



Serving Others. Enriching Lives.



TOWNEBANK SHAREHOLDER MEETING

Remember to vote your shares as soon as possible!



Forbes recognizes TowneBank as a Top 50 Best Bank in America.



Dear Friends,

2019 was a truly memorable year for our Towne Family, as the year began with Forbes naming Towne as one of the Best Banks in America.

In the spring, over 1,000 of our loyal, dedicated shareholders gathered for our annual Shareholders meeting to celebrate the 20th anniversary of the founding of TowneBank.

The year concluded with your company achieving record earnings for a 20th consecutive year with net income climbing to \$138.8 million. Another milestone was achieved with the total cash returned to our shareholders of over \$49 million. In a symbolic sense, the dividends paid during our 20th anniversary year virtually equaled the entire amount of capital invested by our 4,000 founding shareholders twenty years ago.

Our 20th anniversary year was also the beginning of what will likely be a two-year transition as we reimagine and reengineer our operational infrastructure to support a future of innovation and enhanced regulatory requirements.

An old adage says “success breeds success” or in sports vernacular, “winning breeds winning.” As a company founded and focused on winning attitudes, passion, and the relentless pursuit of serving others and enriching lives, Towne has risen above the competition to the pinnacle of community banking in our hometown region and beyond.

From a regulatory perspective, Towne reached the “community bank summit” as our bank’s assets crossed the regulatory threshold of \$10 billion.

Accordingly, bank regulations and prudential standards, including the Dodd-Frank Act passed by Congress in 2010, tightened and began to define a “taller new mountain” for your bank to climb.

At the base of this new regulatory mountain was a \$1.9 million loss of revenue due to a federally mandated cap on debit card revenues that negatively impacted earnings for the second half of 2019 and into the future.

Without question, the bank stands to significantly benefit from much of the new regulatory guidance, especially as it relates to the further development and enhancement of the company’s governance and risk management infrastructure.

However, there is a significant cost burden associated with these new initiatives due to the need for additional staff in risk management, compliance, internal audit, accounting, technology, and other operational areas. Additionally, there has been a significant investment in advanced software, consultant fees, and other new tools necessary to carry out these functions and tasks.

Importantly, you can rest assured that your Towne Family will attack this new and ever-changing environment with the same winning attitude, passion, and commitment to the values that have made Towne the company it is today.

Deposit Market Share

BANK	DEPOSITS	MARKET SHARE
TowneBank	\$6.29 billion	23.92%
Wells Fargo	\$5.03 billion	19.13%
SunTrust	\$3.95 billion	15.02%
BB&T	\$3.27 billion	12.44%
Bank of America	\$3.21 billion	12.21%

*Source: FDIC Market Share, June 30, 2019.
Virginia Beach-Norfolk-Newport News, VA-NC MSA*

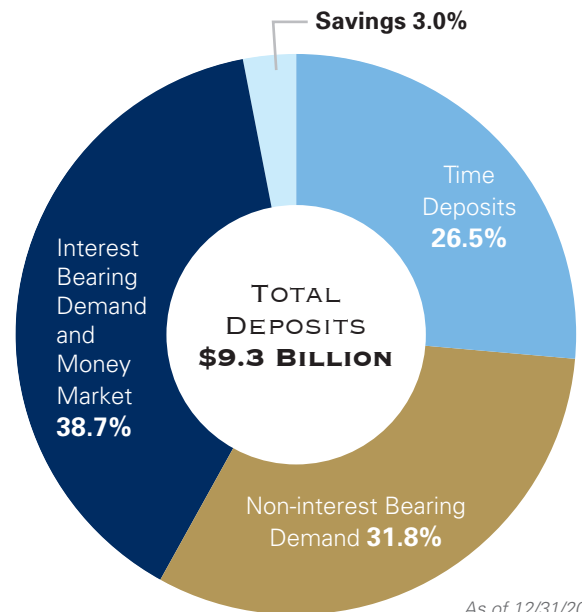
2019 Financial Performance

As you review the Chairman's Report for 2019 and the important information in the accompanying Annual Report and Proxy, you can take pride in the accomplishments of your bank over the past twenty years and the contribution you have made in making our communities a better place to live, work, and play.

Balance Sheet Growth

At year end 2019, bank assets reached a historical high of \$11.9 billion, a growth rate of 7%. The bank's total loan portfolio expanded 5% to \$8.4 million with our North Carolina teammates leading the way with a stellar 14.5% growth rate for the year.

The bank achieved a robust \$900 million in deposit growth reflecting a 10.8% increase. With Hampton Roads and North Carolina leading the way, growth exceeded \$439 million and \$453 million respectively from the two markets. Of note, our Raleigh bankers achieved a remarkable 26.8% growth rate in one of the most competitive banking markets in the country. Across the bank's footprint, non-interest bearing deposits grew an impressive 12.5% with total non-interest bearing deposits representing 31.8% of total deposits.



