS

As compensation for their services during 2016, each member of the Board of Directors of the Company, as well as each member of the board of directors of each TowneBanking Group and TFS division, received \$300 for each meeting of the Company Board, TowneBanking Group Board, and TFS division Board attended. In addition, standing committee members received \$175 for each committee meeting attended. Furthermore, as compensation for their services during 2016, each member of the Board of Directors of the Company received an annual retainer of \$22,000. Chairmen of the Board of Directors of the Company, each TowneBanking Group Board, and each TFS division Board, Vice Chairmen of the Board of Directors of the Company, and Committee Chairmen received an additional \$3,000 retainer fee. Members of the Audit and Risk Committee received an additional \$5,000 retainer fee. Board members who are also officers did not receive any additional compensation above their regular compensation for service on the Board or serving as a committee chairman.

2016 Director Compensation

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>All Other Compensation</u>	<u>Total</u>
E. Lee Baynor	\$ 35,250	—	\$ 35,250
Jeffrey F. Benson	\$ 4,450	—	\$ 4,450
Richard S. Bray	\$ 44,175	—	\$ 44,175
Thomas C. Broyles	\$ 42,475	—	\$ 42,475
Bradford L. Cherry	\$ 27,325	—	\$ 27,325
Douglas D. Ellis	\$ 31,225	—	\$ 31,225
John W. Failes	\$ 45,500	—	\$ 45,500
Paul J. Farrell	\$ 41,550	—	\$ 41,550
Andrew S. Fine	\$ 30,475	—	\$ 30,475
John R. Lawson, II	\$ 30,000	—	\$ 30,000
Harry T. Lester	\$ 26,200	—	\$ 26,200
W. Ashton Lewis	\$ 37,050	—	\$ 37,050
Stephanie J. Marioneaux, M.D.	\$ 27,400	—	\$ 27,400
Juan M. Montero, II, M.D.	\$ 34,975	—	\$ 34,975
R. Scott Morgan	\$ 30,950	—	\$ 30,950
Thomas K. Norment, Jr.	\$ 29,500	—	\$ 29,500
Robert M. Oman	\$ 1,800	—	\$ 1,800
R.V. Owens, III	\$ 27,700	—	\$ 27,700
Elizabeth T. Patterson	\$ 3,225	—	\$ 3,225
Elizabeth W. Robertson	\$ 35,100	—	\$ 35,100
Dwight C. Schaubach	\$ 2,700	—	\$ 2,700
Richard B. Thurmond	\$ 25,300	—	\$ 25,300
Richard T. Wheeler, Jr.	\$ 37,850	—	\$ 37,850
Alan S. Witt	\$ 34,350	—	\$ 34,350
F. Lewis Wood	\$ 27,375	—	\$ 27,375
Total	<u>\$ 713,900</u>	<u>—</u>	<u>\$ 713,900</u>

RELATED PARTY TRANSACTIONS

Certain directors and officers of the Company and members of their immediate families, and corporations, partnerships and other entities with which such persons are associated, are customers of the Company. As such, these persons engaged in transactions with the Company in the ordinary course of business during 2016, and will have additional transactions with the Company in the future.

All loans extended and commitments to lend by the Company to directors, officers and members of their immediate families and corporations, partnerships and other entities with which such persons are affiliated are made in the ordinary course of business upon substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons and do not involve more than the normal risk of collectibility or present other unfavorable features.

The Company's Internal Audit Division is responsible for reviewing all related party transactions that would require disclosure under Item 404(a) of Regulation S-K of the Securities and Exchange Commission. The Internal Audit Division reviews the terms of all transactions of at least \$120,000 in which related persons had or will have direct or indirect material interests, including, on a sample basis, taking into account whether the transactions are on terms no less favorable to the Company than terms generally available to an unaffiliated third party under the same or similar circumstances. Once this review is complete, Internal Audit presents a list of related party transactions to the Audit and Risk Committee. The Audit and Risk Committee reviews this list and is given the opportunity to ask questions of Internal Audit regarding the related party transactions on the list.

The Company rents space for various financial centers from companies affiliated with certain directors. All leases are made in the ordinary course of business upon substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons. The Company rents space from OverYork, LLC. Mr. Jeffrey F. Benson is a partner and has a 25% ownership interest in OverYork, LLC. Rent expense and other payments related to this lease made by TowneBank for the year ended December 31, 2016 totaled \$141,000. The Company also rents space from Pavilion Center Associates, LLC, a company in which Mr. Andrew S. Fine is a manager with 1% ownership. In addition, Mr. Fine has an 11.00% ownership interest in The Runnymede Corporation, which charges management fees to Pavilion Center Associates, LLC. Rent expense related to this lease was \$422,000 for the year ended December 31, 2016. The Company also rents space from Pavilion Center II, LLC, which is 30.99% owned by Pavilion Center Associates, LLC and 69.01% by The Runnymede Corporation. Rent expense related to this lease was \$1,884,000 for the year ended December 31, 2016. The Company also rents space from Warwick Wood Associates, LLC. Mr. Richard B. Thurmond has a 50% ownership interest in Warwick Wood Associates, LLC. Rent expense and other payments related to this lease for the year ended December 31, 2016 totaled \$150,000.

In the ordinary course of its business, the Company obtains certain goods and services from companies affiliated with certain directors. Such transactions are made in the ordinary course of business upon substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons. In 2016, the Company made payments totaling \$286,000 to Cherry Carpets, Inc. in connection with the furnishing of certain facilities. Mr. Bradford L. Cherry serves as Chairman and Secretary of Cherry Carpets, Inc. and has a 50% ownership interest in the company.

The Company is a 51% partner in a consolidated joint venture, Out of Town, LLC d/b/a Red Sky Travel Insurance ("Red Sky"), with current director R.V. Owens, III. Mr. Owens owns 24.5% of Red Sky and received distributions of partnership earnings of \$614,000 during 2016. Red Sky offers travel, medical, and baggage protection insurance for travelers via vacation property management companies.

The Company and Jacqueline B. Amato, Former Chairman and Chief Executive Officer of TowneBank Mortgage and a current director of the Company, entered into a transition and consulting agreement on November 9, 2016 under which Ms. Amato retired as an officer and employee of the Company on December 30, 2016 and agreed to provide consulting and advisory services to the Company for a term of five years ending December 31, 2021. See “Named Executive Officers Compensation - Employment Agreements and Change-in-Control Agreements” beginning on page 43.

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee assists the Board of Directors of the Company in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. During the year ended December 31, 2016, the committee met eight times. In addition to regularly scheduled meetings, the Audit and Risk Committee is available either as a group or individually to discuss any matters that might affect the financial statements, internal controls or other financial aspects of the operations of the Company. Each of the members of the Audit and Risk Committee is an “independent director” as defined by NASDAQ Marketplace Rule 5605(a)(2).

In the performance of its oversight responsibility, the Audit management and the independent registered public accounting firm and discussed the results of the internal audit examinations. The Audit and Risk Committee also discussed and reviewed with the independent auditors all communications required by generally accepted accounting standards in the United States, including those described in Public Company Accounting Oversight Board Auditing Standard No. 16, *Communications with Audit Committees*.

The Audit and Risk Committee has received from the independent auditors the written disclosures and the letter required by Rule 3526, *Communication with Audit Committees Concerning Independence*, of the Public Company Accounting Oversight Board, and discussed with the independent auditors any relationships that may impact their objectivity and independence, and satisfied itself as to the auditors’ independence. The committee also discussed with management, the internal auditor and the independent auditors the quality and adequacy of the Company’s internal controls and the internal audit function’s organization, responsibilities, budget and staffing. The committee reviewed with both the independent and internal auditors its audit plans, audit scope and identification of audit risks.

The Audit and Risk Committee discussed and reviewed the audited financial statements of the Company as of and for the fiscal year ended December 31, 2016, with management and the independent auditors. Management has the responsibility for the preparation of the Company’s financial statements, and the independent auditors have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Audit and Risk Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2016, for filing with the Federal Deposit Insurance Corporation.

**Submitted by the Audit and Risk Committee of
TowneBank:**

Elizabeth W. Robertson, Chairman
E. Lee Baynor
John W. Failes
W. Ashton Lewis
Juan M. Montero, II, M.D.
Elizabeth T. Patterson
Alan S. Witt

Consultants to the Audit and Risk Committee:

Dr. C. Fred Bateman
Michael J. Blachman
W. Arthur Hudgins
Daniel N. Ryan, Sr.
Robert E. Yancey

ACCOUNTING FIRM FEES

The following table shows the fees billed for the audit and other services provided by Dixon Hughes Goodman LLP for fiscal years ended December 31, 2016 and 2015. All non-audit services were reviewed by the Audit and Risk Committee, which concluded that the provision of such services by Dixon Hughes Goodman LLP was compatible with maintaining the accounting firm's independence. It is the Audit and Risk Committee's policy to approve fees for services rendered by the Company's independent auditors only upon a review of such fees.

	<u>2016</u>	<u>2015</u>
Audit Fees (1)	\$ 563,075	\$ 762,153
Audit-related Fees (2)	211,255	33,000
Tax Fees (3)	4,660	12,375
All Other Fees (4)	—	—
Total	<u>\$ 778,990</u>	<u>\$ 807,528</u>

- (1) Audit fees represent professional services rendered in connection with the audit of the Company's annual financial statements and reviews of the financial statements included in the Company's Forms 10-Q for the fiscal years. Also included in the total amount billed are fees related to the report on effectiveness of internal control as required by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), the report on internal control as required by the Sarbanes-Oxley Act Section 404, and services performed in connection with statutory and regulatory filings or engagements.
- (2) Audit-related fees consisted primarily of accounting consultations and other attestation services, including employee benefit plan audits and its due diligence, accounting assistance and other attestation services in connection with proposed or consummated mergers or acquisitions.
- (3) Tax fees consisted of tax return preparation and other tax-related services rendered, including cost segregation studies and tax assistance related to merger and acquisitions. In 2016 and 2015, the Company also contracted with KPMG, LLP for most of its consolidated company tax-related services and made payments to KPMG, LLP totaling \$86,300 and \$122,589 for such tax services, respectively.
- (4) All other fees consist of all services rendered other than those set forth above. In 2016 and 2015, the Company contracted with KPMG, LLP for certain consulting and valuation services and made payments to KPMG, LLP totaling \$111,832 and \$62,390 for such services, respectively.

Pre-Approval Policy

Under the Audit and Risk Committee's pre-approval policy, the Audit and Risk Committee is required to review the services expected to be provided by the independent auditor to ensure that the provision of such services will not impair the auditor's independence. In addition to the annual audit and audit-related fees specified in the engagement letter, the Audit and Risk Committee must pre-approve any additional projects in these two categories whose fees exceed \$25,000. For other services provided by the independent auditor not specifically excluded, pre-approval by the Audit and Risk Committee on an individual project basis is required. Approval for such services may be requested at the next Audit and Risk Committee meeting. If earlier approval is necessary, it may be obtained in accordance with the Audit and Risk Committee's delegation to the Audit and Risk Committee Chairman, in which case the decision must be presented to the full Audit and Risk Committee at its next meeting. The Audit and Risk Committee authorizes fees up to \$50,000 annually for additional financial consulting services if provided by a party other than the independent auditor. A summary of all fees paid for any financial services, whether to the independent auditor or to other outside providers, must be presented annually to the Audit and Risk Committee.

INDEPENDENT AUDITORS — PROPOSAL THREE

The Board of Directors, upon recommendation of the Audit and Risk Committee, has appointed Dixon Hughes Goodman LLP as the Company's independent public accountants for the year ending December 31, 2017, and has further directed that management submit the selection of independent public accountants for ratification by the stockholders at the Annual Meeting.

Representatives of the firm are expected to be present at the Annual Meeting and will be given an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

The ratification of the appointment of Dixon Hughes Goodman LLP requires that the votes cast "for" exceed the number of votes cast "against" the proposal. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

The Board of Directors recommends that you vote "FOR" the ratification of the appointment of Dixon Hughes Goodman LLP as independent auditors for the fiscal year ending December 31, 2017.

ADVISORY VOTE ON TOWNEBANK'S EXECUTIVE COMPENSATION — PROPOSAL FOUR

Stockholders are being given the opportunity to vote on an advisory (non-binding) resolution at the Annual Meeting to approve TowneBank's executive compensation policies and procedures as described in the Compensation Discussion and Analysis, the compensation tables, and related discussion in TowneBank's 2017 proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives stockholders the opportunity to endorse or not endorse TowneBank's executive pay program through the following resolution:

"Resolved, that TowneBank's stockholders approve the compensation of the Named Executive Officers as disclosed in the Summary Compensation Table, the other compensation tables, the Compensation Discussion and Analysis and the related disclosures in this proxy statement."

We have included this proposal in the proxy statement pursuant to the requirements of Section 14A of the Securities Exchange Act of 1934. Because this vote is advisory, it will not be binding upon the Board. However, the Compensation Committee of the Board of Directors will take into account the outcome of the vote when considering future executive compensation arrangements.

The Compensation Committee respectfully requests that you consider the following:

- Since the founding of the Company in 1998, TowneBank’s ultimate strategic business concept has been to attract, recruit and retain the best bankers in Hampton Roads. It was and remains our belief that extraordinary people will achieve extraordinary results.
- Since the founding of the Company, the leadership of TowneBank has created an \$8.0 billion local bank, making it one of the top performing new banks in the United States. Additionally, the Bank enjoys a stellar reputation based on honesty, integrity, and doing the right thing.
- TowneBank recorded its 17th consecutive year of increased earnings.
- We believe our employees are our most important and valuable asset.

The approval of the advisory vote on the compensation of the Company’s Named Executive Officers as described in this proxy statement requires that the votes cast “for” exceed the number of votes cast “against” the proposal. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

The Board recommends that stockholders vote “FOR” approval of the compensation of the Company’s Named Executive Officers as described in this proxy statement pursuant to the Securities and Exchange Commission’s compensation disclosure rules, which disclosure includes the Compensation Discussion and Analysis, the compensation tables and the related disclosures in this proxy statement.

