TOWNEBANK

June 5, 2020

Dear Fellow Shareholder:

We hope this finds you, your family and associates in good stead as we all continue to navigate through this current environment together. Due to the evolving nature of the COVID-19 pandemic, and out of an abundance of caution, we feel it necessary to switch our Annual Meeting of Shareholders on July 15, 2020 at 11:30 a.m. Eastern Time to **a virtual presentation**. Accordingly, on July 15, 2020:

- There will be no physical location for the meeting.
- The meeting will be conducted solely online via a live webcast.
- Please attend the Annual Meeting online at www.virtualshareholdermeeting.com/TOWN2020, where you will be prompted to enter your unique control number included with this proxy material.
- If you have not previously voted your shares, or if you would like to change your vote, you may do so during the meeting.

At the meeting, we will vote to elect eleven directors; ratify the appointment of Dixon Hughes Goodman LLP as TowneBank's independent auditors for 2020; and approve, on a non-binding advisory basis, TowneBank's named executive officer compensation.

We will certainly miss the fellowship we have enjoyed at our meetings in the past and look forward to the future when we can return to our normal meeting format. We do hope you will attend the virtual meeting this year. Regardless, please cast your vote as soon as possible either online, by telephone or by using the postage-paid envelope provided.

As always, we greatly appreciate and value your continuing support.

Sincerely,

G. Robert Aston, Jr.	J. Morgan Davis
Executive Chairman	*President and Chief Executive Officer*

TOWNEBANK

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be Held on July 15, 2020

The Annual Meeting of Shareholders of TowneBank will be held on Wednesday, July 15, 2020, at 11:30 a.m. Eastern Time. The meeting will be conducted solely online via live webcast and there will be no physical location for the meeting. You will be able to attend the Annual Meeting online, vote your shares electronically and submit your questions during the meeting by accessing www.virtualshareholdermeeting.com/TOWN2020. The meeting is being held for the following purposes:

1. To elect eleven (11) directors to serve for a three-year term;
2. To ratify the selection of Dixon Hughes Goodman LLP, certified public accountants, as independent auditors of TowneBank for 2020;
3. To approve, on a non-binding advisory basis, TowneBank's named executive officer compensation; and
4. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The Board of Directors has fixed May 15, 2020, as the record date for determination of shareholders entitled to notice of and to vote at the meeting and any adjournments thereof.

By Order of the Board of Directors

Karen R. Minkoff

Karen R. Minkoff
Secretary to the Board

June 5, 2020

YOUR VOTE IS IMPORTANT

Whether or not you plan to attend the Annual Meeting of Shareholders online, 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 online, you may, if you desire, revoke the proxy and vote online during the meeting. 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.proxyvote.com, which does not have "cookies" that identify visitors to the site.

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
July 15, 2020

GENERAL

We are providing these proxy materials in connection with the solicitation of proxies by the Board of Directors of TowneBank for the 2020 Annual Meeting of Shareholders (the "Annual Meeting") to be held on Wednesday, July 15, 2020. The Annual Meeting will be conducted solely online via live webcast by accessing www.virtualshareholdermeeting.com/TOWN2020. 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 June 5, 2020.

Voting Rights of Shareholders

Only shareholders of record of the Company's common stock at the close of business on May 15, 2020, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the close of business on May 15, 2020, there were 72,614,840 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 by attendance at the meeting 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, banks or other nominees 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 online. For your convenience, a postage-paid return envelope is enclosed. You may also vote over the Internet 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 shareholder's right to attend the Annual Meeting and to vote online during the meeting. Any shareholder who has executed and returned a proxy may revoke it by attending the Annual Meeting and voting online during the meeting. A shareholder 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 other electronic communication 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. The Company has engaged Regan & Associates, Inc. to assist the Company in the solicitation of proxies for the Annual Meeting for a fee of $16,000, plus certain expenses.

* *The printed version of the proxy statement incorrectly stated that there were 76,614,840 shares outstanding and entitled to vote.*

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. If elected, the Class I nominees will serve until the Annual Meeting of Shareholders held in 2023.

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 table provides 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 shareholders vote "FOR" these nominees.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
2020 Class (Director Nominees to Serve Until the 2023 Annual Meeting):		
Jeffrey F. Benson (58)	2016	Mr. Benson has served as Vice Chairman of the Board of Directors of TowneBank since the merger of Monarch Financial Holdings, Inc. ("Monarch") with TowneBank in 2016. Mr. Benson has served as a Partner of The Overton Group, Inc. (real estate development and management), in Suffolk, Virginia, since 1985. Mr. Benson served as Chairman of the Board of Directors of Monarch until the merger with TowneBank in 2016. 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 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.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
Douglas D. Ellis (75)*	2010	Mr. Ellis has served as President of Ellis-Gibson Development Group (real estate development and property management), Virginia Beach, Virginia, since 1988. Mr. Ellis has over 45 years of experience in commercial real estate, including over 30 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.
John W. Failes (75)*	1999	Mr. Failes, a retired Certified Public Accountant, was the founder and owner of one of the largest local public accounting firms in Virginia. 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.
William I. Foster, III (64)	2005	Mr. Foster currently serves as President, Commercial and Real Estate Banking. He served as President of TowneBank Virginia Beach from 2011 to 2018 and President of TowneBank Norfolk from 2005 to 2011. Mr. Foster has over 35 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.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
Robert C. Hatley (69)	2018	Mr. Hatley served as President of TowneBank North Carolina from January 2018, when Paragon Commercial Corporation and its subsidiary bank, Paragon Commercial Bank (together, “Paragon”), were merged into TowneBank, until his retirement in January 2019. He served as President, Chief Executive Officer, and a director of Paragon for almost 20 years after it was organized in 1998, and has a total of over 40 years of banking experience. Mr. Hatley’s extensive banking experience and knowledge of our North Carolina markets makes him a valuable addition to the Board.
Howard J. Jung (73)*	2018	Mr. Jung joined TowneBank as a director in January 2018 when Paragon was merged into TowneBank. He previously served as Chairman of the Board of Directors of Paragon Commercial Bank since 1999, and as Chairman of the Board of Directors of Paragon Commercial Corporation since 2001, until their merger with TowneBank. He has extensive prior experience as a corporate director, having served as a director of the Ace Hardware Corporation from 1987 to 1996 and as Chairman of the Board at Ace Hardware Corporation from 1998 to 2003. Mr. Jung also owned and served as Vice President of Ace Hardware Stores, Inc. in Raleigh, North Carolina from 1997 to 2016. Mr. Jung’s extensive board and executive management experience, as well as his knowledge of our North Carolina markets, make him an important member of the Board.
Stephanie J. Marioneaux, M.D. (61)*	2010	Dr. Marioneaux has served as an ophthalmologist in Chesapeake, Virginia, since 1989. Dr. Marioneaux has been active in numerous civic and professional organizations. Dr. Marioneaux 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 gained through her tenure as a member of the Board and the Company’s Chesapeake Regional Board.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
Juan M. Montero, II, M.D. (78)*	1999	Dr. Montero is retired from practice as a General and Thoracic Surgeon. Dr. Montero is the Founder and Chairman of Montero Medical Missions, which provides medical missions and creates sustainable healthcare projects through physicians and allied health professionals in the U.S. and abroad. Dr. Montero has over 30 years of experience serving on the boards of banking institutions, including TowneBank. He also served the local community as a general/thoracic surgeon for 35 years. Dr. Montero brings a unique perspective to our Board by combining banking industry expertise with a strong focus on service in the community.
Thomas K. Norment, Jr. (74)*	2009	Mr. Norment has served as a Commissioner of Accounts for the City of Williamsburg, Virginia, and James City County, Virginia, since 2009. In addition, he is "of counsel" to the law firm of Kaufman & Canoles, P. C., where he was formerly a partner. A Virginia State Senator who serves as the Senate Minority Leader, Mr. Norment has represented the 3rd Senatorial District since 1992. 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.
Brad E. Schwartz (57)	2016	Mr. Schwartz has served as Senior Executive Vice President and Chief Operating Officer of TowneBank since 2016, when Monarch was merged into TowneBank. Previously, he served as Chief Executive Officer of Monarch from 2009 until 2016 and as Chief Financial Officer/Chief Operating Officer of Monarch from 2004 until 2009. Mr. Schwartz has over 30 years of banking experience. He has 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.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
Alan S. Witt (64)*	2004	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 until its merger with PBGH, LLP in 2013. He also served as a director of Harbor Bank from 1996 until its merger with TowneBank in 2004. Mr. Witt is a licensed Certified Public Accountant, 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 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.
2021 Class (Continuing Directors to Serve Until the 2021 Annual Meeting):		
Jacqueline B. Amato (70)	2000	Ms. Amato served as Chairman and Chief Executive Officer of TowneBank Mortgage from 2012 through 2016. Previously, she was President of TowneBank Mortgage from 2000 to 2012. 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.
Richard S. Bray (74)*	2006	Ret. 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. Judge Bray's legal career spanned 32 years, culminating with his service as Senior Judge on the Court of Appeals of Virginia. He has over 20 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.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
Andrew S. Fine (83)	1999	Mr. Fine serves as President of The Runnymede Corporation (real estate development), Virginia Beach, Virginia. Mr. Fine has an extensive legal, business, and banking background. He has over 40 years of experience serving as a bank director, including 20 years with TowneBank. Mr. Fine's business background and his expertise in banking and legal matters make him a valuable member of the Board.
John R. Lawson, II (68)*	2004	Mr. Lawson serves as Executive Chairman of W.M. Jordan Company, Inc. (general construction firm), Newport News, Virginia. Prior to assuming the Executive Chairman position in 2018, he served as President and Chief Executive Officer of the company. He was a director of Harbor Bank from 1996 to 2004, when it merged with TowneBank. Mr. Lawson provides the valuable perspective gained from more than 35 years of leading a large, regional general construction firm as the Chief Executive Officer.
W. Ashton Lewis (74)*	1999	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. Mr. Lewis has over 45 years of experience as the owner/operator of new auto dealerships and over 35 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.
R. Scott Morgan (75)	1999	Mr. Morgan retired from TowneBank in 2011. He served as President and Senior Loan Officer of TowneBank from 1999 to his retirement in 2011. 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.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
Robert M. Oman (65)*	2016	Mr. Oman has served as the President of Oman Funeral Homes, Inc., Chesapeake, Virginia, since 1985. Mr. Oman served as a director of Monarch until the merger with TowneBank in 2016. Mr. Oman is a long-serving board member and a former Chairman of the Chesapeake Hospital Authority, which serves as the governing body for the Chesapeake Regional Medical Center. As a small business owner and native of Chesapeake, Mr. Oman has been a Corporate and Chesapeake Board Member of TowneBank since 2016. Mr. Oman brings value and insight into our business banking focus as well as the community.
R.V. Owens, III (63)	2011	Mr. Owens is President and Chief Executive Officer of R.V. Owens Enterprises LLC (real estate development firm), Kill Devil Hills, North Carolina. 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.
Elizabeth T. Patterson (71)*	2016	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 its merger with TowneBank in 2016. 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.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
2022 Class (Continuing Directors to Serve Until the 2022 Annual Meeting):		
G. Robert Aston, Jr. (74)	1999	Mr. Aston served as Chairman of the Board and Chief Executive Officer from the founding of TowneBank in 1998 until March 2018. In March 2018, in connection with the formation of a new Corporate Management Group as part of a long-term management succession plan, Mr. Aston assumed the position of Executive Chairman of the Board. Prior to the founding of TowneBank, Mr. Aston served as President and Chief Executive Officer of BB&T of Virginia from 1995 to 1998 and as President and Chief Executive Officer of Commerce Bank, Virginia Beach, Virginia, from 1985 until its acquisition by BB&T in 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. Through his over 55 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.
E. Lee Baynor (80)*	1999	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 2010. Mr. Baynor has over 55 years of experience as 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 30 years of service as a director at banking institutions, make him a valuable asset to the Board.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
Thomas C. Broyles (89)*	1999	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. 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.
Bradford L. Cherry (79)	1999	Mr. Cherry has served as Chairman of the Board of Cherry Carpet, Inc. since 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 2010. 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.
J. Morgan Davis (69)	1999	Mr. Davis has served as President of TowneBank since 2011. He also served as Chief Banking Officer from 2011 until December 2018. In March 2018, in connection with the formation of a new Corporate Management Group as part of a long-term management succession plan, Mr. Davis assumed the additional position of Chief Executive Officer of the Company. Prior to 2011, he served as President of Towne Financial Services Group ("TFS"), which oversees the Company's non-banking businesses (mortgage, insurance, and real estate brokerage) from 2005 to 2011, and as President of TowneBank Virginia Beach from 1999 to 2005. Mr. Davis is a 40-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 on the boards of several prominent community organizations. Mr. Davis provides vital senior management experience and business acumen to our Board of Directors.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
Harry T. Lester (74)*	2010	Mr. Lester served as President of Eastern Virginia Medical School ("EVMS"), Norfolk, Virginia, from 2005 until 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. 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 20 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.
William T. Morrison (57)	2016	Mr. Morrison has served as the Chairman and Chief Executive Officer of the TowneBank Mortgage and Realty Group since the merger of Monarch with TowneBank in 2016. Previously, he served as Chief Executive Officer of Monarch Mortgage from 2011 until the merger with TowneBank. Mr. Morrison has over 30 years of banking experience and has previously served as chief operating officer and chief credit officer at local community banks. Mr. Morrison has served on the boards of several prominent community and educational organizations. 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.
Elizabeth W. Robertson (67)*	2015	Ms. Robertson retired in December 2018 as Chief Financial Officer of Monument Restaurants, LLC, Richmond, Virginia, upon the sale of the company. She was a director of Franklin Financial Corporation and Franklin Savings Bank until their merger with TowneBank in 2015. Previously, she worked with KPMG LLP and Virginia Resources Authority. 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.