Towne's Newest Community Presidents



Alexis Swann
Peninsula/Williamsburg President



Matt Clarke
Chesterfield President



Scott Baker
Triad President



Greg Steele
Greenville President

Consistent Earnings Growth

20 Consecutive Years of Increased Earnings

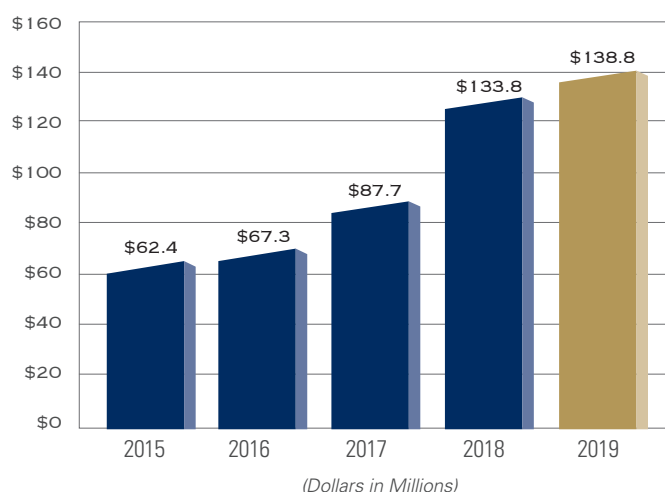
28.4% compounded annual growth rate for the past 20 years



Record Earnings

From the \$1.2 million your bank earned in its first full year of operation in 2000, to the \$138.8 million of earnings in 2019, consistency of long-term financial performance has been the hallmark of the company's success. With diluted earnings per share reaching \$1.92 per share, earnings per share have increased 57% over the past five years. For 2019, the return on average assets was 1.19% resulting in a 8.69% return on average equity. Return on average tangible assets was 1.33% while return on average tangible equity was 13.6%.

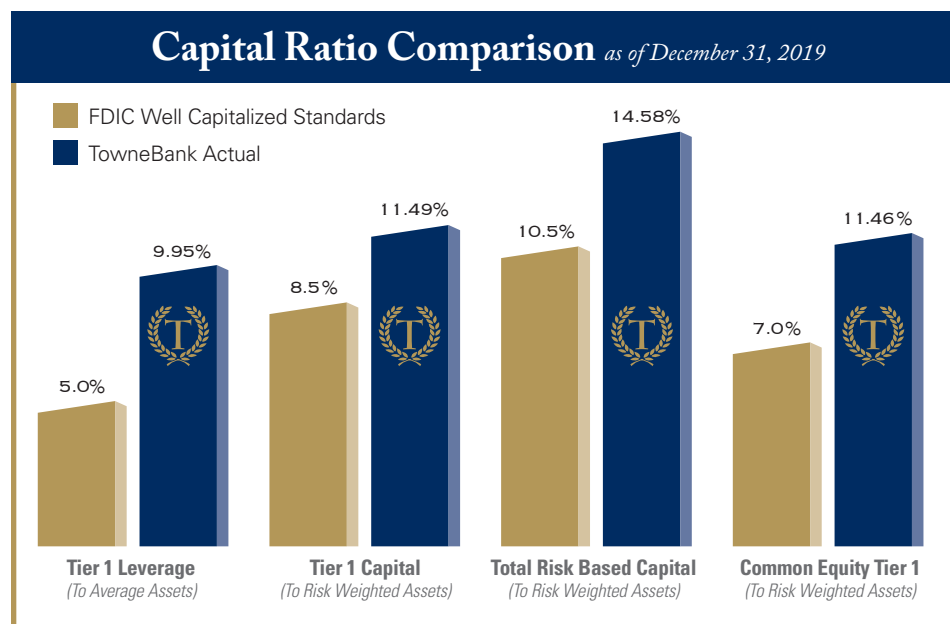
TowneBank Net Income



Credit Quality

Emblematic of Towne's inherently strong credit culture, credit losses for 2019 were a nominal 0.04% while non-performing loans represented only 0.21% of period ending loans. Non-performing assets inclusive of foreclosed properties and former bank premises held for sale represented a modest 0.27% of period end assets.