APPROVAL OF THE TOWNEBANK 2017 STOCK INCENTIVE PLAN — PROPOSAL FIVE

The Board of Directors has adopted, subject to approval by the Company’s stockholders, the TowneBank 2017 Stock Incentive Plan (the “2017 Plan”). The purpose of the 2017 Plan is to promote the interests of TowneBank and its stockholders by strengthening TowneBank’s ability to attract, motivate and retain employees, directors and consultants upon whose judgment, initiative and efforts the financial success and growth of the business of TowneBank largely depend.

If approved by the stockholders, a total of 2,500,000 shares of common stock will be initially reserved for issuance under the 2017 Plan. This represents a reduction in the number of shares currently reserved under the Company’s 2008 Stock Incentive Plan, which provides that the number of reserved shares will be subject to adjustment annually based on a percentage of the Company’s outstanding shares. If the 2017 Plan is approved, the Company will terminate the 2008 Stock Incentive Plan and no shares of common stock will be available for issuance thereunder, other than shares already subject to outstanding equity awards under such plan.

The material terms of the 2017 Plan are summarized below. Because this is a summary, it may not contain all the information that stockholders may consider important. In order to aid understanding of the plan, the full text of the 2017 Plan, as proposed for adoption and approval by stockholders, is provided as Appendix A to this proxy statement.

The Board of Directors recommends that stockholders approve the 2017 Plan.

Executive Summary

The following is a summary of the key provisions of the 2017 Plan, including important features that enable the Company to maintain sound governance practices in granting awards.

- **Award Types:** The following types of awards will be available for issuance under the 2017 Plan:

- ◇ nonstatutory and incentive stock options; and
 - ◇ stock awards, including restricted stock awards and restricted stock units.
- **Eligible Participants:** All employees of the Company and our subsidiaries, members of the board of directors and consultants.
 - **Shares Reserved under the 2017 Plan:** A total of 2,500,000 shares of the Company’s common stock are reserved for issuance under the plan. The number of shares available for issuance under the plan is subject to adjustment to reflect stock splits, stock dividends and similar events.
 - **Shares Reserved under the 2017 Plan as a Percentage of Outstanding Common Stock as of December 31, 2016:** 4.4%
 - **No Liberal Share Recycling:** Under the 2017 Plan, shares of the Company’s common stock used to pay the exercise price of a stock option or to satisfy tax withholding obligations in connection with an award will not be added back (recycled) to the aggregate plan limit.
 - **Flexibility to Qualify for Section 162(m) Performance-Based Compensation Tax Treatment:** The 2017 Plan includes provisions necessary for the Company to grant awards intended to qualify for the performance-based compensation exemption from the limitation on corporate tax deductions in Section 162(m) of the Internal Revenue Code of 1986 (the “Code”).
 - **Encourages Double-Trigger Acceleration in Certain Change in Control Situations:** The 2017 Plan adds principles that encourage “double-trigger” vesting in certain change in control situations. Unless otherwise provided by the Compensation Committee, the plan provides that if outstanding awards are assumed, converted, or replaced by the surviving entity in a change in control, the vesting of those awards will only accelerate if the participant’s employment or service is terminated without cause or a participant resigns for good reason within two years after the effective date of the change in control.
 - **No Dividends or Similar Distributions on Unvested Awards or Options:** The 2017 Plan prohibits the payment of dividends or similar distributions on awards, whether subject to time-based or performance-based vesting, unless and until the vesting requirements have been met.
 - **No Discounted Stock Options:** The 2017 Plan prohibits the grant of stock options with an exercise price less than the fair market value of the Company’s common stock on the grant date.
 - **No Repricing of Stock Options:** The 2017 Plan generally prohibits the repricing of stock options without stockholder approval.
 - **One Year Minimum Vesting Period:** The 2017 Plan provides for a minimum one-year vesting period for awards granted under the plan. However, the Company maintains the right to grant awards without the minimum one-year vesting period for up to 5% of the shares reserved under the 2017 Plan.
 - **Protective Provisions:** The 2017 Plan provides for the forfeiture of outstanding awards upon a participant’s termination for cause and adds provisions subjecting all awards under the plan to the terms of any recoupment, clawback, or similar policy in effect at the Company from time to time.
 - **Independent Committee Administration:** Awards granted to named executive officers under the Plan are recommended by the Compensation Committee, which is composed entirely of independent directors.
 - **Term of the Plan:** No awards may be granted under the 2017 Plan after April 30, 2027, the termination date of the plan.

Equity Plan Information

The following table shows the number of shares relating to outstanding equity awards, consisting of only stock options and unvested restricted stock awards, at year-end for the past three years. During this period, the Company did not grant any stock options. The following table also shows the number of full-value awards, consisting of only restricted stock awards, granted during the three-year period ended December 31, 2016.

For the Year Ended December 31,	2014	2015	2016
Stock option awards outstanding	414,005	277,287	97,590
<i>Weighted average exercise price</i>	\$18.44	\$17.69	\$16.24
Unvested restricted stock awards outstanding	361,719	376,990	456,385
Common shares outstanding	35,785,679	51,605,521	62,492,168
Restricted stock awards granted	174,561	123,921	201,896
Basic weighted average shares outstanding	35,160,747	51,064,719	56,837,018

Purpose

The purpose of the 2017 Plan is to further the long-term stability and financial success of the Company by attracting and retaining personnel, including employees, directors and consultants, through the use of stock incentives and other rights that promote and recognize the financial success and growth of the Company. The Company believes that ownership of the Company's common stock will stimulate the efforts of those persons upon whose judgment, interest and efforts the Company is and will be largely dependent for the successful conduct of its business and will further the identification of those persons' interests with the interests of the Company's stockholders.

Shares Available for Issuance

Subject to approval by stockholders, the aggregate number of shares reserved for issuance under the 2017 Plan is 2,500,000. If any award granted under the 2017 Plan terminates, expires or lapses for any reason other than as a result of exercise or settlement, or if shares issued pursuant to an award are forfeited, the shares associated with such award will be available for future awards under the 2017 Plan. In contrast, any shares withheld by the Company, delivered by a participant, or otherwise used to pay an option exercise price or withholding taxes associated with an award will not be available for future awards under the 2017 Plan. Further, in the event shares are withheld or delivered by a participant in connection with an option exercise, the number of shares available for future awards will be reduced by the gross number of shares to which the exercise relates, rather than the net number of new shares issued upon exercise.

With certain limitations, awards made under the 2017 Plan may be adjusted by the Compensation Committee in an equitable and proportionate manner to prevent dilution or enlargement of benefits or potential benefits intended to be made available under the 2017 Plan in the event of any stock dividend, stock split, combination, merger, change in laws, regulations or accounting principles or other relevant unusual or nonrecurring event affecting the Company.

To date, no stock options, restricted stock awards or other stock-based awards have been granted under the 2017 Plan.

Annual Limit on Awards

The maximum number of shares with respect to which awards may be granted in any calendar year to any individual during a calendar year will be 150,000 shares.

Administration

The 2017 Plan will be administered by the Compensation Committee of the Company's Board of Directors. The Compensation Committee will have the power to select award recipients and grant awards on terms the Compensation Committee considers appropriate. In addition, the Compensation Committee will have the authority, among other things, to interpret the 2017 Plan, to adopt, amend, or waive rules and regulations for the 2017 Plan's administration, and to make all other determinations for administration of the 2017 Plan.

Eligibility

Any employee or director of, or consultant to the Company (or affiliate thereof) who, in the judgment of the Committee, has contributed or can be expected to contribute to the profits or growth of the Company is eligible to become a participant.

Types of Awards

Stock Options. Stock options granted under the Plan may be incentive stock options (which meet the requirements of Section 422 of the 2017 Code and options that do not qualify as incentive stock options). A stock option entitles a recipient to purchase shares of common stock at a specified exercise price. The Compensation Committee will fix the exercise price at the time the stock option is granted, provided the exercise price cannot be less than 100% of the fair market value of a share of the Company's common stock on the date of grant (or, in the case of an incentive stock option granted to a 10% stockholder of the Company, 110% of the shares' fair market value on the date of grant). The exercise price may be paid in cash, by delivery of previously acquired shares with an aggregate fair market value equal to the exercise price for the number of option shares being acquired, through a "net share exercise" whereby the Company withholds and retains sufficient shares issuable in connection with the stock option to cover the exercise price, through a "cashless exercise" procedure that enables a participant the opportunity to sell immediately some of the shares underlying the exercised portion of the stock option to generate sufficient cash to pay the exercise price, or through a combination of the foregoing.

Stock options may be exercised at such times and subject to such conditions as may be prescribed by the Compensation Committee, including the requirement that they will not be exercisable after ten years from the date of grant (or five years in the case of an incentive stock option granted to a 10% stockholder of the Company).

Restricted Stock Awards. The 2017 Plan permits the grant of restricted stock awards that are subject to forfeiture until the restrictions established by the Compensation Committee lapse and the restricted shares vest. A restricted stock award is an award of common stock that may be subject to restrictions on transferability and other restrictions as the Compensation Committee determines in sole discretion on the date of grant. The restrictions may lapse over a specified period of time based on continued employment or service and/or the achievement of certain performance objectives. Unless a restricted stock award agreement provides otherwise, a participant who receives a restricted stock award will have all the rights of stockholder as to those shares, including the right to vote. Importantly, however, dividends will not be paid on the restricted shares unless and until the shares vest, at which time the accrued dividends will be paid.

Restricted Stock Unit Awards. The Compensation Committee may also award restricted stock units ("RSU") under the 2017 Plan. An RSU is an award stated with reference to a number of shares of common stock. The Compensation Committee may place such restrictions on the vesting and settlement of RSUs as the Compensation Committee deems appropriate, including restrictions relating to continued employment or service and/or achievement of certain performance objectives. The RSU may entitle the recipient to receive, upon satisfaction of the vesting conditions set forth in the RSU agreement, cash, shares of common stock or a combination of cash and shares of common stock. Subject to any exceptions authorized by the Compensation Committee, RSUs will be forfeited if the restrictions on vesting, whether time-based or performance-based, established with respect to such awards are not satisfied.

Holders of RSUs have no right to vote the shares represented by the units. In addition, holders of RSUs are not eligible to receive dividend payments on the units (because dividend payments are only available for shares that have been issued and are outstanding).

Stock Awards. Unless otherwise provided by the Compensation Committee, a stock award is fully vested and freely transferable as of the date the award is granted, subject to restrictions under applicable federal or state securities laws. The 2017 Plan provides that only 5% of the shares reserved under the plan may be used for stock awards that vest immediately.

Incentive Awards. The Compensation Committee will be authorized to grant incentive awards under the 2017 Plan. Incentive awards are intended to be performance-based compensation awards under Section 162(m) of the Code. Incentive awards are award stated with reference to a number of shares of common stock. Incentive awards, including the performance objective and the related performance period, will be determined by the Compensation Committee in its discretion. After a performance period has ended, the holder of an incentive award is entitled to receive the value of the award based on the degree to which the performance objectives described below under “Section 162(m) and Performance Goals” and other conditions established by the Compensation Committee have been satisfied. Payment of incentive awards will be in cash, shares of common stock or a combination of cash and shares of common stock as determined by the Compensation Committee, and may be paid in a lump sum or in installments.

Holders of incentive awards have no right to vote the shares represented by the incentive awards. In addition, holders of incentive awards are not eligible to receive dividend payments on the awards (because dividend payments are only available for shares that have been issued and are outstanding).

Section 162(m) and Performance Goals

The 2017 Plan is intended to permit the Company to grant awards that qualify as “performance-based compensation” under Section 162(m) of the Code, as well as awards that do not qualify.

Under Section 162(m), compensation paid to certain officers of a public company in a given tax year is not deductible if it exceeds \$1 million unless it is “performance-based compensation.” Stock options are deemed to be performance-based compensation if the exercise price is at least equal to the fair market value of the shares subject to the option on the grant date and if the maximum number of shares of the Company’s common stock available for awards is disclosed to and approved by stockholders. Other awards may be performance-based compensation if they are based on achievement of objective performance goals set by the Compensation Committee and the material terms of the compensation or benefit to be paid, including the performance goals that may be used, are disclosed to and approved by the stockholders before payment. The Compensation Committee must certify that the applicable performance goals and any other material terms are in fact satisfied.

Under the 2017 Plan, the Compensation Committee will determine the performance period during which a performance goal must be met. Performance goals may include a threshold level of performance below which no vesting may occur, levels of performance at which specified vesting will occur, and a maximum level of performance above which no additional vesting will occur.

If stockholders approve the 2017 Plan, at the Compensation Committee’s discretion the performance goals for any performance period may be based on one or more of the following: (1) stock value or increases in stock value, (2) earnings per share and/or earnings per share growth, (3) earnings and/or earnings growth (before or after one or more of taxes, interest, depreciation and/or amortization), (4) total stockholder return, (5) operating revenue or operating cash flow, (6) tangible book value or tangible book value growth, tangible book value per share or growth in tangible book value per share, (7) return on equity, tangible equity, assets, capital and/or investment, (8) net revenue or net revenue growth, (9) gross profit or gross profit growth, (10) deposits, loan and/or equity levels or growth thereof, (11) working capital targets, (12) cost control measures, (13) regulatory compliance and regulatory examination results, (14) gross, operating or other margins, (15) efficiency ratio (as generally recognized and used for bank

financial reporting and analysis), (16) interest income, (17) non-interest income, (18) credit quality, (19) net charge-offs and/or non-performing assets (excluding such loans or classes of loans as may be designated for exclusion), (20) customer satisfaction and quality control measures, (21) satisfactory internal or external audits, (22) maintenance or improvement of regulatory or financial ratings, (23) achievement of balance sheet or income statement objectives, (24) budget and expense management, (24) assets under management or growth thereof, (25) achievement of risk management objectives, (26) achievement of strategic performance objectives, (27) implementation, management or completion of critical projects or processes, and (28) achievement of merger or acquisition objectives.