Name (Age)	Served as Director Since	Principal Occupation During Past Five Years and Qualifications
Dwight C. Schaubach (77)*	2016	Mr. Schaubach has served as Chief Executive Officer and President of Schaubach Companies of Virginia, Inc. (operations include home and business security systems, HVAC and oil systems, real estate management and development, and ownership of a private golf course), Norfolk, Virginia, since 1975. Mr. Schaubach served as a director of Monarch until the merger with TowneBank in 2016. 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.
Richard B. Thurmond (68)*	2000	Mr. Thurmond currently serves as the Southeast Regional Chairman of Howard Hanna Real Estate Services (realty company) and previously served as the Southeast Regional President. He also 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 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 (81)*	2003	Mr. Wood has served as President of Hampton Chevrolet-Mazda, Hampton, Virginia, since 1971. Mr. Wood has over 50 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 13 meetings of the Board of Directors in 2019. Each director attended at least 75% of the aggregate number of meetings of the Board and meetings of the committees of which the director was a member during 2019.

The Company encourages each member of the Board to attend the annual meeting of shareholders. Of the 32 directors who were serving at the time of the 2019 annual meeting of shareholders, 31 attended that meeting.

The Board has reviewed the definition of "independent director" as defined in Nasdaq Marketplace Rule 5605(a)(2) and determined that of the 31 continuing directors and director nominees, 19 are independent.

There are no family relationships among any of the directors or among any director and any executive officer, except for Messrs. Wood and Lewis, who are first cousins.

The Board of Directors of the Company has established various committees, including Executive, Audit, Compensation, Nominating, and Enterprise Risk Management.

Leadership. In March 2018, the Company formed a Corporate Management Group designed to implement the first phase of a plan to enhance its management structure to prepare the Company for the next decade of growth and to continue to build out its long-term management succession plan. Under the team-based structure, Mr. Aston serves as Executive Chairman of the Board with responsibility for corporate strategy, corporate governance, marketing and human resources. J. Morgan Davis serves as President and Chief Executive Officer with overall responsibility for corporate growth and profitability. Brad E. Schwartz teams with Mr. Davis in managing the daily activities of the Company, along with expanded executive responsibility for the advancement of corporate innovation and the enhancement of the Company's digital delivery systems. William B. Littreal serves on the team in his role as Senior Executive Vice President, Chief Financial Officer, and Director of Investor Relations.

Since the initial formation of the team in March 2018, the Company has added four other strategic leadership positions to the Corporate Management Group to further align its enhanced management structure with the Company's long-term management succession plan: Brian K. Skinner, Senior Executive Vice President and Chief Banking Officer, William I. Foster, III, President, Commercial and Real Estate Banking, Dawn S. Glynn, President, Retail and Private Banking, and Matthew C. Davis, Senior Executive Vice President and Chief Strategy and Risk Officer. See "Compensation Discussion and Analysis – Focus on Management Succession" beginning on page 21.

Lead Director. Ret. Judge Richard S. Bray serves as the Company's 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 (Chair), Aston, Benson, Broyles, J. Morgan Davis, Ellis, Fine, Hatley, Jung, Lawson, Morgan, and Schwartz. Richard T. Wheeler, Jr. served on the committee until his death on March 12, 2020. 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. In 2019, there were fifteen meetings of the Executive Committee.

Audit Committee. The Audit Committee is composed of Ms. Robertson (Chair), Messrs. Baynor, Failes, Lewis, Montero, Witt, and Ms. Patterson. Serving as consultants to the Audit Committee are Dr. C. Fred

Bateman, a Director of the Chesapeake TowneBanking Group board; Michael J. Blachman, a Director of the Portsmouth TowneBanking Group board; W. Arthur Hudgins, a Director of the Williamsburg TowneBanking Group board; Daniel N. Ryan, Sr., a Director of the Virginia Beach TowneBanking Group board; and 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 Committee financial experts: Mr. Failes, Ms. Patterson, Ms. Robertson, and Mr. 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 Committee, the functions of the committee are to review and approve the selection of independent auditors; to review the reports of examination by the regulatory agencies, the independent auditors and the internal auditor; and to issue its report to the Board of Directors. A copy of the charter of the Audit Committee is available on the "Investor Relations" page of the Company's website at www.townebank.com under the heading "*Governance Documents*."

The Audit 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 Committee met ten times in 2019. The Audit Committee Report begins on page 45.

Compensation Committee. The Compensation Committee is composed of Messrs. Lewis (Chair), 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 Executive Chairman, the President and 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 five times in 2019. The Compensation Committee Report is included on page 21. A copy of the charter of the Compensation Committee is available on the "Investor Relations" page of the Company's website at www.townebank.com under the heading "*Governance Documents*."

Compensation Committee Interlocks and Insider Participation. During 2019, 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 involves more than the normal risk of collectability or presents other unfavorable features.

Enterprise Risk Management Committee. The Enterprise Risk Management Committee is composed of Messrs. Witt (Chair), Aston, J. Morgan Davis, Fine, Morgan, and Schwartz. Mr. Wheeler previously served as chair of the committee and was succeeded by Mr. Witt on March 12, 2020. Matthew C. Davis, Senior Executive Vice President and Chief Strategy and Risk Officer, also serves as a member of the committee. The Enterprise Risk Management Committee was formed by the Board of Directors in June 2017 to be primarily responsible for overseeing the Company's risk management function on behalf of the Board. The Company's Audit and Risk Committee, which was previously responsible for this task, was renamed the "Audit Committee" and now focuses primarily on managing the Company's accounting and financial reporting, as described above.

The Enterprise Risk Management Committee is responsible for aligning the Company's risk profile with the Company's strategic plans and objectives. This involves identifying and planning for market risk, interest rate risk, liquidity risk, operational risk, reputational risk and other enterprise risks. In carrying out its responsibilities, the Enterprise Risk Management Committee works closely with TowneBank's Chief Risk Officer, internal audit, and other members of TowneBank's management team. The Enterprise Risk Management Committee met four times in 2019.

In addition to the Enterprise Risk Management 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 21.

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. Lewis (Chair), Bray, Broyles, and Wood. The Nominating Committee met one time in 2019. 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 shareholders and not just one particular constituency.

- Each Candidate shall share a commitment to the Company's success.

- 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 Marketplace 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 shareholders, 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 shareholders into the general nomination right of all shareholders and proposals by "Qualified Shareholders" (as defined below).

General Nomination Right of All Shareholders. Any shareholder of the Company may nominate one or more persons for election as a director of the Company at the annual meeting of shareholders if the shareholder 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 shareholder'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 additional means by which certain shareholders can have access to the Company's process for identifying and evaluating Candidates, and are not meant to replace or limit shareholders' general nomination rights in any way.

Proposals by Qualified Shareholders. 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 shareholder or group of affiliated shareholders 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 shareholders' meeting) and who satisfies the notice, information and consent provisions in the Nominations Policy (a "Qualified Shareholder").

All Candidates (whether identified internally or by a Qualified Shareholder) 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 shareholders, a notice from a Qualified Shareholder 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 shareholders 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 10^{th} day following the day on which notice of the date of the upcoming annual meeting is publicly disclosed.

Any Candidate proposed by a Qualified Shareholder must be independent of the Qualified Shareholder in all respects as determined by the Nominating Committee or by applicable law. Any Candidate submitted by a Qualified Shareholder 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 President and 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.

OWNERSHIP OF COMPANY COMMON STOCK

The following table sets forth, as of May 15, 2020, 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 on page 33, the current 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.

Name	Number of Shares Beneficially Owned (1)	Percent of Class
Jacqueline B. Amato	129,814 (2)	*
G. Robert Aston, Jr.	426,966 (2)(3)	*
E. Lee Baynor	163,648 (2)	*
Jeffrey F. Benson	114,926 (2)	*
Richard S. Bray	77,206 (2)	*
Thomas C. Broyles	156,490	*
Bradford L. Cherry	165,753 (2)	*
J. Morgan Davis	142,197 (2)(3)	*
Douglas D. Ellis	193,437 (2)	*
John W. Failes	60,894 (2)	*
Andrew S. Fine	465,683 (2)	*
William I. Foster, III	17,090 (3)	*
Robert C. Hatley	82,181 (2)(3)	*
Howard J. Jung	190,802 (2)	*
John R. Lawson, II	2,120,949 (2)	2.92%
Harry T. Lester	43,665	*
W. Ashton Lewis	84,106 (2)	*
William B. Littreal	58,664 (3)	*
Stephanie J. Marioneaux, M.D.	34,743 (2)	*
Juan M. Montero, II, M.D.	7,808	*
R. Scott Morgan	251,076 (2)	*
William T. Morrison	135,099 (3)	*
Thomas K. Norment, Jr.	60,668 (2)	*
Robert M. Oman	52,609 (2)	*
R.V. Owens, III	13,231	*
Elizabeth T. Patterson	77,492	*
Elizabeth W. Robertson	77,271 (2)	*
Dwight C. Schaubach	149,675 (2)	*
Brad E. Schwartz	97,188 (2)(3)	*
Richard B. Thurmond	123,863 (2)	*
Alan S. Witt	103,323	*
F. Lewis Wood	158,604	*
All current directors, director nominees and executive officers as a group (36 persons)	6,159,697 (4)	8.48%
5% Shareholders		
BlackRock, Inc. 55 East 52nd Street New York, New York 10055	5,028,857 (5)	6.92%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, Maryland 21202	5,875,506 (6)	8.09%

Name	Number of Shares Beneficially Owned (1)	Percent of Class
The Vanguard Group 100 Vanguard Boulevard Malvern, Pennsylvania 19355	5,945,450 (7)	8.18%

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* 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, 2,360 shares; Mr. Aston, 78,663 shares; Mr. Baynor, 44,372 shares; Mr. Benson, 28,608 shares; Mr. Bray, 2,600 shares; Mr. Cherry, 1,114 shares; Mr. Davis, 497 shares; Mr. Ellis, 4,559 shares; Mr. Failes, 22,451 shares; Mr. Fine, 262,137 shares; Mr. Hatley, 7,762 shares; Mr. Jung, 70,008 shares; Mr. Lawson, 1,696,944 shares; Mr. Lewis, 38,323 shares; Dr. Marioneaux, 95 shares; Mr. Morgan, 3,313 shares; Mr. Norment, 19,208 shares; Mr. Oman, 46,521 shares; Ms. Robertson, 76,971 shares; Mr. Schaubach, 2,936 shares; Mr. Schwartz, 59,056 shares; Mr. Thurmond, 5,550 shares and Mr. Wood, 7,801 shares.

(3) Includes shares of common stock that are restricted stock holdings as follows: Mr. Aston, 64,875 shares; Mr. Davis, 19,684 shares; Mr. Littreal, 22,782 shares; Mr. Foster, 6,574 shares; Mr. Hatley, 7,607 shares; Mr. Morrison, 4,920 shares; and Mr. Schwartz, 19,000 shares. The shares are subject to a vesting schedule, forfeiture risk and other restrictions. These shares can be voted at the Annual Meeting.

(4) Includes 185,390 shares of common stock that are restricted stock holdings. These shares can be voted at the Annual Meeting.

(5) This information is based on a Schedule 13F-HR filed with the Securities and Exchange Commission on February 13, 2020, which reported sole voting power over 4,853,737 shares, sole dispositive power over 5,028,857 shares and shared dispositive power over 0 shares at December 31, 2019.

(6) This information is based on a Schedule 13F-HR filed with the Securities and Exchange Commission on February 14, 2020, which reported sole voting power over 1,641,643 shares, sole dispositive power over 5,875,506 shares and shared dispositive power over 0 shares at December 31, 2019.

(7) This information is based on a Schedule 13F-HR filed with the Securities and Exchange Commission on February 14, 2020, which reported sole voting power over 64,063 shares, sole dispositive power over 5,945,450 shares and shared dispositive power over 12,818 shares at December 31, 2019.

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 shareholders, and has adopted minimum stock ownership guidelines applicable to directors and the Named Executive Officers listed in the Summary Compensation Table on page 33.

The ownership threshold for directors is $100,000 aggregate value of the Company's common stock. The ownership threshold for the Named Executive Officers is based on the following multiples of their base salaries: three times base salary for the Executive Chairman and the President and Chief Executive Officer; 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 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, 2020, 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.

Delinquent Section 16(a) Reports

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 2019 with the following exceptions: one late Form 4 report was filed by Jeffrey F. Benson reporting the disposition of shares in one transaction; one late Form 4 report was filed by Bradford L. Cherry reporting the acquisition of shares in one transaction; one late Form 4 report was filed by J. Morgan Davis reporting restricted stock award shares granted in one transaction; one late Form 4 report was filed by Matthew C. Davis reporting restricted stock units granted in one transaction; one late Form 4 report was filed by Douglas D. Ellis reporting the acquisition of shares in one transaction; one late Form 4 report was filed by Andrew S. Fine reporting the disposition of shares in three transactions; one late Form 4 report was filed by William I. Foster, III reporting restricted stock award shares granted in one transaction; one late Form 4 report was filed by John R. Lawson, II reporting the acquisition of shares in one transaction; and one late Form 4 report was filed by Brad E. Schwartz reporting restricted stock award shares granted in one transaction.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis for the year ended December 31, 2019 with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

This report is provided by the following independent directors, who comprise the Compensation Committee:

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

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This Compensation Discussion and Analysis describes our 2019 executive compensation programs and decisions with respect to our executive officers and, in particular, our Named Executive Officers listed in the Summary Compensation Table on page 33 which we sometimes refer to as our "NEOs." In this discussion, we explain, among other things, our compensation philosophy and programs, factors considered by the Compensation Committee in making compensation decisions, and additional information about our compensation programs and practices.

Focus on Management Succession

In 2018, the Company implemented a plan to enhance its management structure to help prepare the Company for its next decade of growth and to continue to build out its long-term management succession plan. A key component of this plan involved the formation of a new Corporate Management Group to align its enhanced management structure with the Company's long-term management succession plan.

The Corporate Management Group consists of the following executive officers:

Executive Officer	Position	Years of Service at TowneBank
G. Robert Aston, Jr.	Executive Chairman	20
J. Morgan Davis	President and Chief Executive Officer	20
William B. Littreal	Senior Executive Vice President and Chief Financial Officer	12
Brad E. Schwartz	Senior Executive Vice President and Chief Operating Officer	4
Brian K. Skinner	Senior Executive Vice President and Chief Banking Officer	13
William I. Foster, III	President, Commercial and Real Estate Banking	15
Dawn S. Glynn	President, Retail and Private Banking	20
Matthew C. Davis	Chief Strategy and Risk Officer	3

Our Named Executive Officers are listed in the Summary Compensation Table on page 33. In addition to Messrs. Aston, Davis, Littreal and Schwartz, our NEOs for 2019 include William T. Morrison, who serves as Chairman and Chief Executive Officer of TowneBank Mortgage and Realty Group.

Executive Summary

TowneBank's executive compensation programs are 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 goal of the Compensation 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 shareholders' interests.

In response to the economic uncertainty caused by the COVID-19 pandemic, the Company shifted its focus from traditional performance measures centered around growth and earnings to fortifying its balance sheet and building liquidity. Not only has the Company been active in the Paycheck Protection Program established under the CARES Act, having booked over 6,200 loans under this program for approximately $1.1 billion through May 21, 2020, the Company has also worked proactively with its borrowers on a consultative basis to offer credit accommodations and payment deferrals to help them manage through this challenging period. Accordingly, the Company expects that this shift in focus and the other steps it is taking to address the impact of the COVID-19 crisis will adversely affect the Company's traditional performance measures, including many of those highlighted below, in 2020 that would ordinarily help inform the compensation related determinations of the Compensation Committee. The extent of the impact caused by this crisis on the Company's financial performance in 2020 cannot be determined at this time.

2019 Performance Highlights. The Company's financial and operational performance remained strong in 2019. The Company improved its financial performance over 2018 in spite of the challenging operating environment the banking industry faced in 2019 due primarily to the downward pressure on interest rates. The Company's 2019 financial results were also impacted by the increased levels of investment necessary to support the Company's significant governance and risk infrastructure initiatives, which were implemented largely in response to the new regulatory and compliance demands triggered by the Company crossing the $10 billion asset threshold. Our 2019 financial results are more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2019 Annual Report to Shareholders (the "2019 Annual Report"), which is included as Exhibit 13 to the Annual Report on Form 10-K for the year ended December 31, 2019.

<u>Profitability</u>

- Earnings increased to a record $138.78 million compared to $133.79 million for the prior year, making 2019 the 20th consecutive year of earnings growth.

- Fully-diluted earnings per common share increased to $1.92, compared to $1.88 in 2018.

- The quarterly dividend increased to $0.18 per share beginning in the second quarter, resulting in total dividends of $0.70 per share for 2019, an increase of 12.9% over 2018.

<u>Growth</u>

- Total revenues grew by 15.87% to $563.94 million.

- Net interest income increased by 5.07% to $358.36 million.

- Deposits increased 10.76% to $9.27 billion.

- ♦ Stable core funding base, as noninterest bearing deposits increased by 12.52% to $2.95 billion, representing 31.83% of total deposits.

- Loans increased $401.06 million, or 5.00% from December 31, 2018.

- Noninterest income increased by $14.00 million, or 7.30%, over 2018, with insurance commissions, mortgage brokerage income, real estate brokerage and property management income contributing to the growth.

<u>Strong Credit Culture</u>

- Asset quality showed continued strength.

  - ♦ Nonperforming assets were $32.80 million, or 0.27% of total assets at year-end.

  - ♦ Nonperforming loans were 0.21% of period end loans.

<u>Strategic Acquisitions</u>

- Strengthened our insurance segment through the completion of two acquisitions in 2019. These acquisitions bring to 24 the number of insurance agency purchases since 2001. Towne Insurance ranked 51st out of the top 100 insurance brokers in the nation based on 2018 revenue, which is the most recent available. We acquired:

  - ♦ Straus, Itzkowitz & LeCompte Insurance Agency, Inc., an independent insurance agency based in Richmond, Virginia in January 2019.

  - ♦ Angel Insurance and Financial Services, Inc., an independent insurance agency based in Rock Hill, South Carolina in September 2019, Towne Insurance's first entry into the South Carolina market as it expands its footprint in the Carolinas.

<u>Capital</u>

- Total equity at year-end rose to $1.65 billion, a 7.49% increase from 2018 year-end.

  - ♦ Total risk-based capital remained strong as common equity Tier 1, Tier 1 capital, total risk-based capital, and Tier 1 leverage capital ratios were 11.45%, 11.49%, 14.58%, and 9.95%, respectively. All capital ratios exceeded the current regulatory standards for well-capitalized status.

Finally, the Company placed in the top 50 banks (#45) on the Forbes Best Banks in America list for 2020, making it the second year in a row the Company made the list (#46 last year). Forbes used S&P Global Market Intelligence for data regarding the 100 largest publicly-traded banks and thrifts by assets. Forbes developed the rankings based on ten metrics, including revenue growth, profitability, and credit quality, based on regulatory filings through September 30, 2019.

2019 Compensation Highlights. The Compensation Committee took the following compensation-related actions for 2019:

- <u>Base Salaries</u>. The base salaries of our NEOs, other than Mr. Morrison whose base salary is fixed by contract, were increased for 2019 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. Adjustments in base salaries (other than for Mr. Morrison) were in the range of 2% to 3% for the NEOs.

- Incentive Compensation.

    - ♦ Incentive awards for 2019 performance: Although the Company improved its financial performance over 2018, the Company did not fully achieve certain internal financial performance targets. Based on management's recommendation, the Compensation Committee exercised its discretion and determined that the Company's financial performance in 2019 did not support the payment of any incentive compensation to the NEOs and the other members of the Corporate Management Group.