In the Compensation Committee's sole discretion, performance goals may be adjusted when established, or later, to include or exclude without limitation the effect of discontinued operations and dispositions of business units or segments, non-recurring items, material extraordinary items that are both unusual and infrequent, non-budgeted items, special charges, accruals for acquisitions, reorganizations, and/or changes in tax law, accounting principles, or other such laws or provisions affecting the Company's reported results. However, for an award that is intended to qualify as performance-based compensation, the Compensation Committee may modify or adjust a performance goal only to the extent permitted by Section 162(m).

Restrictions on Transfer

In general, awards granted under the 2017 Plan may not be assigned, transferred, pledged or otherwise encumbered by a participant, other than by will or the laws of descent and distribution. The plan permits the award of non-statutory stock options that are transferable to immediate family members (or certain related trusts or entities), in accordance with applicable securities laws.

Change in Control Provisions

In the event of a "change in control" (as defined in the 2017 Plan), the Compensation Committee may, at the time an award is made or thereafter, take such action as it deems appropriate, in its sole discretion and without the consent of a participant, which may include, without limitation, the following actions: (1) provide for the purchase, settlement, or cancellation of any award by the Company for an amount of cash equal to the amount that could have been obtained upon the exercise of such award or realization of such participant's rights had such award been currently exercisable or payable; (2) adjust outstanding awards as the Compensation Committee deems appropriate to retain the economic value of the award; or (3) cause any outstanding award to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation in such change in control.

In connection with a change in control, the Compensation Committee may provide for acceleration of the vesting, delivery, and exercisability of, and the lapse of time-based and/or performance-based vesting restrictions with respect to, an outstanding award, and for the replacement of a stock-settled award with a cash-settled award. Unless otherwise provided by the Compensation Committee, if an award is assumed by the surviving corporation or otherwise equitably converted or substituted in connection with a change in control, the vesting, delivery, and exercisability of, or the lapse of restrictions on, such award will not be accelerated unless the participant's employment or service with the Company or a subsidiary is terminated without cause or the participant resigns for good reason under an applicable plan or agreement within two years after the change in control (commonly referred to as "double-trigger" acceleration). The Company's Board of Directors included these principles in the 2017 Plan that encourage the use of double-trigger acceleration for awards that are assumed by the surviving corporation (or otherwise equitably converted or substituted in connection with a change in control) as a good governance practice.

While the Company's Board of Directors recognizes the benefits of double-trigger acceleration in certain change in control circumstances and has included the principles described above for this reason, the Board of Directors also believes it is appropriate to retain flexibility in the specific terms of equity awards granted under the 2017 Plan and to avoid restricting the range of available options for structuring incentive compensation opportunities for the Company's executives and other employees. The Board of Directors believes that the Compensation Committee, which is composed entirely of independent

directors and is advised by an independent compensation consultant, is in the best position to determine when to apply the double-trigger principles described above.

Amendment and Termination

If not sooner terminated by the Board of Directors of the Company, this 2017 Plan shall terminate on April 30, 2027. The Board of Directors may amend or terminate the 2017 Plan at any time, provided that no such amendment will be made without stockholder approval if (i) the amendment would increase the aggregate number of shares of common stock that may be issued under the 2017 Plan (other than as permitted under the plan), (ii) the amendment changes the class of individuals eligible to become participants or (iii) such approval is required under any applicable law, rule or regulation.

Summary of Federal Income Tax Consequences

The following is a general summary of the federal income tax consequences under the 2017 Plan. This summary does not address all matters that may be relevant to a particular participant based on his or her specific circumstances.

Generally, no federal income tax liability is incurred by a participant at the time a stock option is granted. If the stock option is an incentive stock option, no income will be recognized upon the participant's exercise of the stock option, provided holding periods required by the tax laws are satisfied. Income is recognized by a participant when he or she disposes of shares acquired under an incentive stock option. The exercise of a nonstatutory stock option generally is a taxable event that requires the participant to recognize, as ordinary income, the difference between the shares' fair market value and the option exercise price.

Federal income tax liability is incurred on the award of restricted stock when the stock first becomes transferable or is no longer subject to a substantial risk of forfeiture, unless a recipient of the restricted stock makes a Section 83(b) election under the Code to have the grant taxed as compensation income at fair market value on the date of grant. At that time, the recipient recognizes income equal to the fair market value of the common stock.

Other equity-based awards under the 2017 Plan generally will result in ordinary income to a participant at the later of the time of delivery of cash, shares or other property, or (in the absence of an appropriate election) the time that either the risk of forfeiture or restriction on transferability lapses on previously delivered cash, shares or other property.

The Company generally will be entitled to claim a federal income tax deduction on account of the exercise of a nonstatutory stock option, the vesting of a stock award and the settlement of other equity-based awards. The amount of the deduction generally is equal to the ordinary income recognized by the participant. The employer will not be entitled to a federal income tax deduction on account of the exercise of an incentive stock option, but may claim a federal income tax deduction on account of certain dispositions of shares acquired under an incentive stock option if the holding periods under the Code are not satisfied.

Section 162(m) of the Code places a \$1 million annual limit on the deductible compensation of certain executives of publicly-traded corporations. The limit, however, does not apply to "qualified performance-based compensation." The Company believes the grant of stock options under the 2017 Plan will qualify for performance-based compensation exception to the deductibility limit, assuming the 2017 Plan is approved stockholders. Other equity-based awards under the 2017 Plan will also qualify for this exception to the extent they are subject to the satisfaction of stockholder-approved performance objectives and certain other criteria are satisfied.

Securities Authorized for Issuance Under Equity Compensation Plans

The only equity compensation plan of TowneBank pursuant to which options, rights or warrants have or may be granted is the TowneBank 2008 Stock Incentive Plan. The following table summarizes information, as of December 31, 2016, relating to our existing equity compensation plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans ⁽¹⁾
	(A)	(B)	(C)
Equity compensation plans approved by security holders	97,590	\$16.24	8,917,084
Equity compensation plans not approved by security holders	-	-	-
Total	97,590	\$16.24	8,917,084

(1) Consists of shares available for future issuance under the TowneBank 2008 Stock Incentive Plan.

Stockholder Vote Required

The 2017 Stock Incentive Plan will be approved by stockholders if the votes cast in favor of the proposal exceed the votes opposing it.

The Board of Directors recommends a vote “FOR” the proposal to approve the TowneBank 2017 Stock Incentive Plan.

APPROVAL OF THE ANNUAL INCENTIVE COMPENSATION PLAN — PROPOSAL SIX

Background

In March 2017, the Board of Directors adopted the TowneBank Annual Incentive Compensation Plan (the “Annual Incentive Plan”), effective January 1, 2017, subject to approval by the Company’s stockholders. The Annual Incentive Plan is intended to replace the annual incentive plan previously approved by the Company’s stockholders in 2012 and 2007. The Annual Incentive Plan provides for annual incentive awards to officers and other participating employees. The purpose of the Annual Incentive Plan is to promote the interests of the Company and its stockholders by providing an incentive for participating employees to meet specified performance goals. The Annual Incentive Plan rewards outstanding performance by those individuals whose decisions and actions affect the sustainable growth, profitability and efficient operation of the Company. The performance criteria set forth in the Annual Incentive Plan are intended to align the interests of participating employees with the interests of stockholders.

The Annual Incentive Plan is set forth in full in Appendix B to this proxy statement. The description of the Annual Incentive Plan which appears below is qualified in its entirety by reference to the full text of the Annual Incentive Plan.

Reasons for the Proposal

Section 162(m) of the Internal Revenue Code of 1986 (the “Code”), and the regulations promulgated thereunder, generally provide that compensation paid by a publicly held company in excess of \$1 million per year to the company’s “covered employees” (defined by the Code as the company’s chief executive officer and its four other highest paid executive officers whose annual compensation is disclosed in the company’s annual proxy statement) is not tax deductible by the company as an expense unless the excess compensation qualifies for an exemption. Section 162(m) exempts from this limitation on deductibility

all performance-based compensation paid to the covered employees if certain procedural requirements, including stockholder approval of the material terms of the performance-based plan and timely establishment of objective performance goals by an independent compensation committee of the board of directors, are satisfied.

Material terms of a performance-based compensation plan include (1) the employees eligible to participate in the plan, (2) the business criteria upon which the performance goals will be based, and (3) either the maximum dollar amount of compensation that is payable to an employee or the formula used to calculate the amount of compensation that is payable to an employee if the performance goals are met. With regard to stockholder approval, the 162(m) regulations further require that a company obtain stockholder approval of its performance-based compensation plan every five years following the last such approval or if the material terms of the plan, including performance goals, are changed in the interim.

The value of certain restricted stock grants that were granted to the Company's senior executive officers and that will vest over the next several years may, when added to their base salary, bonus and other elements of annual compensation, cause the annual compensation of certain senior executive officers to exceed the \$1 million threshold set forth in Section 162(m) of the Code. Accordingly, the Board of Directors of the Company determined that it was in the best interests of the Company and its stockholders to obtain stockholder approval of a plan that will permit the Committee to make performance-based awards that are exempt from the limitation on the deductibility of compensation in excess of \$1 million to its covered employees.

If the Annual Incentive Plan is not approved by stockholders at this Annual Meeting for federal tax purposes as described above, the Compensation Committee will retain the flexibility to pay incentive compensation to certain of the Company's executive officers that is not eligible for 162(m) deductibility if the Compensation Committee deems such payments to be in the best interests of the Company and its stockholders.

Summary of the Annual Incentive Plan

The Annual Incentive Plan is administered by the Compensation Committee, which is comprised solely of members who are "outside directors" under Section 162(m) of the Code. The Compensation Committee selects participants, sets the performance criteria and targets, and makes all decisions with respect to executives governed by the Compensation Committee. The Compensation Committee may delegate to a sub-committee certain administrative and related responsibilities with respect to employees who are not senior executives.

The major provisions of the Annual Incentive Plan are as follows:

Eligibility. Any key employee of the Company and its affiliates may participate in the Annual Incentive Plan if designated by the Compensation Committee. The Compensation Committee selects eligible participants no later than 90 days after the beginning of the year.

Determination of Performance Criteria and Performance Goals. No later than 90 days after the beginning of the year (or such shorter period as may be required by the Code and regulations), the Compensation Committee will determine the target award for each participant or category of participant. This will typically be specified as a percentage of salary. In addition, the Compensation Committee will choose one or more performance criteria to be applied and set the performance goals for each of the criteria.

Performance goals for each participant may be based on corporate performance, business unit performance or individual performance, or a combination of such measures. The Compensation Committee will assign a weight to each performance goal or measure. The performance measures on which performance goals are based may be stated with respect to one or more of: (1) stock value or increases in stock value, (2) earnings per share and/or earnings per share growth, (3) earnings and/or earnings growth (before or after one or more of taxes, interest, depreciation and/or amortization), (4) total

shareholder return, (5) operating revenue or operating cash flow, (6) tangible book value or tangible book value growth, tangible book value per share or growth in tangible book value per share, (7) return on equity, tangible equity, assets, capital and/or investment, (8) net revenue or net revenue growth, (9) gross profit or gross profit growth, (10) deposits, loan and/or equity levels or growth thereof, (11) working capital targets, (12) cost control measures, (13) regulatory compliance and regulatory examination results, (14) gross, operating or other margins, (15) efficiency ratio (as generally recognized and used for bank financial reporting and analysis), (16) interest income, (17) non-interest income, (18) credit quality, (19) net charge-offs and/or non-performing assets (excluding such loans or classes of loans as may be designated for exclusion), (20) customer satisfaction and quality control measures, (21) satisfactory internal or external audits, (22) maintenance or improvement of regulatory or financial ratings, (23) achievement of balance sheet or income statement objectives, (24) budget and expense management, (25) assets under management or growth thereof, (26) achievement of risk management objectives, (27) achievement of strategic performance objectives, (28) implementation, management or completion of critical projects or processes, (29) achievement of merger or acquisition objectives, (30) pre-tax income, (31) net income, (32) return on average assets, (33) expense management, (34) regulatory ratings, (35) growth, (36) market share, (37) pre-tax profits, (38) annual pre-tax profit contribution, (39) process improvement, (40) sales, and (41) expense management.

No award may exceed three times the participant's base salary in those cases where the target award is expressed as a percentage of salary. An award will generally not be based on a percentage of a participant's base salary in cases where the principal portion of a participant's compensation is based on the performance of a business unit or division, such as TowneBank Mortgage. In these cases, the award may be based on a percentage of the financial performance of a particular business unit or division. In all cases, the value of any award to participant for any plan year will not exceed \$3.0 million.

When the Compensation Committee sets the performance goals, the Compensation Committee may take into account any extraordinary or one-time or other non-recurring items or any events, transactions or other circumstances that the Compensation Committee deems relevant in light of the nature of the performance goals set or the assumptions made by the Committee regarding such goals.

Determination and Payment of Awards. After the end of the year, the Compensation Committee will review the performance against the pre-established performance goals. The Compensation Committee will certify the extent, if any, to which the performance measures have been met. The Compensation Committee (for senior executives) and a sub-committee for other employees will also review the individual's performance. The ultimate award may be reduced based on individual performance or other factors. No award will be increased to a level in excess of the amount that would be paid solely on account of objectively measurable criteria if inconsistent with the award's intended treatment under Section 162(m) of the Code.

The awards may be payable in cash and/or stock options, stock awards, restricted stock or restricted stock units with such terms, conditions and vesting criteria as the Compensation Committee, in its sole and absolute authority, may determine. The awards will be paid on or before March 15 of the year following the year for which the performance is measured. Awards under the Annual Incentive Plan may be deferred, provided the election to defer is made in a timely manner under the provisions of the Company's deferred compensation plan and in accordance with Section 409A of the Code.

Termination of Employment

Generally, a participant must be employed through December 31 of the applicable year in order to receive payment of an award for that year. If a participant retires or dies during a year, the participant or the participant's estate is entitled to a prorated award. Any prorated amount would not be paid until the performance period has ended and the Compensation Committee has certified the award.