    - ♦ Incentive awards for 2018 performance (granted in 2019): Based on the Company's performance results, the Compensation Committee approved incentive awards in February 2019 to all of the NEOs equal to 36.4% of base salary. The Committee determined that 83% of the incentive award would consist of long-term performance-based restricted stock that vests over a three-year period and the remainder would be paid in cash. The performance-based stock awards consist of three equal tranches, each of which has a performance-based vesting component that requires the Company to reach a targeted annual return on average assets of 1.10% for the years ended December 31, 2019, 2020, and 2021.

For more information, please refer to the section entitled "2019 Executive Compensation Decisions."

Say-On-Pay Results. We held an advisory vote on the compensation of our Named Executive Officers ("say-on-pay") at our 2019 annual shareholders meeting. At that meeting, 96.4% of the votes cast on the say-on-pay proposal were cast in support of the compensation of the Company's NEOs. While the 2019 shareholder vote reflected strong support for our executive compensation programs, the Compensation Committee, the Board of Directors and executive management have evaluated compensation programs each year to ensure the programs have continued to align the interests of the executives with those of the Company's shareholders and continued to strengthen the linkage of pay to performance. The Compensation Committee plans to continue considering our shareholders' perspectives on an annual basis.

Compensation Governance. The Company has instituted and maintained policies and practices that promote strong compensation governance. These policies and procedures require the Company to:

- Use various performance metrics to deter excessive risk taking by eliminating any incentive focus on a single performance goal.

- Balance short-term (cash) and long-term (equity) compensation to discourage short-term risk taking at the expense of long-term results.

- Use equity incentive to promote total return to shareholders, company performance, and executive retention.

- Require meaningful stock ownership from our executive officers.

- Apply clawback features to all executive officer incentive pay in the event of an accounting restatement, the material miscalculation of a financial measure used to determine the amount or vesting of incentive compensation, or reputational harm to the Company caused by the misconduct of an executive officer.

- Conduct reviews of annual incentive risks in conjunction with our Chief Risk Officer.

- Engage an independent compensation consultant who advises and reports directly to the Compensation Committee.

- Prohibit executive officers from engaging in hedging transactions in our common stock.

- Prohibit dividends on unvested equity awards, require one year minimum vesting periods for equity awards, prohibit share recycling and repricing/discounting of stock options.

- Annual shareholder say-on-pay vote.

Executive Compensation Process

Compensation Philosophy and Objectives. TowneBank's primary goal is to create long-term value for our shareholders. 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, the Company's executive compensation programs are designed to motivate, attract, and retain the leadership deemed essential to ensure the success of the Company. The programs attempt to align executive compensation with Company objectives, business strategy, and financial performance. In applying these principles, the Company seeks to:

- Reward executives for enhancing shareholder value;

- Support an environment that rewards performance with respect to the achievement of 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; and

- Align the interests of executives with the long-term interests of shareholders through award opportunities that can result in ownership of stock.

Role of the Compensation Committee. The executive compensation programs are administered by or under the direction of the Compensation Committee, with Mr. Aston 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.

The Compensation Committee generally targets the median of the total direct compensation (base, annual cash incentive, and equity) of our peer group in setting compensation levels of our NEOs, unless certain factors, such as performance or expertise, warrant a higher or lower competitive positioning.

In approving the compensation of executive officers and key employees for the Board, the Compensation Committee considers the overall financial, market, and competitive performance of the Company during the fiscal year under consideration. The Compensation 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.

The Compensation 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.

The Compensation Committee operates under a written charter that establishes its responsibilities. The Compensation Committee reviews the charter annually to ensure that the scope of the charter is consistent with its expected role. A copy of the charter can be found on the Company's website at www.townebank.com.

Role of the Executive Chairman. In 2019, the Compensation Committee made all compensation recommendations for Mr. Aston, in his role as Executive Chairman, after the annual review of his performance. Mr. Aston did not make recommendations with respect to his own compensation, nor was he present during the deliberations concerning his compensation. With respect to the Company's other NEOs, the Compensation Committee considered salary and incentive recommendations prepared by Mr. Aston to establish compensation and approved equity awards to officers of the Company. The Compensation Committee may exercise its discretion in modifying any recommended adjustments to the compensation of the NEOs. In 2020, it is anticipated that Mr. Aston, as Executive Chairman, will continue his role in making recommendations regarding the compensation of the Company's other NEOs and members of the Corporate Management Group. The Compensation Committee will continue to be solely responsible for determining Mr. Aston's compensation.

Role of the Independent Compensation Consultant. The Compensation Committee engaged Pearl Meyer & Partners, LLC ("Pearl Meyer") to perform executive compensation consulting services. Pearl Meyer is an independent compensation consultant without any previous relationship with management or the Company. The Compensation Committee has 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 NEOs' compensation, including assisting with the development of a peer group consistent with the Company's strategies and objectives. Pearl Meyer reports directly to the Compensation Committee, which retains sole authority to select, retain, terminate, and approve the fees and other retention terms of its relationship with Pearl Meyer.

The Compensation Committee analyzes annually whether the work of Pearl Meyer as a compensation consultant has raised any conflict of interest, taking into consideration the factors set forth in Rule 10C-1 of the Securities Exchange Act of 1934 and applicable Nasdaq rules. The Compensation Committee has determined that the work of Pearl Meyer and the individual compensation advisors employed by Pearl Meyer as compensation consultants to the Company has not created any conflict of interest.

Role of Benchmarking. 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 key markets, coupled with the Company's growth, the Company primarily competes with these larger institutions for executive talent. The Compensation Committee reviewed the compensation programs and philosophies of the major banks operating in the Company's markets, and other competitive data available to the committee. The committee seeks to provide a comprehensive compensation opportunity for its executives commensurate with the market for talent.

Pearl Meyer, with input from management and approval from the Compensation Committee, constructed a peer group of banking companies with total assets between approximately $7 billion and approximately $28 billion for analysis. The Compensation Committee reviewed the compensation programs and philosophies of the peer group listed below:

Company Name	Ticker	Company Name	Ticker
Ameris Bancorp	ABCB	Park National Corporation	PRK
Atlantic Union Bankshares Corp.	AUB	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	WesBanco, Inc.	WSBC
Old National Bancorp	ONB		

2019 Executive Compensation Decisions

Base Salary. The Company provides the NEOs and other employees with a base salary to compensate them for services rendered during the year. Base salary levels for the NEOs are primarily determined by the Compensation Committee for each executive based on his 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 Compensation 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 NEOs and other executive officers are competitive within a range that the committee considers to be reasonable and necessary.

The Compensation Committee generally targets the median of the total direct compensation (base, annual cash incentive and equity) of our peer group in setting compensation levels for our NEOs, unless certain factors, such as performance or expertise, warrant a higher or lower competitive positioning. Compared to its peer group, the mix of the elements of total direct compensation has typically been more heavily weighted towards base salary.

	2019 Base Salary	2018 Base Salary	% Increase
G. Robert Aston, Jr.	$1,000,000	$ 975,000	2.6%
J. Morgan Davis.................	$ 825,000	$ 800,000	3.1%
William B. Littreal.............	$ 532,500	$ 515,667	3.2%
Brad E. Schwartz...............	$ 637,000	$ 624,000	2.1%
William T. Morrison	$ 400,000	$ 400,000	0.0%

Over the past several years, base salary increases for the NEOs have generally not been made effective on January 1st of the applicable year, but in alternate years on October 1st and July 1st. In 2019, for example, the Compensation Committee determined that the increases in base salaries would take effect on July 1, 2019, with the exception of Mr. Aston whose base salary increase was effective as of January 1, 2019. The exception in Mr. Aston's case was primarily due to the length of time since his last pay increase, which dates back to January 1, 2017.

Effective as of July 1, 2019, the base salaries for the NEOs were increased as follows: Mr. Davis - $850,000; Mr. Littreal - $545,000; and Mr. Schwartz - $650,000. Accordingly, the table above reflects (other than for Messrs. Aston and Morrison) the average of the NEOs' 2018 base salaries that remained in effect for the first half of 2019 and their increased 2019 base salaries in effect for the second half of the year. Prior to this year, the base salaries for Messrs. Davis and Schwartz were last increased on October 1, 2017. Before this most recent adjustment for Mr. Littreal, his base salary was last increased on March 1, 2018 when he assumed the post of Chief Financial Officer.

Incentive Compensation. The NEOs are eligible to receive incentive compensation based on the achievement of pre-established financial performance goals. Incentive compensation is designed to drive annual performance results by focusing the NEOs on the achievement of annual financial goals that are aligned with the Company's short- and long-term business objectives.

Historically, the Compensation Committee establishes performance goals for executive officers, as a group, within the first 90 days of each year. The primary performance goal is the internal budgeted net income target amount for the year. In determining final awards, the Compensation Committee may consider adjusting the Company's budgeted net income target and other performance measures for unplanned, unusual, or non-recurring items of gain or expense. The performance goals for subsequent years may be expanded to include individual and business unit/function performance measures at the discretion of the Compensation Committee.

Under the 2019 incentive plan established by the Compensation Committee, each NEO had a target incentive opportunity equal to 40% of base salary in effect at December 31, 2019, with a maximum incentive opportunity equal to 44% of base salary and a threshold incentive opportunity equal to 36% of base salary. For 2018 and prior years, the Company's annual incentive plans did not include separate threshold, target, and maximum performance amounts with different payout percentages. The Compensation Committee reserves the right to decrease, modify, or eliminate the incentive opportunity based on the Company's performance and other factors the committee wishes to take into account.

Incentive Awards for 2019 Performance. Although the Company improved its financial performance over 2018, the Company did not fully achieve certain internal financial performance targets for 2019 which are weighted towards the internal budgeted net income target for the year. Based on management's recommendation, the Compensation Committee exercised its discretion and determined that the Company's financial performance in 2019 did not support the payment of any incentive compensation to the NEOs (other than Mr. Morrison) and the other members of the Corporate Management Group. The Company does not typically disclose internal performance targets because such disclosure could be construed as earnings guidance and could mislead investors as to the Company's expected future performance. Mr. Morrison received performance-based incentive compensation pursuant to the terms of his employment agreement. See "Named Executive Officers Compensation – Employment Agreements and Change-in-Control Agreements."

Other 2019 Compensation Matters. In recognition of Mr. Aston's contributions to the Company's growth and success and his continued importance to its future, the Compensation Committee awarded Mr. Aston a one-time equity grant in March 2019 consisting of 30,230 shares of performance-based restricted stock and 30,230 shares of time-based restricted stock.

The performance-based shares will vest contingent on the Company's achievement of a cumulative core (non-GAAP) earnings per share target for the 2019-2021 fiscal years. The Compensation Committee established a performance range with a corresponding vesting schedule, as follows:

Performance Range	Vesting Percentage	Number of Vested Shares
Less than Threshold	0%	0
Threshold	50%	15,115
Target	100%	30,230
Superior or Greater	150%	45,345

If the Company's performance exceeds the threshold amount but is less than the superior amount, vesting will be determined based on straight-line interpolation. Vesting of the performance-based shares will be determined by the Compensation Committee on or before February 15, 2022.

The 30,230 time-based shares awarded to Mr. Aston will vest in three equal, annual increments on April 1, 2020, 2021 and 2022, provided that Mr. Aston remains an employee of the Company on the applicable vesting date.