Change in Control

The Annual Incentive Plan contains a change in control provision. In the event of a change in control of

the Company, the performance goals are deemed to have been met at the target level. A participant is entitled to a nonforfeitable award equal to his or her target award, prorated for the number of months the participant is employed during the year. The payment is made in cash by March 15 of the following year or, if earlier, upon the participant's termination of employment.

Clawback

Any award under the Annual Incentive Plan which is subject to recovery under law, government regulation or stock exchange listing requirement (or related policy adopted by the Company), will be subject to applicable deductions and clawback as required. The Company also has the right to revoke or cancel an award or take other action against a participant for any other reason, including but not limited to misconduct.

Forfeiture

The Compensation Committee may specify that a participant's rights, payments and benefits with respect to an award are subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions. Such events may include (1) a breach of non-competition, non-solicitation, confidentiality, or other restrictive covenants that are contained in an award agreement or otherwise applicable to the participant, (2) a termination of the participant's employment or service for cause, or (3) other conduct by the participant that is detrimental to the business or reputation of the Company.

Amendment and Termination of the Annual Incentive Plan

The Compensation Committee may amend, modify, suspend, reinstate or terminate the Annual Incentive Plan in whole or in part at any time or from time to time, but no action will adversely affect outstanding awards.

Federal Income Tax Consequences of Awards Under the Annual Incentive Plan

The federal income tax consequences of participation in the Annual Incentive Plan are complex and subject to change. The following discussion is not a complete description of the federal income tax aspects relating to the Annual Incentive Plan. This description is based on current provisions of the Code and does not cover any state or local tax consequences of participation in the Annual Incentive Plan. Participants should consult their own tax advisors since a taxpayer's particular situation could result in some variation of the rules described below.

A participant in the Annual Incentive Plan will be taxed at ordinary income rates on a cash bonus in the year received. Generally, the Company will receive a federal income tax deduction corresponding to the amount included in the participant's income in the same year. The Company intends to make awards under the Annual Incentive Plan that are exempt from the deduction limitations of Section 162(m) of the Code because the intent of the Annual Incentive Plan is to permit grants of "performance-based compensation" which are not subject to such limits. The Compensation Committee retains flexibility, however, to pay incentive compensation to certain of the Company's executive officers that is not eligible for 162(m) deductibility if the Compensation Committee deems such payments to be in the best interests of the Company and its stockholders.

Any acceleration of the vesting or payment of awards under the Annual Incentive Plan in the event of a change in control of the Company may cause part or all of the consideration involved to be treated as an "excess parachute payment" under the Code, which may subject a participant to a 20% excise tax and which may not be deductible by the Company.

Any deferral elections made under the Annual Incentive Plan are intended to comply with, and shall be implemented so as to satisfy, the requirements of Section 409A of the Code.

Stockholder Vote Required

The approval of the Annual Incentive Plan requires that the votes cast “for” exceed the number of votes cast “against” the proposal. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

The Board of Directors recommends a vote “FOR” the proposal to approve the Annual Incentive Plan of TowneBank.

STOCKHOLDER PROPOSALS

To be considered for inclusion in the Company’s proxy statement relating to the 2018 Annual Meeting of Stockholders, stockholder proposals must be received no later than December 20, 2017, and comply with the Company’s bylaws. To be considered for presentation at such meeting, although not included in the Company’s proxy statement, a stockholder proposal must comply with the Company’s bylaws and must be delivered to the Company not less than 60 nor more than 90 days before May 24, 2018. All stockholder proposals should be marked for the attention of Corporate Secretary, TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23435.

STOCKHOLDERS SHARING THE SAME ADDRESS

The Company has adopted a procedure called “householding,” which has been approved by the Securities and Exchange Commission. Under this procedure, the Company will deliver only one copy of the Company’s 2016 Annual Report to Stockholders (the “2016 Annual Report”) and this proxy statement to multiple stockholders who share the same address (if they appear to be members of the same family) unless the Company has received contrary instructions from an affected stockholder. Stockholders who participate in householding will continue to receive separate proxy cards. This procedure reduces the Company’s printing costs, mailing costs, and fees.

Copies of the 2016 Annual Report and this proxy statement are available on the “Investor Relations” page of the Company’s website at <https://www.townebank.com> under the heading “Documents.” The Company will deliver promptly upon written or oral request a separate copy of the 2016 Annual Report and this proxy statement to any stockholder at a shared address to which a single copy of either of those documents was delivered. To receive a separate copy of the 2016 Annual Report or this proxy statement, stockholders should contact the Company at:

Investor Relations
TowneBank
6001 Harbour View Blvd.
Suffolk, Virginia 23435
(757) 638-6700

If you are a stockholder and share an address and last name with one or more other stockholders and would like to revoke your householding consent and receive a separate copy of the Company’s 2016 Annual Report or proxy statement in the future, please contact the Computershare Trust Company, N.A. at (800) 368-5948 or email them at Shareholder@computershare.com. You will be removed from the householding program within 30 days of receipt of the revocation of your consent.

A number of brokerage firms have instituted householding. If you hold your shares in “street name,” please contact your bank, broker or other holder of record to request information about householding.

STOCKHOLDER COMMUNICATIONS

Stockholders and other parties interested in communicating directly with the non-management directors as a group may do so by writing to Corporate Secretary, TowneBank, 6001 Harbour View Boulevard,

Suffolk, Virginia 23435. The Corporate Secretary of the Company reviews all such correspondence and regularly forwards to the Board a summary of all such correspondence and copies of all correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or committees thereof or otherwise requires its attention.

Directors may, at any time, review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of the Company's internal audit division and handled in accordance with procedures established by the Audit and Risk Committee with respect to such matters.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR
THE ANNUAL MEETING**

A complete set of proxy materials relating to the Annual Meeting is available on the Internet. These materials can be viewed at www.envisionreports.com/TOWN.

ANNUAL REPORT ON FORM 10-K

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, excluding exhibits, as filed with the Federal Deposit Insurance Corporation, is available on the "Investor Relations" page of the Company's website at <https://www.townebank.com> under the heading "Documents." Upon request by any stockholder to the following address, a copy of the 2016 Form 10-K will be furnished without charge:

**Mr. Clyde E. McFarland, Jr.
Senior Executive Vice President and Chief Financial Officer
TowneBank
6001 Harbour View Boulevard
Suffolk, Virginia 23435
(757) 638-6700**

Pursuant to Section 350.3 of the FDIC rules and regulations, each bank is required to make available on request an annual disclosure statement. The Company's Annual Report on Form 10-K serves as the Company's annual disclosure statement.

TOWNEBANK

2017 STOCK INCENTIVE PLAN

1. Purpose; Eligibility.

(a) General Purpose. The purpose of the TowneBank 2017 Stock Incentive Plan (the “Plan”) is to further the long-term stability and financial success of TowneBank, a Virginia chartered banking company (the “Company”), by attracting and retaining key personnel, including employees, directors and consultants, through the use of stock incentives. The Company believes that ownership of Company Stock will stimulate the efforts of those persons upon whose judgment, interest and efforts the Company and its Affiliates (as defined below) are and will be largely dependent for the successful conduct of their businesses and will further the alignment of those persons’ interests with the interests of the Company’s shareholders.

(b) Eligible Award Recipients. Any employee of, director of, or consultant to the Company or an Affiliate who, in the judgment of the Committee (as defined below), has contributed or can be expected to contribute to the profits or growth of the Company or the Affiliate is eligible to become a Participant (as defined below). The Committee shall have the power and complete discretion, as provided in Section 4, to select eligible Participants and to determine for each Participant the terms, conditions and nature of the Award (as defined below) and the number of shares to be allocated as part of the Award; provided, however, that any Award made to a member of the Committee must be approved by the Board.

(c) Available Awards. Awards of Options, Restricted Stock, Restricted Stock Units, Stock Awards, and Incentive Awards (as such terms are defined below) may be granted under the Plan. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options.

(d) Date of Adoption; Effective Date. The Plan was adopted by the Board of Directors of the Company on March 22, 2017 and will become effective (the “Effective Date”) as of May 24, 2017 if approved by the shareholders of the Company on that date in accordance with applicable laws and applicable rules of the Nasdaq Global Select Market on which the Company Stock is listed.

(e) Termination of the 2008 Stock Incentive Plan. The Plan will replace the TowneBank 2008 Stock Incentive Plan (the “2008 Plan”). At the Effective Date of the Plan, the 2008 Plan will terminate and no additional awards will be made thereunder.

2. Certain Definitions. The following terms have the meanings indicated:

(a) Act. The Securities Exchange Act of 1934, as amended.

(b) Affiliate. A corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company, in each case as designated by the Board as being a participating employer in the Plan.

(c) Applicable Withholding Taxes. The aggregate amount of federal, state and local income and payroll taxes that the Company or an Affiliate is required to withhold in connection with any exercise of an Option or the award, lapse of restrictions or payment with respect to Restricted Stock or any other Award.

(d) Award. The award of an Option, Restricted Stock, Restricted Stock Unit, Stock Award or Incentive Award under the Plan.

(e) Award Agreement. An Award Agreement means any agreement, contract, certificate or other instrument or document (whether written or electronic) evidencing the terms and conditions of an Award granted under the Plan. Each Award Agreement shall be subject to the terms and conditions of the Plan.

(f) Beneficiary. Means the person designated by a Participant pursuant to Section 25.

(g) Board. The Board of Directors of the Company.

(h) Cause. If the Participant is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Cause, the definition of Cause contained in the agreement. If no such agreement exists or if such agreement does not define Cause, the definition of Cause contained in the Award Agreement. In all other cases, Cause shall mean:

(i) Continual or deliberate neglect by the Participant in the performance of his material duties and responsibilities as established from time to time by the Company, or the Participant's repeated failure or refusal to follow reasonable instructions or policies of the Company after being advised in writing of such failure or refusal and being given a reasonable opportunity and period (as determined by the Company) to remedy such failure or refusal;

(ii) Conviction of, indictment for (or its procedural equivalent), entering of a guilty plea or plea of no contest with respect to a felony, a crime of moral turpitude or any other crime with respect to which imprisonment is a possible punishment, or the commission of an act of embezzlement or fraud against the Company;

(iii) Violation in any material respect of any code or standard of conduct generally applicable to employees of the Company;

(iv) Dishonesty of the Participant with respect to the Company, or breach of a fiduciary duty owed to the Company; or

(v) The engaging by the Participant in conduct that is reasonably likely to result, in the good faith judgment of the Company, in material injury to the Company, monetarily, reputationally or otherwise.

The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause.

(i) Change in Control. A Change in Control shall be deemed to have occurred if any one of the conditions in paragraphs (i) - (iv) have been satisfied at any time after the Award is granted:

(i) The acquisition by any Person (as defined below) of beneficial ownership of 30% or more of the then outstanding shares of Company Stock;

(ii) Individuals who constitute the Board on the date of this Plan (the "Incumbent Board") cease to constitute a majority of the Board, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company;

(iii) Consummation by the Company of a reorganization, merger, share exchange or consolidation (a "Reorganization"), provided that a Reorganization will not

constitute a Change in Control if, upon consummation of the Reorganization, each of the following conditions is satisfied:

(1) more than 50% of the then outstanding shares of common stock of the corporation resulting from the Reorganization is beneficially owned by all or substantially all of the former shareholders of the Company in substantially the same proportions as their ownership existed in the Company immediately prior to the Reorganization; and

(2) at least a majority of the members of the board of directors of the corporation resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization.

(iv) The sale, transfer or assignment of all or substantially all of the assets of the Company and its Affiliates to a third party.

For purposes of this Section 2(i), “Person” means any individual, entity or group (within the meaning of Section 13(d)(3) of the Act), other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate, and “beneficial ownership” has the meaning given the term in Rule 13d-3 under the Act.

(j) Code. The Internal Revenue Code of 1986, as amended. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

(k) Committee. The Compensation Committee appointed by the Board of Directors shall administer the Plan pursuant to Plan Section 4.

(l) Company. TowneBank, a Virginia banking corporation, or any successor thereto. Unless the context otherwise requires, references in this Plan to the “Company” also shall mean and refer to any Affiliate.

(m) Company Stock. Common stock of the Company.

(n) Consultant. A person or entity rendering consulting or advisory services to the Company or an Affiliate who is not an “employee” for purposes of employment tax withholding under the Code.

(o) Date of Grant. The effective date of an Award granted by the Committee.

(p) Disability or Disabled. As to an Incentive Stock Option, a Disability within the meaning of Section 22(e)(3) of the Code. As to all other Awards, the Committee shall determine whether a Disability exists and such determination shall be conclusive.

(q) Fair Market Value.

(i) The Fair Market Value of the shares of Company Stock shall be the closing price for such stock on the Date of Grant (or if no sales were reported the closing price on the immediately preceding date on which the Company Stock was traded) as reported by the established stock exchange or established stock market system on which the shares of Company Stock are listed or quoted or such other source as the Committee deems reliable; provided, however, the Committee may elect to use the average closing price over a designated number of consecutive days to determine the Fair Market Value if the daily volume of trading in the Company Stock is not, in the sole discretion of the Committee, sufficient to be a reliable indicator of Fair Market Value.

(ii) If the Company Stock is no longer publicly traded, the Fair Market Value shall be determined by the Committee using any reasonable method in good faith and such determination shall be conclusive and binding on all persons, provided that the fair market value of Company Stock subject to an Incentive Stock Option shall be determined in good faith within the meaning of Treasury Regulation §1.422-2(e)(2).

(iii) Fair Market Value shall be determined as of the Date of Grant specified in the Award.

(iv) The Committee reserves the right to specify in the Award Agreement the appropriate method for determining Fair Market Value for purposes of recognizing any gain or deductions for tax purposes in a manner consistent with the Code in connection with the exercise or vesting of an Award.