In the fourth quarter of 2019, the Company entered into an amended and restated supplemental executive retirement plan agreement (a "SERP"), an amended and restated employment agreement, and a change-in-control agreement with Mr. Littreal, and an amended and restated SERP with Mr. Schwartz. See "Named Executive Officers Compensation – Supplemental Executive Retirement Plan" and "Named Executive Officers Compensation – Employment Agreements and Change-in-Control Agreements."

Incentive Awards Granted in 2019 for 2018 Performance. Although the Company's financial and operational performance was strong for 2018, the Compensation Committee adjusted the incentive award from the maximum incentive opportunity level of 40% of base salary to 36.4% of base salary. The reason for the adjustment, which was made based on management's recommendation, was due to the Company not fully achieving certain internal financial performance targets.

The Compensation Committee determined that 83% of the incentive award would consist of long-term performance-based restricted stock that vests over a three-year period and the remainder would be paid in cash. The performance-based stock awards were granted in February 2019 under the Company's shareholder-approved stock incentive plan and consist of three equal tranches, each of which has a performance-based vesting component that requires the Company to reach a targeted annual return on average assets of 1.10% for the years ended December 31, 2019, 2020, and 2021.

Based on the Company's annual return on average assets for 2019 of 1.19%, which exceeded the performance target, the first tranche of the performance-based awards vested.

Name	Maximum Opportunity as a Percentage of Base Salary	Maximum Award	Actual Cash Award	Long-Term Equity Incentive Award (1)	Total Actual Award (2)
G. Robert Aston, Jr.	40%	$ 390,000	$ 60,333	$ 294,567	$ 354,900
J. Morgan Davis	40%	$ 320,000	$ 49,504	$ 241,696	$ 291,200
William B. Littreal	40%	$ 208,000	$ 32,178	$ 157,102	$ 189,280
Brad E. Schwartz	40%	$ 249,600	$ 38,613	$ 188,523	$ 227,136

(1) The restricted stock awards consist of three equal tranches, each of which has a performance-based vesting component that requires the Company to reach a targeted annual return on average assets of 1.10% or greater for the years ended December 31, 2019, 2020 and 2021.
(2) Represents 36.4% of officer's base salary.

Other Aspects of Our Executive Compensation Programs

Stock Ownership Guidelines. The Company's stock ownership guidelines call for the NEOs to own equity representing a multiple of their salary and to retain this equity throughout their tenure with the Company. The specific ownership guidelines are:

- Executive Chairman – three times base salary;
- President and Chief Executive Officer – three times base salary; and
- Other NEOs – one times base salary.

All the NEOs exceeded their required ownership levels in 2019.

Clawback of Incentive-Based Compensation. The Board of Directors believes that it is in the best interests of the Company and its shareholders 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 or correct a material miscalculation of a financial measure used to determine the amount or vesting of incentive compensation. The policy also allows for the recovery of incentive-based compensation if the misconduct of an executive officer causes serious reputational harm to the Company.

In the event of a restatement or material miscalculation of a financial measure, 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: (i) accounting principles using the Company's financial statements and any measures derived wholly or in part from such measures; (ii) stock price; or (iii) total shareholder 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 or corrected financial measure, as the case may be, during the three completed fiscal years preceding the date on which the Board of Directors determines an accounting restatement is required to be filed or that a material miscalculation of any financial performance measure used to determine the amount or vesting of incentive compensation occurred. The policy applies to each executive officer of the Company, regardless of whether the individual was responsible for the accounting restatement or miscalculation of any financial performance measure. The policy also applies to an employee who the Board determines was directly responsible for such restatement or miscalculation.

If the Board of Directors determines that an executive officer has engaged in misconduct that causes, or is reasonably likely to cause, serious reputational harm to the Company or any client or former client of the Company, the Company may recover any incentive-based compensation received by the executive officer during the three completed fiscal years preceding such determination.

Anti-Hedging Policy. Directors and executive officers are prohibited from engaging in hedging transactions designed to hedge or offset any potential decrease in the market value of the Company's common stock. The policy also prohibits directors and executive officers from engaging in short sale transactions in the Company's common stock.

Compensation Programs that Affect Risk Management. The Company uses incentive compensation plans for a large number of its employees in addition to our executive officers. The Company has business unit incentive plans that 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.

Benefits. During 2019, the Company maintained various employee benefit plans that constitute a portion of the total compensation package available to NEOs and all eligible employees of the Company. These plans consist of the following:

- 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 stock incentive plan provides for the grant of stock options and stock awards, including restricted stock awards and restricted stock units. The 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, requires a minimum one-year vesting period for awards granted under the plan, prohibits the repricing of stock options, and prohibits share recycling.

The Compensation Committee administers the plan, and each member of the committee 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 will remain in effect until March 2027.

Other than the performance-based and service-based restricted stock awards described above, there were no stock-based awards granted to our NEOs during 2019.

- <u>401(k) Plan</u>. 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, and the Company may make a discretionary match of the employees' contributions up to 6% of their salary. The Company may also make an additional discretionary contribution. Employer contributions, if any, vest 20% after each year of service, until fully vested after five years of service. In 2019, the Company matched employee contributions up to 3.0% of their salary. There were no additional discretionary contributions in 2019.

- <u>Supplemental Executive Retirement Plan</u>. 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 Compensation Committee.

  The SERP agreements with the officers generally provide that upon the later of separation of service or the attainment of retirement age, usually at age 65, the participating officer will be entitled to receive a retirement benefit equal to either (i) a designated percentage, ranging from 30% to 50% of the officer's designated base salary depending on the level of seniority, with an annual 4% increase until retirement, or (ii) a fixed targeted benefit amount. The retirement benefit is payable over a 10-year, 15-year, or 20-year period, beginning upon the later of separation of service or the 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.

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

- <u>Nonqualified Deferred Compensation</u>. The NEOs, 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. 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 2019.

- Health and Welfare Plans. The NEOs are eligible to participate in Company-sponsored benefit plans on the same terms and conditions as those generally provided to other 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 agreements, the Company also provides post-retirement benefits other than pensions for Messrs. Aston and Davis. These post-retirement 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.

Tax Deductibility of Compensation. The Compensation Committee annually reviews and considers the deductibility under the Internal Revenue Code of 1986 of the compensation paid to our executive officers, which includes each of the NEOs. However, under the Tax Cuts and Jobs Act of 2017, the exemption for qualifying performance-based compensation was repealed for taxable years beginning after December 31, 2017. As a result, compensation paid to our executive officers (on or after January 1, 2018) in excess of $1 million may not be deductible for tax purposes unless it qualifies for certain transition relief. While the Company will monitor guidance and developments in this area, the Compensation Committee believes that its primary responsibility is to provide a compensation program that attracts, retains and rewards the executive talent necessary for our success. Consequently, the Compensation Committee may pay or provide, and has paid or provided, compensation that is not tax deductible or is otherwise limited as to tax deductibility.

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.	2019	$1,000,000	—	$1,794,606	—	$ 531,927	$ 62,877	$ 3,389,410
Executive Chairman	2018	$ 975,000	—	$ 155,997	$ 60,333	$ 934,411	$ 222,787	$ 2,348,528
	2017	$ 975,000	—	$ 151,997	$ 234,000	—	$ 58,816	$ 1,419,813
J. Morgan Davis	2019	$ 825,000	—	$ 241,712	—	$ 1,194,553	$ 60,983	$ 2,322,248
President/CEO	2018	$ 800,000	—	$ 628,009	$ 49,504	$ 507,929	$ 104,827	$ 2,090,269
	2017	$ 762,500	—	$ 120,001	$ 192,000	$ 716,227	$ 43,701	$ 1,834,429
William B. Littreal	2019	$ 532,500	—	$ 157,117	—	$ 377,622	$ 35,760	$ 1,102,999
Senior Executive Vice	2018	$ 515,667	—	$ 579,054	$ 32,178	$ 27,832	$ 39,435	$ 1,194,166
President/CFO	2017	$ 479,750	—	$ 76,015	$ 118,560	$ 79,843	$ 21,687	$ 775,855
Brad E. Schwartz	2019	$ 637,000	—	$ 188,546	—	$ 490,640	$ 32,500	$ 1,348,686
Senior Executive Vice	2018	$ 624,000	—	$ 349,845	$ 38,613	$ 129,271	$ 48,349	$ 1,190,078
President/COO	2017	$ 606,000	—	$ 95,988	$ 149,760	$ 193,922	$ 36,066	$ 1,081,736
William T. Morrison	2019	$ 400,000	—	—	$ 1,259,283	$ 182,971	$ 25,454	$ 1,867,708
Chairman/CEO	2018	$ 400,000	—	—	$ 1,005,245	$ 83,243	$ 28,627	$ 1,517,115
TowneBank Mortgage	2017	$ 400,000	—	—	$ 1,059,685	$ 129,890	$ 30,352	$ 1,619,927

(1) Amounts reflect the aggregate grant date fair value of stock awards for 2019 computed in accordance with FASB ASC Topic 718. The assumptions made in the valuation of the restricted stock awards are set forth in note 14 of the Notes to Consolidated Financial Statements in Exhibit 13 to the Annual Report on Form 10-K for the year ended December 31, 2019.

(2) Consists of cash incentive compensation paid to the officers as described under "Compensation Discussion and Analysis" beginning on page 21, other than to Mr. Morrison, who earned such compensation pursuant to the terms of his employment agreements with the Company. The compensation under 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 37). The NEOs, other than Mr. Morrison, did not receive any incentive compensation relating to 2019 performance. Although the Company improved its financial performance over 2018, the Company did not fully achieve certain internal financial performance targets. Based on management's recommendation, the Compensation Committee exercised its discretion and determined that the Company's financial performance in 2019 did not support the payment of any incentive compensation to the NEOs and the other members of the Corporate Management Group.

(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 and Mr. Schwartz's amounts, which consist of annual payments for 10 years under their Monarch SERPs, and annual payments for 15 years under their TowneBank SERPs, that, when combined, result in an equal amount being paid for each year of the 15-year payment 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 2019, 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, $6,842; Mr. Davis, $4,772; Mr. Littreal, $14,438; Mr. Schwartz, $6,221; and Mr. Morrison, $3,209; (iii) Company-paid travel for Mr. Davis, $18,490; Mr. Schwartz, $5,355; and Mr. Morrison, $4,289; and (iv) bank owned life insurance for Mr. Aston, $25,700. Each Named Executive Officer is responsible for paying income tax on the amounts other than with respect to plan contributions and insurance premiums.

Grants of Plan-Based Awards

The Company's stock incentive plan provides for the grant of both incentive and nonqualified stock options and stock awards, including restricted stock and restricted stock units, to executives and key employees of the Company. 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, 2019.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards (2)			Estimated Future Payouts Under Equity Incentive Plan Awards (3)				
Name	Grant Date	Actual Cash Payout (1)	Threshold	Target	Maximum	Threshold	Target	Maximum	All Other Stock Awards: Number of Shares of Stock or Units	Grant Date Fair Value of Stock and Option Awards (4)
G. Robert Aston, Jr.	2/22/19	—	—	—	—	—	—	—	10,395	$ 294,594
	3/26/19	—	—	—	—	—	—	—	30,230	$ 750,006
	3/26/19	—	—	—	—	15,115	30,230	45,345	—	$ 750,006
	N/A	—	$ 360,000	$ 400,000	$ 440,000	—	—	—	—	—
J. Morgan Davis	2/22/19	—	—	—	—	—	—	—	8,529	$ 241,712
	N/A	—	$ 306,000	$ 340,000	$ 374,000	—	—	—	—	—
William B. Littreal	2/22/19	—	—	—	—	—	—	—	5,544	$ 157,117
	N/A	—	$ 196,200	$ 218,000	$ 239,800	—	—	—	—	—
Brad E. Schwartz	2/22/19	—	—	—	—	—	—	—	6,653	$ 188,546
	N/A	—	$ 234,000	$ 260,000	$ 286,000	—	—	—	—	—
William T. Morrison	—	$1,259,283	—	N/A	N/A	—	—	—	—	—

(1) Actual amount paid to Mr. Morrison in 2020 for the 2019 incentive is also reflected in the Summary Compensation Table under the Non-Equity Incentive Compensation column. See that table and related footnote (2) for more information about incentive compensation relating to 2019 performance.
(2) Represents threshold, target and maximum incentive amounts established for company performance in 2019.
(3) Represents threshold, target and maximum number of shares that may vest under the equity incentive award of performance-based restricted stock.
(4) Amounts reflect the aggregate grant date fair value of stock awards for 2019 computed in accordance with FASB ASC Topic 718. The assumptions made in the valuation of the restricted stock awards are set forth in note 14 of the Notes to Consolidated Financial Statements in Exhibit 13 to the Annual Report on Form 10-K for the year ended December 31, 2019. The performance-based awards in the above table assume the probable outcome of performance conditions is equal to the target potential value of the awards.

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, 2019.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					**Stock Awards**			
Name	**Number of Securities Underlying Unexercised Options Exercisable**	**Number of Securities Underlying Unexercised Options Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned 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)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (1)**
G. Robert Aston, Jr.	—	—	—	—	—	11,594 (2)	$ 322,545	—	—
	—	—	—	—	—	1,542 (3)	$ 42,898	—	—
	—	—	—	—	—	1,766 (4)	$ 49,130	1,765 (4)	$ 49,102
	—	—	—	—	—	3,465 (5)	$ 96,396	6,930 (5)	$ 192,793
	—	—	—	—	—	30,230 (6)	$ 840,998	30,230 (7)	$ 840,998
J. Morgan Davis	—	—	—	—	—	18,826 (6)	$ 523,739	—	—
	—	—	—	—	—	1,217 (3)	$ 33,857	—	—
	—	—	—	—	—	1,449 (4)	$ 40,311	1,448 (4)	$ 40,283
	—	—	—	—	—	2,843 (5)	$ 79,092	5,686 (5)	$ 158,185
William B. Littreal	—	5,150	—	$15.00	04/02/2021	3,332 (2)	$ 92,696	—	—
	—	—	—	—	—	771 (3)	$ 21,449	—	—
	—	—	—	—	—	895 (4)	$ 24,899	894 (4)	$ 24,871
	—	—	—	—	—	4,526 (2)	$ 125,913	—	—
	—	—	—	—	—	6,791 (2)	$ 188,926	—	—
	—	—	—	—	—	9,413 (2)	$ 261,870	—	—
	—	—	—	—	—	1,848 (5)	$ 51,411	3,696 (5)	$ 102,823
Brad E. Schwartz	—	—	—	—	—	5,905 (2)	$ 164,277	—	—
	—	—	—	—	—	974 (3)	$ 27,097	—	—
	—	—	—	—	—	1,130 (4)	$ 31,437	1,130 (4)	$ 31,437
	—	—	—	—	—	9,413 (2)	$ 261,870	—	—
	—	—	—	—	—	2,218 (5)	$ 61,705	4,435 (5)	$ 123,382
William T. Morrison	—	—	—	—	—	4,920 (2)	$ 136,874	—	—

(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, 2019 ($27.82 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.

(3) The restricted stock awards consist of three equal tranches, each of which has a performance-based vesting component that requires the Company to reach a targeted annual return on average assets of 0.90% or greater for the years ended December 31, 2017, 2018, and 2019. The Company achieved the performance metric for 2017, 2018 and 2019 and the first and second tranches vested in 2018 and 2019, respectively. The third tranche had not yet vested at December 31, 2019.

(4) The restricted stock awards consist of three equal tranches, each of which has a performance-based vesting component that requires the Company to reach a targeted annual return on average assets of 1.00% or greater for the years ended December 31, 2018, 2019, and 2020. The Company achieved the performance metric for 2018 and 2019 and the first tranche vested in 2019. The second tranche had not yet vested at December 31, 2019.

(5) The restricted stock awards consist of three equal tranches, each of which has a performance-based vesting component that requires the Company to reach a targeted annual return on average assets of 1.10% or greater for the years ended December 31, 2019, 2020 and 2021. The Company achieved the performance metric for 2019. The first tranche had not yet vested at December 31, 2019.

(6) The restricted stock award vests at the rate of one-third/year 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.

(7) The restricted stock award vests in 2022 based on the Company's achievement of a cumulative core (non-GAAP) earnings per share target for the 2019-2021 fiscal years.

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 2019.

	Option Awards		Stock Awards	
Name	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.	—	—	9,105	$ 251,141
J. Morgan Davis	—	—	2,667	$ 73,107
William B. Littreal	2,575	$ 33,548 (2)	4,701	$ 197,748
Brad E. Schwartz	—	—	5,057	$ 138,356
William T. Morrison	—	—	2,461	$ 67,259

(1) Value represents the market value of our common stock on the vesting date (closing market price).
(2) Value represents the difference between the market value of our common stock on the date of exercise and the option exercise 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, 2019, 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 generally 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. Messrs. Schwartz's and Morrison's SERP agreements are payable as an annual annuity for a 15-year period and their Monarch SERP agreements that were assumed by TowneBank in conjunction with the Monarch merger are payable as an annual annuity for a 10-year period.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During Last Fiscal Year
G. Robert Aston, Jr.	SERP	11.09	$ 7,655,100	—
J. Morgan Davis	SERP	11.09	$ 5,254,367	—
William B. Littreal	SERP	7.38	$ 663,706	—
Brad E. Schwartz	SERP	3.52	$ 821,422	—
	SERP (1)	13.92	$ 210,600	—
	SERP (1)	9.00	$ 491,401	—
William T. Morrison	SERP	3.52	$ 395,188	—
	SERP (1)	12.34	$ 210,660	—
	SERP (1)	9.00	$ 315,991	—

(1) Plans were assumed in the Monarch merger.

In the fourth quarter of 2019, the Company entered into amended and restated SERPs with Mr. Littreal and Mr. Schwartz that were made effective as of January 1, 2019.

Mr. Littreal's amended and restated SERP superseded and replaced his SERP that was originally effective on August 14, 2012. The amended and restated SERP increased the amount of his annual retirement benefit from 40% to 50% of his base salary as of the end of 2018 ($520,000), with annual 4% increases that began on December 31, 2019 and will continue until age 65. The amended and restated SERP also clarified ambiguities in his original SERP and made certain provisions consistent with provisions in the Company's other SERPs. Mr. Littreal is currently 60% vested in his SERP benefit. The benefit will continue to vest as contemplated by his original SERP until he is 100% vested on December 31, 2025.

Mr. Schwartz's amended and restated SERP superseded and replaced his SERP that was originally effective on June 24, 2016. The amended and restated SERP increased the amount of his annual retirement benefit from 40% to 50% of his 2016 base salary ($600,000), with annual 4% increases that began on December 31, 2016 and will continue until age 65. Like his original SERP, the first 10 years of SERP payments under Mr. Schwartz's amended and restated SERP will be reduced by the annual benefit payable under Mr. Schwartz's SERP assumed by the Company in connection with its acquisition of Monarch ($100,000), which is fully vested. Mr. Schwartz's amended and restated SERP also clarified ambiguities in his original SERP and made certain provisions consistent with provisions in the Company's other SERPs. Mr. Schwartz is currently 30% vested in his Company SERP benefit. The benefit will continue to vest as contemplated by his original SERP until he is 100% vested on September 9, 2027.

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 2019. 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 33.

Name	Executive Contributions in Last Fiscal Year (1)	Registrant Contributions in Last Fiscal Year	Aggregate Earnings in Last Fiscal Year	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year-End
G. Robert Aston, Jr.	—	—	$ 30,552	—	$ 946,201
J. Morgan Davis	—	—	$ 23,605	—	$ 731,040
William B. Littreal	—	—	—	—	—
Brad E. Schwartz	—	—	—	—	—
William T. Morrison	$ 40,000	—	$ 3,316	—	$ 124,387

(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. The employment agreements for the officers, excluding 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 each 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 each 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.

In the fourth quarter of 2019, the Company entered into an amended and restated employment agreement with Mr. Littreal that is substantially similar to his prior agreement and to the agreements of the other Named Executive Officers, other than Mr. Morrison. The new agreement increased Mr. Littreal's minimum salary to $545,000.

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, automatically renews for two-year terms unless notice of nonrenewal is given by the Company no later than 12 months prior to the expiration of the then current term. The agreement was most recently renewed on December 31, 2019 for a term that will expire on December 31, 2021. Under the agreement, Mr. Morrison receives an annual 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 a fixed percentage of the annual pre-tax profit contribution (as defined in the agreement) of TowneBank Mortgage. 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 Mr. Morrison 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 change-in-control agreements with each of its Named Executive Officers. Mr. Littreal's change-in-control agreement was entered into in the fourth quarter of 2019 and is substantially similar to the Company's agreements with its other Named Executive Officers. The change-in-control agreements become effective upon a change in control of the Company and 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 must continue to employ each executive for a term of three years after the date of a change in control. During such period, the executive is entitled to retain commensurate authority, responsibilities, and compensation benefits. The agreements require the Company or its successor to pay the executive a base salary at least equal to the executive's base salary for the immediate prior year, and a bonus at least equal to the annual bonus 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.

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 occurred on December 31, 2019.

Potential Payments Upon Termination or Change in Control

Name	Benefit	Before Change in Control Termination Without Cause or for Good Reason	After Change in Control Termination Without Cause or for Good Reason	Death Benefit	Disability Benefit
G. Robert Aston, Jr.	Post-Termination Compensation	$ 3,000,000	$ 4,051,151	$ —	$ 83,333
	Early Vesting of Restricted Stock	—	2,434,881	2,434,881	2,434,881
	Health Care Benefits Continuation	34,106	34,106	—	11,369
	Retirement Benefit (1)	9,869,488	9,869,488	9,869,488	9,869,488
	Total Value	$ 12,903,594	$ 16,389,626	$ 12,304,369	$ 12,399,071
J. Morgan Davis	Post-Termination Compensation	$ 2,550,000	$ 3,412,188	$ —	$ 70,833
	Early Vesting of Restricted Stock	—	351,756	351,756	351,756
	Health Care Benefits Continuation	29,161	29,161	—	9,720
	Retirement Benefit (1)	6,489,600	6,489,600	6,489,600	6,489,600
	Total Value	$ 9,068,761	$ 10,282,705	$ 6,841,356	$ 6,921,909
William B. Littreal	Post-Termination Compensation	$ 1,635,000	$ 2,195,497	$ —	$ 45,417
	Early Vesting of Restricted Stock	—	444,086	444,086	444,086
	Health Care Benefits Continuation	35,726	35,726	—	11,909
	Retirement Benefit (1)	4,345,976	4,345,976	4,345,976	2,434,006
	Total Value	$ 6,016,702	$ 7,021,285	$ 4,790,062	$ 2,935,418
Brad E. Schwartz	Post-Termination Compensation	$ 1,300,000	$ 2,622,637	$ 325,000	$ 54,167
	Early Vesting of Restricted Stock	—	439,347	439,347	439,347
	Health Care Benefits Continuation	22,637	33,955	—	11,318
	Retirement Benefit (1)	4,726,088	4,726,088	4,726,088	1,435,378
	Total Value	$ 6,048,725	$ 7,822,027	$ 5,490,435	$ 1,940,210
William T. Morrison	Post-Termination Compensation	$ 800,000	$ 800,000	$ 200,000	$ —
	Early Vesting of Restricted Stock	—	136,902	136,902	136,902
	Health Care Benefits Continuation	14,528	21,792	—	7,264
	Retirement Benefit (1)	2,490,051	2,490,051	2,490,051	842,044
	Total Value	$ 3,304,579	$ 3,448,745	$ 2,826,953	$ 986,210

(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 Messrs. Schwartz's and Morrison's amounts, which consist of annual payments for 10 years under their Monarch SERPs and annual payments for 15 years under their TowneBank SERPs that, when combined, result in an equal amount being paid for each year of the 15-year payment period. Under Messrs. Schwartz's and Morrison's Monarch SERPs, upon early retirement, termination, death or disability, amounts are paid in a single lump sum based on the present value of the payments that would be made following normal retirement.