(r) Good Reason. If the Participant is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Good Reason, the definition contained in the agreement. If no such agreement exists or if such agreement does not define Good Reason, the definition of Good Reason contained in the Award Agreement. In all other cases, Good Reason shall mean the occurrence of one or more of the following without the Participant's express written consent, which circumstances are not remedied by the Company within thirty (30) days of its receipt of a written notice from the Participant describing the applicable circumstances (which notice must be provided by the Participant within ninety (90) days of the Participant's knowledge of the applicable circumstances: (i) any material, adverse change in the Participant's duties, responsibilities, authority, title, status or reporting structure; (ii) a material reduction in the Participant's base salary or bonus opportunity unless any such base salary or bonus opportunity reduction is proportionate to reductions in base salaries or bonus opportunities of other similarly situated officers of the Company; or (iii) a geographical relocation of the Participant's principal office location by more than thirty-five (35) miles.

(s) Incentive Award. A Performance-Based Compensation Award awarded upon the terms and subject to the restrictions set forth in Section 9 that can be settled in Company stock or cash, or a combination thereof.

(t) Incentive Stock Option. An Option intended to meet the requirements of, and qualify for favorable federal income tax treatment under, Section 422 of the Code.

(u) Nonstatutory Stock Option. An Option that does not meet the requirements of Section 422 of the Code, or that is otherwise not intended to be an Incentive Stock Option and is so designated.

(v) Option. A right to purchase Company Stock granted under the Plan, at a price determined in accordance with the Plan.

(w) Participant. Any individual who is granted an Award under the Plan.

(x) Performance-Based Compensation Award. An Award for which exercise, full enjoyment or receipt thereof by the Participant is contingent on satisfaction or achievement of a performance objective applicable, which may or may not be a Performance Goal. If a Performance-Based Compensation Award is intended to be "performance based compensation" within the meaning of Section 162(m)(4)(C) of the Code, the grant of the Award, the establishment of the Performance Goal, the making of any modifications or adjustments and the determination of satisfaction or achievement of the Performance Goal shall be made during the period or periods required under and in conformity with the requirements of Section 162(m) of the Code. The terms and conditions of each Performance-Based Compensation Award, including the performance objective and performance period, shall be set forth in

the Award Agreement or in a subplan of the Plan which is incorporated by reference into the Award Agreement.

(y) Performance Goal. One or more performance measures or goals set by the Committee in its discretion for each grant of a Performance-Based Compensation Award that is intended to be “performance based compensation” within the meaning of Section 162(m)(4)(C) of the Code. The extent to which such performance measures or goals are met will determine the amount or value of the Award to which a Participant is entitled to exercise, receive or retain. For purposes of this Plan, a Performance Goal may be particular to a Participant, and may include any one or more of the following performance criteria, either individually, alternatively or in any combination, subset or component, applied to the performance of the Company as a whole or to the performance of an Affiliate, division, strategic business unit, line of business or business segment, measured either quarterly, annually or cumulatively over a period of years or partial years, in each case as specified by the Committee in the Award : (1) stock value or increases in stock value, (2) earnings per share and/or earnings per share growth, (3) earnings and/or earnings growth (before or after one or more of taxes, interest, depreciation and/or amortization), (4) total shareholder return, (5) operating revenue or operating cash flow, (6) tangible book value or tangible book value growth, tangible book value per share or growth in tangible book value per share, (7) return on equity, tangible equity, assets, capital and/or investment, (8) net revenue or net revenue growth, (9) gross profit or gross profit growth, (10) deposits, loan and/or equity levels or growth thereof, (11) working capital targets, (12) cost control measures, (13) regulatory compliance and regulatory examination results, (14) gross, operating or other margins, (15) efficiency ratio (as generally recognized and used for bank financial reporting and analysis), (16) interest income, (17) non-interest income, (18) credit quality, (19) net charge-offs and/or non-performing assets (excluding such loans or classes of loans as may be designated for exclusion), (20) customer satisfaction and quality control measures, (21) satisfactory internal or external audits, (22) maintenance or improvement of regulatory or financial ratings, (23) achievement of balance sheet or income statement objectives, (24) budget and expense management, (24) assets under management or growth thereof, (25) achievement of risk management objectives, (26) achievement of strategic performance objectives, (27) implementation, management or completion of critical projects or processes, and (28) achievement of merger or acquisition objectives.

Performance Goals may include a threshold level of performance below which no payment or vesting may occur, levels of performance at which specified payments or specified vesting will occur, and a maximum level of performance above which no additional payment or vesting will occur. Performance Goals may be absolute in their terms or measured against or in relationship to a pre-established target, the Company’s budget or budgeted results, previous period results, a market index, a designated comparison group of other companies comparably, similarly or otherwise situated, or any combination thereof. The Committee shall determine the performance period during which a Performance Goal must be met, and attainment of Performance Goals shall be subject to certification by the Committee.

The Committee retains the discretion to adjust the compensation or economic benefit due upon attainment of Performance Goals and to adjust Performance Goals themselves; provided that, with respect to an Award intended to be “performance based compensation” within the meaning of Section 162(m) of the Code, any such adjustments shall be made only on conformity with the requirements of Section 162(m) of the Code.

(z) Restricted Stock. Company Stock awarded upon the terms and subject to the restrictions set forth in Section 6.

(aa) Restricted Stock Unit. An Award, designated as a restricted stock unit, under the Plan that represents the right to receive Company stock and/or cash in lieu thereof upon the terms and subject to the restrictions set forth in Section 7 and which, unless otherwise expressly provided, is valued by reference to the Fair Market Value of a share of Company Stock.

(bb) Rule 16b-3. Rule 16b-3 promulgated under the Act, including any corresponding subsequent rule or any amendments to Rule 16b-3 enacted after the effective date of the Plan.

(cc) Stock Award. Company stock awarded upon the terms and subject to the restrictions set forth in Section 8.

(dd) 10% Shareholder. A person who owns, directly or indirectly and within the meaning of Section 422 or 424 of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary of the Company. Indirect ownership of stock shall be determined in accordance with Section 424(d) of the Code.

3. Shares Subject to the Plan.

(a) Number of Shares. Subject to adjustment as provided in Section 13 of the Plan, the maximum aggregate number of shares of Company Stock that may be issued pursuant to Awards made under the Plan shall not exceed 2,500,000. Subject to adjustment as provided in Section 13, no more than an aggregate of 1,000,000 shares of Company Stock may be issued pursuant to the exercise of Incentive Stock Options granted under the Plan (including shares issued pursuant to the exercise of Incentive Stock Options that are the subject to disqualifying dispositions within in the meaning of Sections 421 and 422 of the Code).

(b) Lapsed Awards or Forfeited Shares. If any Award granted under this Plan terminates, expires, or lapses for any reason other than by virtue of exercise or settlement of the Award, or if shares of Company Stock issued pursuant to Awards are forfeited, any shares of Company Stock subject to such Award again shall be available for the grant of an Award under the Plan.

(c) Use of Shares as Payment of Exercise Price or Taxes. Shares withheld by the Company, delivered by the Participant, or otherwise used to pay the exercise price of an Option shall not be available for future Awards under the Plan. Shares withheld by the Company, delivered by the Participant or otherwise used to satisfy payment of withholding taxes associated with an Award shall also not be available for future Awards under the Plan.

(d) Per-Participant Annual Limit. The maximum number of shares of Common Stock with respect to which Awards may be granted in any calendar year to any Participant during such calendar year shall not exceed 150,000 shares in the aggregate. If an Award is to be settled in cash, the number of shares of Company Stock on which the Award is based shall count toward the individual share limit set forth in this Section 3(d).

(e) Non-Employee Director Annual Limit. Notwithstanding anything in this Plan to the contrary, the maximum number of shares of Company Stock with respect to which Awards may be granted in any calendar year to any non-employee director of the Company, together with any cash fees paid to such non-employee director during such calendar year, shall not exceed \$125,000 in total value (based on the Fair Market Value of such Award on the Grant Date for financial reporting purposes).

(f) No Fractional Shares. No fractional shares of Company Stock shall be issued or delivered pursuant to the Plan or any Award thereunder. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional shares.

4. Administration of the Plan.

(a) The Committee. The Plan shall be administered by the Committee, which shall be appointed by the Board. The Committee shall consist of “independent” directors for purposes of the relevant stock exchange listing standards. To the extent required by Rule 16b-3, all Awards shall be made by members of the Committee who are “Non-Employee Directors” as that term is defined in Rule 16b-3,

or by the Board. Awards that are intended to be performance-based compensation for purposes of Section 162(m) of the Code shall be made by the Committee, or subcommittee of the Committee, comprised solely of two or more “outside directors” as that term is defined for purposes of Section 162(m) of the Code. In the event the Board determines that a member of the Committee (or any applicable subcommittee) was not an “independent director” under applicable stock exchange listing standards, was not a “non-employee director” as defined in Rule 16b-3, and/or was not an “outside director” as that term is defined for purposes of Section 162(m)(4)(c)(i), as applicable, on the Date of Grant, such determination shall not invalidate the Award and the Award shall remain valid in accordance with its terms. Except as required under Section 2.1(y) relating to Performance Goals, any authority granted to the Committee may also be exercised by the full Board.

(b) Authority of the Committee. Subject to the express provisions of the Plan, the Committee shall have full and final authority to impose such limitations or conditions upon an Award as the Committee deems appropriate to achieve the objectives of the Award and the Plan. Without limiting the foregoing and in addition to the powers set forth elsewhere in the Plan, the Committee shall have the power and complete discretion to determine: (i) which eligible persons shall receive an Award and the nature of the Award; (ii) the number of shares of Company Stock to be covered by each Award; (iii) whether Options shall be Incentive Stock Options or Nonstatutory Stock Options; (iv) the Fair Market Value of Company Stock; (v) the time or times when an Award shall be granted; (vi) whether an Award shall become vested over a period of time, according to a performance-based vesting schedule or otherwise, and when it shall be fully vested, provided, however, that 95% of all shares available under this Plan shall be subject to a minimum vest of one year from date of grant as described below; (vii) the terms and conditions under which restrictions imposed upon an Award shall lapse; (viii) whether a Change in Control has occurred; (ix) factors relevant to the lapse of restrictions, vesting, exercise and settlement of Awards; (x) when Options may be exercised; (xi) whether to approve a Participant’s election with respect to Applicable Withholding Taxes; (xii) conditions relating to the length of time before disposition of Company Stock received in connection with an Award is permitted; (xiii) notice provisions relating to the sale of Company Stock acquired under the Plan; and (xiv) any additional requirements relating to Awards that the Committee deems appropriate. Notwithstanding anything in this subsection 4 (b) or anywhere else in this Plan to the contrary, at least 95% of all shares available under this Plan will be subject to a minimum one year vesting period from date of grant, and the Committee shall not have the discretion to accelerate the vesting of such Awards except in the case of death, Disability or Change in Control.

(c) Action by the Committee. The Committee may adopt rules and regulations for carrying out the Plan. The Committee shall have the express discretionary authority to construe and interpret the Plan and the Award Agreements, to resolve any ambiguities, to define any terms, and to make any other determinations required by the Plan or an Award Agreement. The interpretation and construction of any provisions of the Plan or an Award Agreement by the Committee shall be final and conclusive. The Committee may consult with counsel, who may be counsel to the Company, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel.

(d) Section 162(m) of the Code. Notwithstanding any provision of the Plan to the contrary, the Plan is intended to give the Committee the authority to grant Awards that qualify as “performance-based compensation” under Section 162(m)(4)(C) of the Code as well as Awards that do not so qualify. Every provision of the Plan shall be administered, interpreted, and construed to carry out such intention, and any provision that cannot be so administered, interpreted, and construed shall to that extent be disregarded; and any provision of the Plan that would prevent an Award that the Committee intends to qualify as “performance-based compensation” under Section 162(m)(4)(C) of the Code from so qualifying shall be administered, interpreted, and construed to carry out such intention, and any provision that cannot be so administered, interpreted, and construed shall to that extent be disregarded.

5. Stock Options.

(a) Grants of Options. Whenever the Committee deems it appropriate to grant Options, an Award Agreement shall be given to the Participant stating the number of shares for which Options are granted, the exercise price per share, whether the options are Incentive Stock Options or Nonstatutory Stock Options, and the conditions to which the grant and exercise of the Options are subject. The Award Agreement shall also set forth all restrictions on disposition and transfer applicable to the Option shares. Non-employee directors and Consultants shall not be eligible to receive the Award of an Incentive Stock Option.

(b) Exercise Price. The Committee shall establish the exercise price of Options. The exercise price of an Option shall be not less than 100% of the Fair Market Value of such shares on the Date of Grant, provided that if the Participant is a 10% Shareholder, the exercise price of an Incentive Stock Option shall not be less than 110% of the Fair Market Value of such shares on the Date of Grant.

(c) Term. The Committee shall establish the term of each Option in the Award Agreement. The term of an Incentive Stock Option shall not be longer than ten years from the Date of Grant, except that an Incentive Stock Option granted to a 10% Shareholder shall not have a term in excess of five years. No Option may be exercised after the expiration of its term or, except as set forth in the Award Agreement, after the termination of the Participant's employment with the Company and/or its Affiliates.

(d) Time of Exercise.

(i) During Participant's Employment. Options may be exercised during their terms in whole or in part at such times as may be specified by the Committee in the Award Agreement. The Committee may impose such vesting conditions and other requirements as the Committee deems appropriate.

(ii) After Participant's Termination of Employment. The Committee shall set forth in the Award Agreement when, and under what circumstances, an Option may be exercised after termination of the Participant's employment or period of service; provided that no Incentive Stock Option may be exercised after the earlier of: (a) (i) three months from the Participant's termination of employment with the Company for reasons other than Disability or death, or (ii) one year from the Participant's termination of employment on account of Disability or death; or (b) the expiration of the Option's term. The Award Agreement may provide for various conditions with respect to the exercise of the Option after termination of employment, including, but not limited to, compliance with noncompetition and confidentiality covenants.

(iii) After Participant's Death. If a Participant dies and if his Award Agreement provides that part or all of the Option may be exercised after the Participant's death, then such portion may be exercised by the executor or administrator of the Participant's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Participant's death during the time period specified in the Award Agreement, but not later than the expiration of the Option's term.