CEO Pay Ratio. Rules enacted by the Securities and Exchange Commission and adopted by the FDIC require us to disclose the ratio of the annual total compensation of our President and Chief Executive Officer, J. Morgan Davis, to the median annual total compensation of all our employees. For 2019, Mr. Davis' annual total compensation was $2,322,248, and the median employee's annual total compensation was $55,268. Based on these amounts, the ratio of the annual total compensation of Mr. Davis to the median of the annual total compensation of all our employees was approximately 42 to 1.

We believe our compensation programs for both our executive and non-executive level employees must be internally consistent and equitable to motivate our employees to create shareholder value. While the Compensation Committee monitors the relationship between the compensation levels of our executive officers and our non-executive employees, the Compensation Committee does not view this ratio as a meaningful tool in evaluating the appropriateness of the Chief Executive Officer's compensation, either on an internal and external basis.

We completed the following steps to identify the median of the annual total compensation of all our employees and to determine the annual total compensation of our median employee and Chief Executive Officer:

- As of December 31 2019, our employee population consisted of approximately 2,446 employees, including full-time, part-time, temporary, or seasonal employees employed on that date.

- To find the median of the annual total compensation of all our employees (other than our Chief Executive Officer), we used wages from our payroll records as reported to the Internal Revenue Service on Form W-2 for 2019. In making this determination, we annualized the compensation for full-time and part-time permanent employees who were employed on December 31, 2019, but did not work for us the entire year. No full-time equivalent adjustments were made for part-time employees.

- We identified our median employee using this compensation measure and methodology, which was consistently applied to all our employees included in the calculation.

- After identifying the median employee, we added together all of the elements of such employee's compensation for 2019 in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, including the Company's matching contribution under our 401(k) plan. Total compensation for Mr. Davis is the amount reported in the "Total" column of our 2019 Summary Compensation Table on page 33.

Pay ratios that are reported by our peers may not be directly comparable to ours because of differences in the composition of each company's workforce, as well as the assumptions and methodologies used in calculating the pay ratio, as permitted by Securities and Exchange Commission rules.

COMPENSATION OF DIRECTORS

As compensation for their services during 2019, 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 2019, each member of the Board of Directors of the Company received an annual retainer of $35,000. The Vice Chair of the Board of Directors of the Company, the Chair of each TowneBanking Group Board, and each Committee Chair, other than the Audit Committee, received an additional $3,000 retainer fee. Members of the Audit Committee received a $5,000 retainer fee and the Audit Committee Chair received a $10,000 retainer fee. The Lead Director and each member of the TFS division Board, which meets monthly, received an additional $10,000 annual retainer. Board members who are also officers did not receive any additional compensation above their regular compensation for service on the Board or any committee.

2019 Director Compensation

Name	Fees Earned or Paid in Cash	Stock Awards	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
E. Lee Baynor	$ 47,850	—	—	—	$ 47,850
Jeffrey F. Benson	$ 57,325	—	—	—	$ 57,325
Richard S. Bray	$ 67,550	—	—	—	$ 67,550
Thomas C. Broyles	$ 42,775	—	—	—	$ 42,775
Bradford L. Cherry	$ 39,975	—	—	—	$ 39,975
Douglas D. Ellis	$ 47,150	—	—	—	$ 47,150
John W. Failes	$ 59,350	—	—	—	$ 59,350
Andrew S. Fine	$ 44,200	—	—	—	$ 44,200
Howard J. Jung	$ 43,025	—	—	—	$ 43,025
John R. Lawson, II	$ 44,550	—	—	—	$ 44,550
Harry T. Lester	$ 41,100	—	—	—	$ 41,100
W. Ashton Lewis	$ 52,950	—	—	—	$ 52,950
Stephanie J. Marioneaux, M.D.	$ 39,800	—	—	—	$ 39,800
Juan M. Montero, II, M.D.	$ 48,625	—	—	—	$ 48,625
Thomas K. Norment, Jr.	$ 43,400	—	—	—	$ 43,400
Robert M. Oman	$ 40,400	—	—	—	$ 40,400
R.V. Owens, III	$ 40,700	—	—	—	$ 40,700
Elizabeth T. Patterson	$ 45,475	—	—	—	$ 45,475
Elizabeth W. Robertson	$ 60,150	—	—	—	$ 60,150
Dwight C. Schaubach	$ 38,300	—	—	—	$ 38,300
Richard B. Thurmond	$ 38,900	—	—	—	$ 38,900
Richard T. Wheeler, Jr.	$ 55,600	—	—	—	$ 55,600
Alan S. Witt	$ 47,100	—	—	—	$ 47,100
F. Lewis Wood	$ 40,975	—	—	—	$ 40,975

Name	Fees Earned or Paid in Cash	Stock Awards	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Non-NEO Directors Who Are Employees or Former Employees of the Company					
Jacqueline B. Amato	—	—	—	$ 423,652 (1)	$ 423,652
William I. Foster, III	—	$ 69,745 (2)	$ 891,834 (3)	$ 626,524 (4)	$ 1,588,103
Robert C. Hatley	$ 42,625	—	—	$ 634,732 (1)	$ 677,357
R. Scott Morgan	$ 45,200	—	—	$ 124,785 (4)	$ 169,985

(1) For consulting services in 2019, reflects the aggregate amount of (i) cash fees for Ms. Amato, $400,000 and Mr. Hatley, $617,880; (ii) personal usage of automobile for Ms. Amato, $22,264 and Mr. Hatley, $16,852; and (iii) Company-paid travel for Ms. Amato, $1,388. See "Related Party Transactions" beginning on page 43.

(2) Reflects the aggregate grant date fair value of a stock award for 2019 computed in accordance with FASB ASC Topic 718. The assumptions made in the valuation of the restricted stock awards are set forth in note 14 of the Notes to Consolidated Financial Statements in Exhibit 13 to the Annual Report on Form 10-K for the year ended December 31, 2019.

(3) Reflects the change in actuarial present value of Mr. Foster's SERP benefit. The SERP benefit is paid in equal monthly installments over a 15-year period upon attainment of retirement age. Accounting rules require that the expense be recorded over the participant's remaining service period prior to attainment of retirement eligibility.

(4) Reflects the aggregate amount of (i) salary and benefits received for service as an employee of the Company for Mr. Foster, $613,640 (which includes a $120,000 cash retention bonus that is subject to clawback if his employment is terminated prior to January 3, 2022) and Mr. Morgan, $21,773; (ii) personal usage of automobile for Mr. Foster, $7,400; (iii) Company-paid travel for Mr. Foster, $5,485; and (iv) a one-time payment to cover the FICA tax obligation attributable to his SERP for 2018 and prior years for Mr. Morgan, $103,012. See "Related Party Transactions" beginning on page 43.

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 2019, 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 collectability or present other unfavorable features.

All related party transactions that would require disclosure under Item 404(a) of Regulation S-K of the Securities and Exchange Commission are identified and reviewed. 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 are reviewed. Once this review is complete, a list of related party transactions is presented to the Audit Committee. The Audit Committee reviews this list and is given the opportunity to ask questions 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, which is a wholly-owned subsidiary of The Overton Group. Jeffrey F. Benson is a partner and, together with his spouse, has a 21% ownership interest in The Overton Group. Rent expense and other payments related to this lease made by TowneBank for the year ended December 31, 2019 totaled $291,000. The Company also rents space from Pavilion Center Associates, LLC, a company in which Andrew S. Fine is a manager with 1% ownership. In addition, Mr. Fine has an 11% ownership interest in The Runnymede Corporation, which charges management fees to Pavilion Center Associates, LLC. Rent expense related to this lease was $620,000 for the year ended December 31, 2019. The Company also rents space from Pavilion Center II, LLC, which is 31% owned by Pavilion Center Associates, LLC and 69% by The Runnymede Corporation. Rent expense related to this lease was $1,813,000 for the year ended December 31, 2019.

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 25 % of Red Sky and received distributions of partnership earnings of $674,000 during 2019. Red Sky offers travel, medical, and baggage protection insurance for travelers via vacation property management companies.

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 2019, the Company made payments totaling $534,000 to First Team, Inc. and affiliates in connection with the acquisition of certain vehicles. W. Ashton Lewis serves as Treasurer of the Board of First Team, Inc. and has a 37% ownership interest in the company. F. Lewis Wood, who serves as Chairman of the Board of First Team, Inc., also has a 37% ownership interest in the company. In 2019, the Company made payments totaling $573,000 to Cherry Carpets, Inc. in connection with the furnishing of certain facilities. Bradford L. Cherry serves as Chairman of the Board of Cherry Carpets, Inc. and has a 48% ownership interest in the company. In 2019, the Company made payments to W.M. Jordan Company, Inc. in connection with several office construction projects for the Company. Payments made to W.M. Jordan totaled $3,281,000 for the year ended December 31, 2019. John R. Lawson, II has an 80% ownership interest in W.M. Jordan Company, Inc., for which he serves as Executive Chairman.

The Company has an employment agreement with William I. Foster, III, President, Commercial and Real Estate Banking and a director of the Company. The employment agreement is substantially the same as the Company's employment agreements with its Named Executive Officers (other than Mr. Morrison). For his services as an employee in 2019, Mr. Foster received a base salary of $440,000 and a cash retention bonus of $120,000 that is subject to clawback if his employment is terminated prior to January 3, 2022. See "Named Executive Officers Compensation – Employment Agreements and Change-in-Control Agreements" beginning on page 37 and "Compensation of Directors" beginning on page 41.

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. The agreement provides for 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. Upon her retirement, Ms. Amato became Chairman Emeritus, TowneBank Mortgage. See "Compensation of Directors" beginning on page 41.

In connection with the merger of Paragon into the Company, Robert C. Hatley, the former President and Chief Executive Officer of Paragon, was appointed to serve on the Company's Board of Directors. The Company also entered into an employment and consulting agreement, dated April 26, 2017, with Mr. Hatley pursuant to which he agreed to serve as President of TowneBank North Carolina and, thereafter, as a consultant to the Company. The agreement became effective on January 26, 2018, the effective date of the merger, and will continue until January 26, 2023. Mr. Hatley's employment ended in January 2019. Immediately following the end of Mr. Hatley's employment, he began providing services as a special consultant to the Company. He will continue providing these services until the earlier of (i) January 26, 2023 or (ii) the termination of the consulting arrangement by either the Company or Mr. Hatley as described in the agreement.

During the consulting period, Mr. Hatley will provide consulting services as reasonably requested in the nature of customer and community relations, business development, employee relations, and general advice and assistance relating to the Company's customers and employees and the growth and development of the Company's business in North Carolina and surrounding areas. Under the consulting agreement, Mr. Hatley is entitled to receive $20,833.33 per month for the first two years of the consulting period and $8,333.33 per month thereafter. Mr. Hatley will be subject to a covenant not to compete and a covenant not to solicit customers or employees of the Company. These restrictions apply during the longer of (i) two years following the expiration of the employment period, or (ii) the consulting period. See "Compensation of Directors" beginning on page 41.

R. Scott Morgan, a director of the Company, received a base salary of $21,773 for his service as an employee of the Company during 2019. He also received a one-time payment of $103,012 to cover the FICA tax obligation attributable to his SERP for 2018 and prior years. The tax obligation relates to a change the Company made in how it recognizes and pays the FICA tax liability for its SERPs to conform with industry practice. In connection with such change, the Compensation Committee determined it was in the Company's best interests and the most equitable solution for the Company to make one-time payments to SERP participants to help cover the tax obligation. See "Compensation of Directors" beginning on page 41.

C. Ross Morgan, President of the Company's Real Estate Finance Group, is the son of R. Scott Morgan, a director of the Company. In 2019, C. Ross Morgan received total compensation of approximately $217,548, including base salary and incentive bonus payments. Calley Ormsby, Senior Vice President and Regional Operations Manager for TowneBank Mortgage, is the daughter of Jacqueline B. Amato, a director of the Company. In 2019, Ms. Ormsby received total compensation of approximately $260,959, including base salary and incentive bonus payments. Each of these employees participates in Company benefit plans available to all other employees in similar positions. Each is compensated in a manner consistent with the Company's compensation practices applicable to employees with similar qualifications, responsibilities, and contributions to the Company.

AUDIT COMMITTEE REPORT

The Audit 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, 2019, the committee met eleven times. In addition to regularly scheduled meetings, the Audit 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 Committee is an “independent director” as defined by Nasdaq Marketplace Rule 5605(a)(2).

In the performance of its oversight responsibility, the Audit Committee, management and the independent registered public accounting firm reviewed and discussed the results of the internal audit examinations. The Audit 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 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 Committee discussed and reviewed the audited financial statements of the Company as of and for the fiscal year ended December 31, 2019, 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 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, 2019, for filing with the FDIC.

Submitted by the Audit Committee of TowneBank:

Elizabeth W. Robertson, Chair
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 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, 2019 and 2018. All non-audit services were reviewed by the Audit 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 Committee's policy to approve fees for services rendered by the Company's independent auditors only upon a review of such fees.

	2019	2018
Audit Fees (1)	$ 842,450	$ 821,354
Audit-related Fees (2)	19,000	18,900
Tax Fees	—	—
All Other Fees	—	—
Total	$ 861,450	$ 840,254

(1) Audit fees represent professional services rendered in connection with the audit of the Company's annual financial statements and reviews of the interim 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, 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.

Pre-Approval Policy

Under the Audit Committee's pre-approval policy, the Audit 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. For other services provided by the independent auditor that are not specifically excluded, pre-approval by the Audit Committee on an individual project basis is required. Approval for such services may be requested at the next Audit Committee meeting. If earlier approval is necessary, it may be obtained in accordance with the Audit Committee's delegation to the Chair of the Audit Committee, in which case the decision must be presented to the full Audit Committee at its next meeting. For any financial or other consulting or advisory services to be provided by an outside firm, other than the independent auditor, and which services are within the purview of the Audit Committee, pre-approval by the Audit Committee on an individual project basis is required if the estimated fees for such project exceed $25,000. 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 Committee.

RATIFICATION OF THE SELECTION OF INDEPENDENT AUDITORS — PROPOSAL TWO

The Board of Directors, upon recommendation of the Audit Committee, has appointed Dixon Hughes Goodman LLP as the Company's independent auditors for the year ending December 31, 2020, and has further directed that management submit the selection of independent auditors for ratification by the shareholders at the Annual Meeting.

Representatives of the firm are expected to participate in the virtual 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, 2020.

ADVISORY VOTE ON TOWNEBANK'S EXECUTIVE COMPENSATION — PROPOSAL THREE

Shareholders 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 this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives shareholders the opportunity to endorse or not endorse TowneBank's executive pay program through the following resolution:

> *"Resolved, that TowneBank's shareholders 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 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 its market areas. 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 a locally-focused bank with approximately $12 billion in total assets, making it one of the top performing banks in the United States. Additionally, the Company enjoys a stellar reputation based on honesty, integrity, and doing the right thing.
- TowneBank recorded its 20th 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 shareholders 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.

SHAREHOLDER PROPOSALS

The Company's expects its 2021 Annual Meeting of Shareholders will be held on May 19, 2021. In accordance with the provisions of Rule 14a-8(e) of the Securities Exchange Act of 1934, because the date of the 2021 Annual Meeting of Shareholders is expected to be more than 30 days from the anniversary date of the 2020 Annual Meeting of Shareholders, the deadline for submitting proposals to be presented at the 2021 Annual Meeting of Shareholders will be a reasonable time before the Company begins to print and mail its proxy materials for such meeting. Accordingly, to be considered for inclusion in the Company's proxy statement relating to the 2021 Annual Meeting of Shareholders, shareholder proposals must comply with the Company's bylaws and be received no later than January 15, 2021, which the Company has determined to be a reasonable time before it expects to print and mail its proxy materials. To be considered for presentation at such meeting, although not included in the Company's proxy statement, a shareholder 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 19, 2021. All shareholder proposals should be marked to the attention of Corporate Secretary, TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23435.

SHAREHOLDERS 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 2019 Annual Report and this proxy statement to multiple shareholders 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 shareholder. Shareholders 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 2019 Annual Report and this proxy statement are available on the "Investor Relations" page of the Company's website at www.townebank.com under the heading "*Documents*." The Company will deliver promptly upon written or oral request a separate copy of the 2019 Annual Report and this proxy statement to any shareholder at a shared address to which a single copy of either of those documents was delivered. To receive a separate copy of the 2019 Annual Report or this proxy statement, shareholders should contact the Company at:

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

If you are a shareholder and share an address and last name with one or more other shareholders and would like to revoke your householding consent and receive a separate copy of the Company's 2019 Annual Report or proxy statement in the future, please contact our transfer agent, Computershare Trust Company, N.A., at (800) 368-5948 or by email 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.

SHAREHOLDER COMMUNICATIONS

Shareholders 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 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.proxyvote.com.

ANNUAL REPORT ON FORM 10-K

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, excluding exhibits, as filed with the FDIC, is available on the "Investor Relations" page of the Company's website at www.townebank.com under the heading "*Documents*." Upon request by any shareholder to the following address, a copy of the 2019 Form 10-K will be furnished without charge:

Mr. William B. Littreal
Senior Executive Vice President and Chief Financial Officer
TowneBank
6001 Harbour View Boulevard
Suffolk, Virginia 23435
(757) 638-6700

TOWNEBANK

TOWNEBANK
6001 HARBOUR VIEW BLVD.
SUFFOLK, VA 23435
ATTN: CORPORATE SECRETARY

VOTE BY INTERNET
Before The Meeting - Go to **www.proxyvote.com**

Use the Internet to transmit your voting instructions and for electronic delivery of information. Vote by 11:59 p.m. Eastern Time on July 14, 2020 for shares held directly and by 11:59 p.m. Eastern Time on July 12, 2020 for shares held in a Plan. 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 voting instruction form.

During The Meeting - Go to **www.virtualshareholdermeeting.com/TOWN2020**

You may attend the meeting via the Internet and vote during the meeting. Have the information that is printed in the box marked by the arrow available and follow the instructions.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions. Vote by 11:59 p.m. Eastern Time on July 14, 2020 for shares held directly and by 11:59 p.m. Eastern Time on July 12, 2020 for shares held in a Plan. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

D18622-P41546

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

TOWNEBANK

The Board of Directors recommends you vote FOR the following:

	For All	Withhold All	For All Except
1. Election of eleven (11) directors to serve for a three-year term	☐	☐	☐

To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.

____

Nominees:

01) Jeffrey F. Benson
02) Douglas D. Ellis
03) John W. Failes
04) William I. Foster, III
05) Robert C. Hatley
06) Howard J. Jung
07) Stephanie Marioneaux, MD
08) Juan M. Montero, II, MD
09) Thomas K. Norment, Jr.
10) Brad E. Schwartz
11) Alan S. Witt

The Board of Directors recommends you vote FOR proposals 2 and 3.

	For	Against	Abstain
2. To ratify the selection of Dixon Hughes Goodman LLP, certified public accountants, as independent auditors of TowneBank for 2020.	☐	☐	☐
3. To approve, on a non-binding advisory basis, TowneBank's named executive officer compensation.	☐	☐	☐

NOTE: 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.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

2020 Annual Meeting of TowneBank Shareholders

July 15, 2020, 11:30 a.m. Eastern Time

The Annual Meeting will be held via live webcast at:
www.virtualshareholdermeeting.com/TOWN2020

- There will be no physical meeting this year.
- This year's meeting will be conducted **solely online via a live webcast.** Meeting access is easy. Just follow the instructions enclosed in this package.
- Please **RETAIN** the top portion of this proxy card for reference, as it contains your unique **'Control Number.'**
- When you **join the webcast on July 15, 2020 at 11:30 a.m.,** please enter your Control Number when prompted. (If you misplace your control number, you may still join as a guest.)
- Remember to vote your shares as soon as possible!

We thank you for your loyal support, and look forward to the future when we can return to our normal shareholder meeting format.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:
The Annual Report, Notice & Proxy Statement, and Chairman's Report are available at www.proxyvote.com

D18623-P41546

TOWNEBANK
Annual Meeting of Shareholders
July 15, 2020 11:30 a.m.
This proxy is solicited by 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 indicated on the matters set forth on the reverse hereof and in their discretion upon such other business as may properly come before the meeting, all the shares of common stock of TowneBank held of record by the undersigned at the close of business on May 15, 2020, at the Annual Meeting of Shareholders to be held July 15, 2020, or any adjournments and postponements thereof.

This proxy, when properly executed, will be voted in the manner directed on the reverse hereof by the undersigned shareholder. If no direction is made, this proxy will be voted "FOR" all nominees listed in Proposal 1 and "FOR" Proposals 2 and 3. The proxies, in their discretion, are further authorized to vote upon such other business as may properly come before the 2020 Annual Meeting of Shareholders or any adjournments or postponements thereof.

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 July 14, 2020, 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.

Mark, sign and date your proxy card and return it in the postage-paid envelope. If you vote by phone or vote using the Internet, please do not mail your proxy.

Continued and to be signed on reverse side