The Committee may, in its sole discretion, amend a previously granted Incentive Stock Option to provide for more liberal exercise provisions, provided, however, that if the Incentive Stock Option as amended no longer meets the requirements of Section 422 of the Code, and, as a result the Option no longer qualifies for favorable federal income tax treatment under Section 422 of the Code, the amendment shall not become effective without the written consent of the Participant.

(e) Limit on Exercise of Incentive Stock Options. An Incentive Stock Option, by its terms, shall be exercisable in any calendar year only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the Company Stock with respect to which Incentive Stock Options are exercisable by the Participant for the first time during the calendar year does not exceed \$100,000 (the "Limitation Amount"). Incentive Stock Options granted under the Plan and all other plans of the

Company and its Affiliates shall be aggregated for purposes of determining whether the Limitation Amount has been exceeded. The Board may impose such conditions as it deems appropriate on an Incentive Stock Option to ensure that the foregoing requirement is met. If Incentive Stock Options that first become exercisable in a calendar year exceed the Limitation Amount, the excess Options will be treated as Nonstatutory Stock Options to the extent permitted by law.

(f) Payment of the Exercise Price. In no event shall any shares be issued pursuant to the exercise of an Option until the Participant has made full payment for the shares of Company Stock (including payment of the exercise price and any Applicable Withholding Taxes). Company Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows, provided that the Committee may impose such limitations and restrictions on payments with shares of Company Stock as the Committee, in its discretion, deems advisable:

- (i) in cash or by check, payable to the order of the Company;
- (ii) by delivery of Company Stock that the Participant has previously acquired and owned (valued at Fair Market Value on the date of exercise), provided that such method of payment is then permitted under applicable law and the Company Stock was owned by the Participant at least six months prior to such delivery (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes);
- (iii) by withholding and retention by the Company of sufficient shares of Company Stock issuable in connection with the exercise to cover the exercise price (a “net share exercise”);
- (iv) by delivery of a properly executed exercise notice together with irrevocable instructions to a creditworthy broker to deliver promptly to the Company, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the exercise price and, if required by the Committee, Applicable Withholding Taxes; or
- (v) by any combination of the above permitted forms of payment.

(g) Delivery of Shares. The Company may place on any certificate representing Company Stock issued upon the exercise of an Option any legend deemed desirable by the Company’s counsel to comply with federal or state securities laws. The Company may require of the Participant a customary indication of his or her investment intent. A Participant shall not possess shareholder rights with respect to shares acquired upon the exercise of an Option until the Participant has made any required payment, including payment of Applicable Withholding Taxes, and the Company has issued a certificate (or made an equivalent book-entry notation in the records of the Company’s stock transfer agent) for the shares of Company Stock acquired.

(h) Disqualifying Disposition. If a Participant disposes of shares acquired upon exercise of an Incentive Stock Option within two (2) years from the date the Option is granted or within one (1) year after the issuance of such shares to the Participant, the Participant shall notify the Company of such disposition and provide information regarding the date of disposition, sale price, number of shares disposed of, and any other information relating thereto that the Company may reasonably request.

6. Restricted Stock Awards.

(a) Grant. Whenever the Committee deems it appropriate to grant a Restricted Stock Award, an Award Agreement shall be given to the Participant stating the number of shares of Restricted Stock for which the Award is granted, the Date of Grant, and the terms and conditions to which the Award is subject. Certificates representing the shares shall be issued (or an equivalent book-entry notation shall be made in the records of the Company’s transfer agent) in the name of the Participant, subject to the

restrictions imposed by the Plan and the Committee. Alternatively, the Committee may determine that the Restricted Stock shall be held by the Company rather than delivered to the Participant pending the release of the applicable restrictions. An Award Agreement may be entered into by the Committee in its discretion without cash consideration.

(b) Restrictions on Transferability and Vesting. The Committee may place such restrictions on the transferability and vesting of Restricted Stock as the Committee deems appropriate, including restrictions relating to continued employment and/or achievement of performance objectives, which may or may not be Performance Goals. Without limiting the foregoing, the Committee may provide performance or Change in Control acceleration parameters under which all, or a portion, of the Restricted Stock will vest on the Company's (or an Affiliate's) achievement of established performance objectives and, where applicable, after a determination of the satisfaction or achievement of any Performance Goal. Restricted Stock may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered until the restrictions on such shares shall have lapsed or shall have been removed pursuant to subsection (c) below.

(c) Lapse of Restrictions on Transferability. The Committee shall establish as to each Restricted Stock Award the terms and conditions upon which the restrictions on transferability set forth in paragraph (b) above shall lapse. Such terms and conditions may include, without limitation, the passage of time, the meeting of performance objectives, the lapsing of such restrictions as a result of the Disability or death of the Participant, or the occurrence of a Change in Control.

(d) Rights of the Participant and Restrictions. A Participant shall hold shares of Restricted Stock subject to the restrictions set forth in the Award Agreement and in the Plan. In other respects, unless otherwise provided in the Award Agreement, the Participant shall have all the rights of a shareholder with respect to the shares of Restricted Stock, including, but not limited to, the right to vote such shares and the right to receive all cash dividends and other distributions paid thereon; provided that the Restricted Stock Agreement shall provide that any cash dividends and stock dividends with respect to Restricted Stock shall be withheld by the Company for the Participant's account, and interest may be credited on the amount of cash dividends withheld at a rate and subject to such terms as determined by the Committee. The cash dividends or stock dividends so withheld by the Committee and attributable to any particular share of Restricted Stock shall be distributed to the Participant in cash or, at the discretion of the Committee, in shares of Company Stock having a Fair Market Value equal to the amount of such dividends, if applicable, upon the release of restrictions on such shares and, if such share is forfeited, the Participant shall have no right to such dividends. To the extent stock certificates are delivered to the Participant, the certificates representing Restricted Stock shall bear a legend referring to the restrictions set forth in the Plan and the Participant's Award Agreement. For the sake of clarity, no dividends shall be paid under this Plan unless and until the underlying Award vests.

7. Restricted Stock Unit Awards.

(a) Grant. Whenever the Committee deems it appropriate to grant a Restricted Stock Unit Award, an Award Agreement shall be given to the Participant stating the number of Restricted Stock Units in the Award, the Date of Grant, and the terms and conditions to which the Award is subject. No shares of Company Stock shall be issued at the time a Restricted Stock Unit is granted, and the Company will not be required to set aside a fund for the payment of any such award. A Restricted Stock Unit Award may be made by the Committee in its discretion without cash consideration.

(b) Restrictions on Vesting. The Committee may place such restrictions on the vesting and settlement of Restricted Stock Units as the Committee deems appropriate, including restrictions relating to continued employment or service and/or achievement of performance objectives, which may or may not be Performance Goals. Without limiting the foregoing, the Committee may provide performance or Change in Control acceleration parameters under which all, or a portion, of the Restricted Stock Unit will vest on the Company's achievement of established performance objectives and, where applicable, after a determination of the satisfaction or achievement of any Performance Goal.

Restricted Stock Units may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered.

(c) Vesting and Settlement. The Committee shall establish as to each Restricted Stock Unit Award the terms and conditions upon which the Awards shall vest and be settled. Such terms and conditions may include, without limitation, the passage of time, the achievement of performance objectives, the lapsing of such restrictions, vesting and/or settlement as a result of the Disability or death of the Participant, or the occurrence of a Change of Control.

(d) Rights of the Participant. A Participant shall have no voting rights with respect to Restricted Stock Units. At the discretion of the Committee, to the extent set forth in the Award Agreement each Restricted Stock Unit (representing one share of Company Stock) may be credited with cash and stock dividends paid by the Company in respect of one share of Company Stock. Dividends credited to a Participant's account and attributable to any particular Restricted Stock Unit shall be distributed in cash or, at the discretion of the Committee, in shares of Company Stock having a Fair Market Value equal to the amount of such accumulated dividends to the Participant upon settlement of such Restricted Stock Unit. If such Restricted Stock Unit is forfeited, the Participant shall have no right to such accumulated dividends. For the sake of clarity, no dividends shall be paid under this Plan unless and until the underlying Award vests.

(e) Settlement. Unless otherwise provided in the Award Agreement, a Participant's Restricted Stock Units which vest shall be immediately settled by the issuance and delivery to the Participant of one share of Company Stock for each vested Restricted Stock Unit or the payment of cash in an amount equal to the number of shares which vested multiplied by the Fair Market Value of a share on the vesting date, or a combination thereof as determined by the Committee.

8. Stock Awards. Whenever the Committee deems it appropriate to grant a Stock Award, an Award Agreement shall be given to the Participant stating the number of shares of unrestricted Company Stock for which the Award is granted, the Date of Grant, and the terms and conditions to which the Award is subject, if any. Certificates representing the shares shall be issued (or an equivalent book-entry notation shall be made in the records of the Company's transfer agent) in the name of the Participant, subject to any terms imposed by the Plan and the Committee, as soon as practicable after the Date of Grant. A Stock Award may be made by the Committee in its discretion without cash consideration and may be granted as settlement of a Performance-Based Compensation Award.

9. Incentive Awards.

(a) Grant. Whenever the Committee deems it appropriate to grant an Incentive Award, an Award Agreement shall be given to the Participant stating the terms and conditions of the Award. An Incentive Award may be made by the Committee in its discretion without consideration other than the rendering of services.

(b) Performance. Each Incentive Award is intended to be a Performance-Based Compensation Award, and the terms and conditions of each such Award, including the performance objective and performance period (which may be equal to, less than or more than one year), shall be set forth in the Award Agreement or in a subplan of the Plan which is incorporated by reference into the Award Agreement. The Committee shall set the performance objective in its discretion for each Participant who is granted an Incentive Award.

(c) Settlement. After a performance period has ended, the holder of an Incentive Award shall be entitled to receive the value thereof based on the degree to which the performance objectives and other conditions established by the Committee and set forth in the Award Agreement (or subplan incorporated by reference into the Award Agreement) have been satisfied. Payment of the amount to which a Participant shall be entitled upon the settlement of an Incentive Award shall be made in

cash, Company Stock or a combination thereof as determined by the Committee. Payment may be made in a lump sum or installments as determined by the Committee.

(d) Transfer. No Incentive Award granted under the Plan may be sold, transferred, pledged, assigned, or encumbered, otherwise than by will or by the laws of descent and distribution. All rights with respect to Incentive Awards granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant or his guardian or legal representative.

10. Applicable Withholding Taxes. Each Participant shall agree, as a condition of receiving an Award, to pay to the Company or the Affiliate, or make arrangements satisfactory to the Company or the Affiliate regarding the payment of, all Applicable Withholding Taxes with respect to the Award. Until the Applicable Withholding Taxes have been paid or arrangements satisfactory to the Company or the Affiliate have been made, no stock certificates (or, in the case of Restricted Stock, Restricted Stock Units and Stock Awards, no stock certificates free of a restrictive legend) shall be issued to the Participant. As an alternative to making a cash payment to the Company or the Affiliate to satisfy Applicable Withholding Tax obligations, the Committee may establish procedures permitting the Participant to elect to (a) deliver shares of already owned Company Stock or (b) have the Company or the Affiliate retain that number of shares of Company Stock that would satisfy all or a specified portion of the Applicable Withholding Taxes. Any such election shall be made only in accordance with procedures established by the Committee to avoid a charge to earnings for financial accounting purposes and in accordance with Rule 16b-3.

11. Nontransferability of Awards.

(a) Limited Transferability of Awards. In general, Awards, by their terms, shall not be transferable by the Participant except by will or by the laws of descent and distribution or except as described below, without prior written approval from the Committee.

(b) Permissible Transfers for Nonstatutory Options. Notwithstanding the provisions of (a) and subject to federal and state securities laws, the Committee may on a case by case basis grant or amend Nonstatutory Stock Options that permit a Participant to transfer the Options to one or more immediate family members, to a trust for the benefit of immediate family members, or to a partnership, limited liability company, or other entity the only partners, members, or interest-holders of which are among the Participant's immediate family members. Consideration may not be paid for the transfer of Options. The transferee of an Option shall be subject to all conditions applicable to the Option prior to its transfer. The agreement granting the Option shall set forth the transfer conditions and restrictions. The Committee may impose on any transferable Option and on stock issued upon the exercise of an Option such limitations and conditions as the Committee deems appropriate in its sole discretion.

12. Termination, Amendment and Modification.

(a) Termination, Amendment and Modification of the Plan. If not sooner terminated by the Board, this Plan shall terminate at the close of business on April 30, 2027. The Board may at any time terminate, suspend, amend or modify the Plan. Such amendment or modification may be without shareholder approval, except to the extent that such shareholder approval is required by the Code, pursuant to the rules under Section 16 of the Act, by any national securities exchange or system on which shares of Company Stock is then listed or reported, by any regulatory body having jurisdiction with respect thereto, or under any other applicable laws, rules or regulations.

(b) Amendments to Awards. Subject to the terms and provisions and within the limitations of the Plan, the Committee may waive any conditions or rights under, amend any terms of or alter, suspend, discontinue, cancel or terminate, any outstanding Award on either a prospective or retroactive basis; provided that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would adversely affect the rights of any Participant or any holder or

Beneficiary of any outstanding Award shall not be effective without the consent of the affected Participant, holder or Beneficiary.

(c) No Option Repricing. Notwithstanding any provision of the Plan to the contrary, neither the Committee nor the Board shall have the right or authority, without obtaining shareholder approval, to amend or modify the exercise price of any outstanding Option, or to cancel an outstanding Option, at a time when the exercise price is greater than the Fair Market Value of the Company Stock in exchange for cash, another Award, or other securities, except in connection with a corporate transaction involving the Company in accordance with Sections 13 (a Change in Capital Structure) or 15 (a Change in Control).

13. Change in Capital Structure.

(a) Effect of Change in Capital Structure. In the event of changes in the outstanding shares of Company Stock or in the capital structure of the Company by reason of any stock or extraordinary cash dividend, stock split, reverse stock split, an extraordinary corporate transaction such as any recapitalization, reorganization, merger, spin-off of a subsidiary, or other relevant change in capitalization occurring after the Date of Grant of any Award, the number and kind of shares of stock or securities of the Company to be issued under the Plan (under outstanding Awards and Awards to be granted in the future), including the per Participant maximums provided for in Section 3(d), the exercise price of Options, and other relevant provisions shall be equitably adjusted by the Committee as to the number, price or kind of consideration subject to such Awards to the extent necessary to preserve the economic intent of such Award. If the adjustment would produce fractional shares with respect to any Award, the Committee may adjust appropriately the number of shares covered by the Award so as to eliminate the fractional shares. Further, with respect to Awards intended to qualify as “performance-based compensation” under Section 162(m) of the Code, any adjustments or substitutions will not cause the Company to be denied a tax deduction on account of Section 162(m) of the Code.

(b) Authority. Notwithstanding anything in the Plan to the contrary, the Committee may take the foregoing actions without the consent of any Participant, and the Committee’s determination shall be conclusive and binding on all persons for all purposes. The Committee shall make its determinations consistent with Rule 16b-3 and the applicable provisions of the Code.

14. Termination of Employment. The Committee shall have the full power and authority to determine the terms and conditions that shall apply to any Award upon the termination of employment of a Participant, and may provide such terms and conditions in the Award Agreement or in such rules and policies as it may prescribe.

15. Change in Control.

(a) Effect of a Change in Control of the Company. In the event of a Change in Control of the Company, the Committee, as constituted before such Change in Control, may take such actions with respect to any outstanding Award, either at the time the Award is made or any time thereafter, as the Committee deems appropriate, including the following:

(i) Cause any such Award then outstanding to be assumed, or new rights substituted for the Award, by the acquiring or surviving corporation in such Change in Control, or if such Awards are not assumed or substituted for new Awards, provide for the purchase, settlement or cancellation of any such Award by the Company for an amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of a Participant’s rights had such Award been currently exercisable or payable; and

(ii) Make adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Change in Control and to retain the economic value of the Award.

(b) Acceleration Principles in the Event of a Change in Control. Each outstanding Award shall be vested, earned or become exercisable to the extent provided in the applicable Award Agreement in the event of a Participant is terminated without Cause or the Participant resigns for Good Reason within two (2) years after the effective date of the Change in Control, unless otherwise provided in such Award Agreement.

(c) Successors. The obligations of the Company under the Plan and any Award Agreements shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to all or substantially all of the assets and business of the Company and its Affiliates, taken as a whole.

16. Electronic Transmissions and Records. Subject to limitations under applicable law, the Committee (and its delegee) is authorized in its discretion to issue Awards and/or to deliver and accept notices, elections, consents, designations and/or other forms of communication to or from Participants by electronic or similar means, including, without limitation, transmissions through e-mail or specialized software and other permissible methods, on such basis and for such purposes as it determines from time to time, and all such communications will be deemed to be “written” for purposes of the Plan.

17. Compliance with Code Section 409A. This Plan is intended to provide compensation that is exempt from or that complies with Code Section 409A and guidance thereunder (“Section 409A”), and the Plan’s terms and the terms of any Award Agreement shall be administered and construed in a manner that is compliant with or exempt from the application of Section 409A, as appropriate. For purposes of Section 409A, each payment under this Plan shall be deemed to be a separate payment.

Notwithstanding any provision of this Plan or an Award Agreement to the contrary, to the extent that any payment is subject to Section 409A, if the Participant is a “specified employee” within the meaning of Section 409A as of the date of the Participant’s termination of employment and the Company determines, in good faith, that immediate payment of any amounts or benefits under this Plan would cause a violation of Section 409A, then any amounts or benefits payable under this Plan upon the Participant’s “separation from service” within the meaning of Section 409A which (i) are subject to the provisions of Section 409A; (ii) are not otherwise exempt from Section 409A; and (iii) would otherwise be payable during the first six-month period following such separation from service, shall be paid on the first business day next following the earlier of (1) the date that is six months and one day following the Participant’s separation from service or (2) the date of the Participant’s death.

18. Tax Consequences. Nothing in this Plan or an Award Agreement shall constitute a representation by the Company to a Participant regarding the tax consequences of any Award received by a Participant under this Plan. Although the Company may endeavor to (i) qualify an Award for favorable federal tax treatment or (ii) avoid adverse tax treatment (e.g., under Section 409A), the Company makes no representation to that effect and expressly disavows any covenant to maintain favorable tax treatment. The Company shall be unconstrained in its corporate activities without regard to the potential negative tax impact on holders of Awards under this Plan.

19. Clawback. Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement (including but not limited to Section 954 of the Dodd-Frank Act), will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company or any Affiliate pursuant to any such law, government regulation or stock exchange listing requirement). This section shall not limit the Company’s right to revoke or cancel an Award or take other action against a Participant for any other reason, including but not limited to misconduct.

20. Interpretation and Governing Law. The terms of this Plan and Awards granted pursuant to the Plan shall be governed, construed and administered in accordance with the laws of the

Commonwealth of Virginia, excluding any choice of law rules or principles that might otherwise refer construction or interpretation of any provision of the Plan or an Agreement to the substantive law of another jurisdiction. The Plan and Awards are subject to all present and future applicable provisions of the Code and, to the extent applicable, they are subject to all present and future rulings of the Securities and Exchange Commission with respect to Rule 16b-3. If any provision of the Plan or an Award conflicts with any such Code provision or ruling, the Committee shall cause the Plan to be amended, and shall modify the Award, so as to comply, or if for any reason amendments cannot be made, that provision of the Plan or the Award shall be void and of no effect.

21. Banking Statutory and Regulatory Provisions. The Plan and all Awards granted under the Plan shall be subject to any condition, limitation, or prohibition under any Virginia or federal statutory or regulatory policy or rule to which the Company or any Affiliate is subject.

22. No Employment or Other Service Rights. Nothing in the Plan or any instrument executed or Award granted under the Plan shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an employee with or without notice and with or without Cause or (ii) the service of a director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of Virginia in the case of the Company or the corporate law of the jurisdiction in which an Affiliate is incorporated, as the case may be. Further, the grant of an Award shall not obligate the Company or any Affiliate to pay an employee any particular amount of remuneration or to make further grants to the employee at any time thereafter.

23. Forfeiture Events. The Committee may specify in an Award agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions of an Award. Such events may include, without limitation, breach of non-competition, non-solicitation, confidentiality, or other restrictive covenants that are contained in the Award agreement or otherwise applicable to the Participant, a termination of the Participant's employment or service for Cause, or other conduct by the Participant that is detrimental to the business or reputation of the Company and/or its Affiliates.

24. Deferral of Awards. The Committee may establish one or more programs under the Plan to permit selected Participants the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Participant to payment or receipt of shares of Common Stock or other consideration under an Award. The Committee may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Committee deems advisable for the administration of any such deferral program.

25. Non-Uniform Treatment. The Committee shall be entitled to make non-uniform and selective determinations, amendments and adjustments, and to enter into non-uniform and selective Award agreements.

26. Beneficiary Designation. A Participant may designate a Beneficiary to receive any Options that may be exercised after death or to receive any other Award that may be paid after his death, as provided for in the Award Agreement. Such designation and any change or revocation of such designation shall be made in writing in the form and manner prescribed by the Committee (or its delegee). In the event that the designated Beneficiary dies prior to the Participant, or in the event that no Beneficiary has been designated, any Awards that may be exercised or paid following the Participant's death shall be transferred or paid in accordance with the Participant's will or the laws of descent and distribution.

27. Creditors. The interests of any Participant under the Plan or any Award Agreement are not subject to the claims of creditors and may not, in any way, be assigned, alienated, or encumbered.

28. Unfunded Status of the Plan. The Plan is intended to constitute an “unfunded” plan for incentive and deferred compensation. With respect to any payments as to which a Participant has a fixed and vested interest but which are not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general unsecured creditor of the Company.

TOWNEBANK**ANNUAL INCENTIVE COMPENSATION PLAN****I. Plan Objective**

This Annual Incentive Compensation Plan (the “Plan”) is intended as an incentive to increase the profitability of TowneBank and its affiliates (collectively, the “Company”) by providing an opportunity for key employees designated by the Compensation Committee, whose efforts are deemed to have a direct impact on the earnings of the Company, to earn incentive awards for outstanding achievement and performance and thereby participate in the overall profitability of the Company.

The Company intends for the incentive awards payable to certain executive officers under this Plan to be performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”).

II. Administration

The Plan will be administered by the Compensation Committee of the Board of Directors of the Company (the “Committee”). The Committee shall have full authority to interpret and administer the Plan and establish rules and regulations for the administration of the Plan. All incentive arrangements and performance goals and objectives shall be evaluated on an annual basis by the Committee and the Company’s Chief Risk Officer to ensure a proper balance is maintained between Company risk and individual reward in addition to a reasonable allocation between short term and long term payment awards. The Committee in its sole and absolute discretion reserves the right to reduce or fully eliminate any incentive payments that it deems necessary to protect the best interests of the Company and its shareholders. Any decision made or action taken by the Committee in connection with the administration of the Plan shall be final, binding and conclusive. No member of the Committee shall be liable for any action, determination or decision made in good faith with respect to the Plan or any Award paid under it.

III. Eligibility

The participants in the Plan (collectively, the “Participants” or individually, a “Participant”) shall be those key employees of the Company who are designated each year as Participants by the Committee. Such designation shall be made during the first 90 days of each calendar year. Participation in the Plan in any one calendar year does not guarantee that an employee will be selected to participate in the Plan in any following calendar year.

IV. Establishment of Performance Goals

(a) Performance Criteria. Performance will be measured based upon one or more objective criteria for each calendar year for which a Participant’s performance is measured for purposes of receiving an Award (the “Plan Year”). Criteria will be measured over the Plan Year or a specified portion thereof. Within 90 days after the beginning of a Plan Year (or such shorter period as may be required by the Code), the Committee shall specify in writing the performance criteria that will apply to the Participant during the Plan Year, as well as any applicable matrices, schedules, or formulae applicable to weighting of such criteria in determining performance.

(b) Types of Performance. The performance goals established by the Committee shall be based on one or more performance measures that apply to the Company as a whole (“Corporate Performance”), the Participant’s business unit/function performance (“Business Unit/Function Performance”), or the Participant alone (“Individual Performance”), or any combination of Corporate Performance, Business Unit/Function Performance or Individual Performance. If a Participant’s performance goals are based on a combination of Corporate Performance, Business Unit/Function

Performance or Individual Performance, the Committee shall weigh the importance of each type of performance that applies to such Participant by assigning a percentage to it, provided that such weighted percentage shall in no event exceed 100%.

The performance measures on which performance goals are based may be stated with respect to one or more of: (1) stock value or increases in stock value, (2) earnings per share and/or earnings per share growth, (3) earnings and/or earnings growth (before or after one or more of taxes, interest, depreciation and/or amortization), (4) total shareholder return, (5) operating revenue or operating cash flow, (6) tangible book value or tangible book value growth, tangible book value per share or growth in tangible book value per share, (7) return on equity, tangible equity, assets, capital and/or investment, (8) net revenue or net revenue growth, (9) gross profit or gross profit growth, (10) deposits, loan and/or equity levels or growth thereof, (11) working capital targets, (12) cost control measures, (13) regulatory compliance and regulatory examination results, (14) gross, operating or other margins, (15) efficiency ratio (as generally recognized and used for bank financial reporting and analysis), (16) interest income, (17) non-interest income, (18) credit quality, (19) net charge-offs and/or non-performing assets (excluding such loans or classes of loans as may be designated for exclusion), (20) customer satisfaction and quality control measures, (21) satisfactory internal or external audits, (22) maintenance or improvement of regulatory or financial ratings, (23) achievement of balance sheet or income statement objectives, (24) budget and expense management, (25) assets under management or growth thereof, (26) achievement of risk management objectives, (27) achievement of strategic performance objectives, (28) implementation, management or completion of critical projects or processes, (29) achievement of merger or acquisition objectives, (30) pre-tax income, (31) net income, (32) return on average assets, (33) expense management, (34) regulatory ratings, (35) growth, (36) market share, (37) pre-tax profits, (38) annual pre-tax profit contribution, (39) process improvement, (40) sales, and (41) expense management.

(c) Performance Goals. Using any applicable matrices, schedules, or formulae applicable to weighting of the performance measures, the Committee will develop, in writing, performance goals for the Participants for a Plan Year, no later than 90 days after the start of the Plan Year in which they would apply (or such shorter period as may be required by the Code). The Committee shall have the right to use different performance measures for different Participants. When the Committee sets the performance goals for a Participant, the Committee shall establish the general, objective rules which will be used to determine the extent, if any, that a Participant's performance goals have been met and the specific, objective rules, if any, regarding any exceptions to the use of such general rules, and any such specific, objective rules may be designed as the Committee deems appropriate to take into account any extraordinary or one-time or other non-recurring items of income or expense or gain or loss or any events, transactions or other circumstances that the Committee deems relevant in light of the nature of the performance goals set for the Participant or the assumptions made by the Committee regarding such goals.

(d) Incentive Pools. The Committee may establish for any Plan Year separate incentive pools for certain of the Business Units/Functions of the Company or one or more incentive pools based on such organizational and other factors as the Committee shall deem relevant. At or near the start of the applicable Plan Year, the Committee shall: (i) determine the number of incentive pools and target amount of each incentive pool for the Plan Year; (ii) specify the relevant performance goals and the methodology to determine the actual amount of each incentive pool; and (iii) identify the Participants eligible to receive a share of each incentive pool. To the extent an award that may be earned by a Participant under an incentive pool is intended to satisfy Section 162(m) of the Code, such incentive pool shall be structured in accordance therewith.

V. Awards

An Award to a Participant will generally be based on a percentage of the Participant's base salary and shall be established by the Committee. The percentage of base salary which constitutes an Award may increase as salary grade or level of responsibility increases. An Award will not be based on a percentage of the Participant's base salary in cases where the principal portion of a Participant's

compensation is not his or her base salary. In these cases, the Award may be based other factors, such as a percentage of the financial performance of a particular Business Unit/Function.

The Committee shall, in its sole discretion, adjust the Award for each Participant based upon that Participant's over achievement or under achievement in terms of the achievement of the performance goals that apply to the Participant; provided that an Award intended to satisfy Section 162(m) of the Code may be adjusted only in accordance therewith.

An employee who is selected as a Participant after the beginning of a Plan Year or a Participant who retires or who dies prior to the end of such Plan Year will be eligible to receive a pro rata share of an Award based on the number of months of participation during any portion of such Plan Year if, in the sole discretion of the Committee, such an award is merited and, for an Award intended to satisfy Section 162(m) of the Code of a Participant who retires, only as permitted by Code Section 162(m). A Participant whose employment is otherwise terminated prior to the end of such Plan Year will not be eligible for an Award.

VI. Determination and Timing of Awards

At the end of each Plan Year, the Committee shall certify the extent, if any, to which the measures established in accordance with Section IV have been met. All Awards to Participants will be made by the Committee in its sole discretion. Awards will be paid for a particular Plan Year as promptly as practicable after the certifications described above have been made by the Committee. The Company intends that payment will be made within 2 ½ months of the end of the Plan Year. In the event that payments are not made within 2 ½ months of the end of the Plan Year, or otherwise constitute deferred compensation under Section 409A of the Code, it is the Company's intent that this Plan be administered and construed in a manner consistent with Section 409A of the Code.

VII. Method of Payment of Awards

(a) Payments of Awards. Except as otherwise provided in this Plan, Awards for each Participant will be paid in one of the manners set forth in (a)(i) or (a)(ii) or a combination thereof, as determined on a case-by-case basis in the sole discretion of the Committee. Awards are subject to forfeiture until paid, as provided below. In no event will the value of any Award to a Participant for any Plan Year that is based on a percentage of his or her base salary exceed three times their base salary for the Plan Year. In all cases, the value of any Award to Participant for any Plan Year will not exceed \$3.0 million.

(i) Cash. The Committee may, in its sole discretion, pay any Award in cash. Awards paid in cash will be paid at the time described in Section VI above unless the Committee has approved a request by a Participant to defer receipt of any Award in accordance with Section VII (b) below.

(ii) Stock Options, Stock Awards, Restricted Stock, Restricted Stock Units. The Committee may, in its sole discretion, pay any Award through the grant of stock options, stock awards, restricted stock, or restricted stock units under the TowneBank 2008 Stock Incentive Plan, as amended, the TowneBank 2017 Stock Incentive Plan, or any successor stock incentive plan approved by the stockholders (the "Stock Incentive Plan"). Any Award issued in the form of stock options, stock awards, restricted stock, or restricted stock units shall be subject to the terms and conditions of the Stock Incentive Plan.

(b) Deferral of Payment of Award. Subject to the requirements of Section 409A of the Code, an Award paid in cash may be deferred under the TowneBank Deferred Compensation Plan (or any successor plan) if the Committee has, not later than the grant of an Award, received and, in its sole discretion, approved a request by a Participant to defer receipt of an Award.

(c) Taxes. Any tax required to be withheld by any government authority shall be deducted from each Award.

(d) Offset for Monies Owed. Any payments made under this Plan may be offset for any monies that the Committee determines are owed to the Company or any affiliate.

VIII. Termination of Employment

(a) Termination for Reasons Other Than Death, Disability or Retirement. If a Participant's employment with the Company is terminated for any reason other than death, disability or retirement during a Plan Year, he shall forfeit his right to receive any Award under this Plan, except that the Committee may elect, in its sole and absolute discretion, to pay an Award to such Participant based on his performance and base salary for that portion of the Plan Year during which he was employed. For Awards intended to satisfy Section 162(m) of the Code, any Award or pro-rated Award will be paid only based on attainment of applicable performance goals as certified by the Committee.

(b) Termination Due to Death, Disability or Retirement. If a Participant's employment with the Company is terminated during a Plan Year by reason of death, disability or retirement, and the Participant has been actively employed by the Company for a minimum of 6 calendar months during such Plan Year, he shall be eligible for an Award based on his performance and base compensation for that portion of the calendar year in which he was employed. The determination and payment of such Award shall be made by the Committee at the end of such Plan Year. If a Participant shall terminate employment during the Plan Year for any reason with less than 6 calendar months of employment, he shall forfeit his right to receive any Award under this Plan, except that the Committee may elect, in its sole and absolute discretion, to pay an Award to such Participant based on his performance and base salary for that portion of the calendar year during which he was employed. For Awards intended to satisfy Section 162(m) of the Code for a Participant who terminates due to retirement, any Award or pro-rated Award will be paid only based on attainment of applicable performance goals as certified by the Committee.

IX. Amendment and Termination

The Committee may amend, modify, suspend, reinstate or terminate this Plan in whole or in part at any time or from time to time; provided, however, that no such action will adversely affect any right or obligation with respect to any Award theretofore made.

X. Change in Control

If there is a Change in Control as defined in this Section X at any time during a Plan Year, (1) the Committee promptly shall determine the Award which would have been payable to each Participant under the Plan for such Plan Year if he had continued for work for the Company for such entire year and all performance goals established under Section IV had been met in full for such Plan Year by multiplying his target percentage by his base salary as in effect on the date of such Change in Control and (2) each such Participant's nonforfeitable interest in his Award thereafter shall be determined by multiplying such Award by a fraction, the numerator of which shall be the number of full, calendar months he is an employee of the Company during such Plan Year and the denominator is 12 or the number of full calendar months the Plan is in effect during such Plan Year, whichever is less. The payment of a Participant's nonforfeitable interest in his Award under this Section X shall be made in cash as soon as practicable after his employment by the Company terminates or as soon as practicable after the end of such Plan Year, whichever comes first.

A Change in Control for purposes of this Section X shall be deemed to have occurred if any one of the conditions in paragraphs (i) - (iv) have been satisfied at any time after the Award is granted:

(i) The acquisition by any Person (as defined below) of beneficial ownership of 30% or more of the then outstanding shares of common stock of the Company;

(ii) Individuals who constitute the Board of Directors of the Company on the effective date of this Plan (the “Incumbent Board”) cease to constitute a majority of the Board of Directors of the Company, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company;

(iii) Consummation by the Company of a reorganization, merger, share exchange or consolidation (a “Reorganization”), provided that a Reorganization will not constitute a Change in Control if, upon consummation of the Reorganization, each of the following conditions is satisfied:

(1) more than 50% of the then outstanding shares of common stock of the corporation resulting from the Reorganization is beneficially owned by all or substantially all of the shareholders of the Company immediately prior to the Reorganization in substantially the same proportions, relative to each other, as their ownership existed in the Company immediately prior to the Reorganization; and

(2) at least a majority of the members of the board of directors of the corporation resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization.

(iv) The sale, transfer or assignment of all or substantially all of the assets of the Company and its affiliates to a third party.

For purposes of this Section X, “Person” means any individual, entity or group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934), other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliate, and “beneficial ownership” has the meaning given the term in Rule 13d-3 under the Securities Exchange Act of 1934.

XI. Miscellaneous

(a) No Implied Contract. Nothing contained in this Plan shall be construed as conferring upon any Participant the right or imposing upon him the obligation to continue in the employment of the Company, nor shall it be construed as imposing upon the Company the obligation to continue to employ the Participant.

(b) Non-assignability. Awards under the Plan shall not be subject to anticipation, alienation, pledge, transfer or assignment by any person entitled thereto, except by designation of a beneficiary or by will or the laws of descent and distribution.

(c) No Trust. The obligation of the Company to make payments hereunder shall constitute a liability of the Company to the Participants. Such payments shall be made from the general funds of the Company, and the Company shall not be required to establish or maintain any special or separate fund, or otherwise to segregate assets to assure that such payments shall be made, and neither the Participants nor their beneficiaries shall have any interest in any particular assets of the Company by reason of its obligations hereunder. Nothing contained in this Plan shall create or be construed as creating a trust of any kind or any other fiduciary relationship between the Company and the Participants or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

(d) Facility of Payments. If a Participant or any other person entitled to receive an Award under this Plan shall, at the time payment of any such amount is due, be incapacitated so that such recipient cannot legally receive or acknowledge receipt of the payment, then the Committee, in its sole

and absolute discretion, may direct that the payment be made to the legal guardian, attorney-in-fact or person with whom such recipient is residing, and such payment shall be in full satisfaction of the Company's obligation under the Plan with respect to such amount.

(e) Beneficiary Designation. Each Participant may designate a beneficiary hereunder. Such designation shall be in writing, shall be made in the form and manner prescribed by the Committee, and shall be effective only if filed with the Committee prior to the Participant's death. A Participant may, at any time prior to his death, and without the consent of his beneficiary, change his designation of beneficiary by filing a written notice of such change with the Committee in the form and manner prescribed by the Committee. In the absence of a designated beneficiary, or if the designated beneficiary and any designated contingent beneficiary predecease the Participant, the beneficiary shall be the Participant's surviving spouse, or if the Participant has no surviving spouse, the Participant's estate.

(f) Governing Law. The Plan shall be construed and its provisions enforced and administered in accordance with the laws of the Commonwealth of Virginia.

(g) Clawback. Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement (including but not limited to Section 954 of the Dodd-Frank Act), will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company or any affiliate pursuant to any such law, government regulation or stock exchange listing requirement). This section shall not limit the Company's right to revoke or cancel an Award or take other action against a Participant for any other reason, including but not limited to misconduct.

(h) Forfeiture Events. The Committee may specify that a Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions of an Award. Such events may include, without limitation, breach of non-competition, non-solicitation, confidentiality, or other restrictive covenants that are contained in the Award agreement or otherwise applicable to the Participant, a termination of the Participant's employment or service for cause, or other conduct by the Participant that is detrimental to the business or reputation of the Company and/or its affiliates. The authority described in this Section XI(h) are in addition to, and not a limitation on, the Committee's right to reduce or fully eliminate an incentive payment under Section II or any other provision of this Plan.

(i) Effective Date. This Plan shall be effective as of January 1, 2017, subject to the approval by the shareholders of the Company at the 2017 annual meeting of stockholders. Such approval shall meet the requirements of Section 162(m) of the Code and the regulations thereunder.

PROXY

TOWNE BANK

This Proxy is solicited on behalf of the Board of Directors

The undersigned, revoking all prior proxies, hereby appoints **E. Lee Baynor, Thomas C. Broyles, John R. Lawson, II, and R. Scott Morgan**, as proxies, and each or any of them with full power of substitution, and hereby authorizes them to represent and to vote, as designated below, all the shares of common stock of TowneBank held of record by the undersigned at the close of business on March 31, 2017, at the Annual Meeting of Stockholders to be held May 24, 2017, or any adjournment thereof, on each of the following matters:

1. To elect nine (9) directors to serve for a three-year term, two (2) directors to serve for a two-year term, and three (3) directors to serve for a one-year term:

FOR **WITHHOLD ALL** **FOR ALL EXCEPT**

Class I Nominees:

Jeffrey F. Benson	Douglas D. Ellis	John W. Failes
William I. Foster III	Stephanie J. Marioneaux, M.D.	Juan M. Montero, M.D.
Thomas K. Norment, Jr.	Brad E. Schwartz	Alan S. Witt

Class II Nominees:

Robert M. Oman	Elizabeth T. Patterson
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Class III Nominees:

E. Neal Crawford, Jr.	William T. Morrison	Dwight C. Schaubach
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INSTRUCTION: To withhold authority to vote for any individual nominee, mark "For All Except" and write that nominee's name in the space provided below.

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2. To ratify the appointment of members to the respective boards of directors of each of the TowneBanking Groups and Towne Financial Services as described in the TowneBank proxy statement.

FOR **AGAINST** **ABSTAIN**

3. To ratify the selection of Dixon Hughes Goodman LLP, independent certified public accountants, as auditors of TowneBank for 2017.

FOR **AGAINST** **ABSTAIN**

4. To approve, on a non-binding advisory basis, TowneBank's named executive officer compensation.

FOR **AGAINST** **ABSTAIN**

5. To approve the TowneBank 2017 Stock Incentive Plan.

FOR **AGAINST** **ABSTAIN**

6. To approve the Annual Incentive Compensation Plan of TowneBank.

FOR **AGAINST** **ABSTAIN**

7. In their discretion, the proxies are authorized to vote upon any other business that may properly come before the meeting. Management at present knows of no other business to be presented at the meeting.

This Proxy, when properly executed, will be voted in the manner directed herein by the undersigned stockholder. **If no direction is made, this Proxy will be voted "FOR" all nominees listed in Proposal 1 and "FOR" Proposals 2, 3, 4, 5, and 6.** All joint owners MUST sign.

This card also serves to instruct the administrator of the TowneBank's Direct Stock Purchase and Dividend Reinvestment Plan and the trustee of the defined contribution plan sponsored by TowneBank how to vote shares held for a participant in any such plan. Unless your proxy for your defined contribution plan shares is received by May 23, 2017, the trustee of such defined contribution plan will vote your plan shares in the same proportion as those plan shares for which instructions have been received.

Please sign exactly as your name appears hereon. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

DATED: _____ 2017

Signature

Signature (if jointly owned)

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING

A complete set of proxy materials relating to the Annual Meeting is available on the Internet. These materials can be viewed at www.envisionreports.com/TOWN.

IF YOU WISH TO VOTE BY TELEPHONE OR INTERNET, PLEASE READ THE INSTRUCTIONS BELOW

TowneBank encourages you to take advantage of the opportunity to vote by telephone or the Internet for matters to be covered at the 2017 Annual Meeting of Stockholders. Shares may be voted by one of the three voting methods outlined below.

VOTE BY PHONE - 1-800-652-VOTE (8683)

Use any touch-tone telephone to transmit your voting instructions up until __: __ A.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY INTERNET -
WWW.ENVISIONREPORTS.COM/TOWN**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until __: __ A.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic ballot.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we've provided, or return it to: _____.

If you vote by phone or vote using the Internet,
please do not mail your proxy.
THANK YOU FOR VOTING