Capital Strength



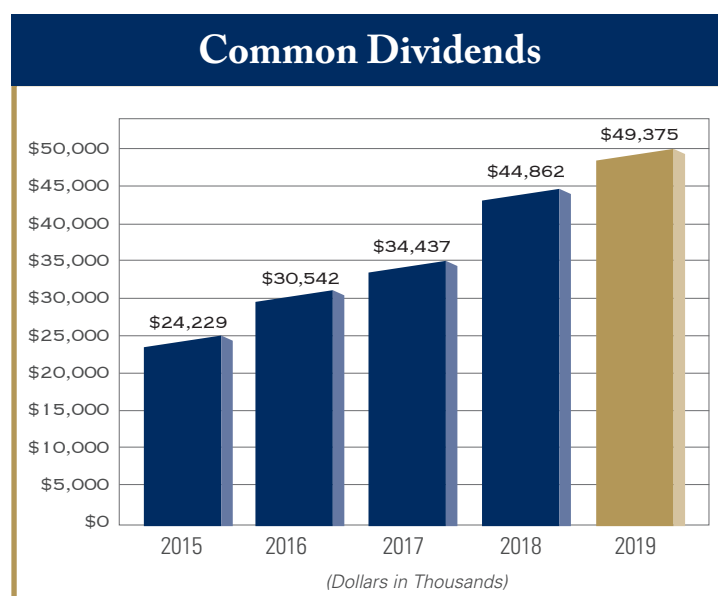
Your bank's capital planning strategy is centered around safety and soundness for the benefit of our investors, depositors, members, staff members, and the communities we serve. Bank policy dictates maintaining capital ratios well in excess of regulatory standards for well capitalized banks. This enables the company to be in a favorable position to take advantage of opportunities as they become available.

Shareholder Value

During 2019, the bank paid total cash dividends of \$49.4 million representing a 10% increase over 2018. Consistent with the retention of earnings sufficient to support company growth, the bank returned 35.6% of company earnings to our shareholders.

Book value per share increased during the year to \$22.58, an increase of 7.3%, while tangible book value increased 10.0% to \$15.69 at period end.

TowneBank's total return performance exceeded that of the Nasdaq Composite Index, the SNL Southeast Bank Index, and the SNL >\$10B Index. At the close of market on December 31, 2019, the closing price of our stock was \$27.82, compared to \$23.95 at year end 2018.



This report includes certain non-GAAP financial measures, including return on average tangible assets, return on average tangible equity and tangible book value. See pages 37 and 38 of the Company's 2019 Annual Report to Stockholders for more information.



Towne opened our first office in Greensboro, North Carolina, welcoming hundreds of new members, businesses, and nonprofits to the Towne Family. Residents of the Triad area now have the opportunity to experience community banking at its best.



Towne Financial Services Group

Our Towne Family of Companies had an excellent earnings year in 2019, making a significant contribution to the overall performance of the bank.

The Realty segment consisting of TowneBank Mortgage, Berkshire Hathaway HomeServices – Towne Realty, and Towne Vacations combined to contribute net income of \$9.8 million, representing a 52.3% increase over the \$6.4 million earned in 2018.

Towne Realty sold 4,822 units, representing sales volume of \$1.6 billion. TowneBank Mortgage produced 11,443 mortgage loans with total volume of \$3.2 billion. Towne Vacations provided vacation rentals to hundreds of individuals and families while generating \$24.4 million in gross property management revenue.

As a core business for our company, Towne Insurance and Towne Benefits continued to provide solid growth with total revenues reaching \$78.2 million, an 18.5% increase over last year. Insurance net income increased 26.1% to \$9.3 million compared to \$6.7 million in 2018.

During 2019, two additional highly regarded insurance agencies joined our Towne family:

- Straus, Itzkowitz and LeCompte, Richmond, Virginia
- Angel Insurance and Financial Services, Inc., Rock Hill, South Carolina

These fine folks bring a wealth of knowledge and experience to our company and will play a major role in helping us to build upon our 51st ranking of the Top 100 Business Insurance Agencies in America. Towne Insurance also ranks as the 5th largest bank owned insurance agency in the United States.

Towne Investment Group ranks 4th with assets under management in the Raymond James Financial Institutions Division of \$3.5 billion.* In early January 2020, Towne Investments also expanded its footprint into the Raleigh, NC market with the opening of a new office led by two extraordinary investment advisors, Doug Bray and Austin Harris.

*Securities are offered through **Raymond James Financial Services Inc.**, member FINRA/SIPC, and are: NOT insured by FDIC or any governmental agency, NOT guaranteed by TowneBank, NOT deposits of TowneBank, and are subject to risk and may lose value. Towne Investment Group, Towne Wealth Management and TowneBank are not registered broker/dealers and are independent of Raymond James Financial Services, Inc. Investment advisory services are offered through Raymond James Financial Services Advisors, Inc.

Our Communities

Towne's culture of caring through community support and civic involvement is the hallmark of being a community asset in the towns, cities, and counties that we are privileged to serve.

One of the greatest needs in all of the communities we serve is the availability of affordable housing. During 2019, we developed or partnered with numerous special loan programs such as Habitat for Humanity of Wake County, North Carolina and the Maggie Walker Community Land Trust in Richmond, Virginia, providing the opportunity of home ownership.

Additionally, Towne invested \$61.9 million in Federal Low Income Housing Tax Credits, providing 616 low and moderate income apartments in the Richmond, Virginia Beach, and Hampton communities.

Early in 2020, we were excited to receive our 5th consecutive outstanding Community Reinvestment Act rating from the FDIC, covering 15 years of outstanding service to the communities we serve.



TowneBank was pleased to support KidsRun RVA as they sponsored a one-mile fun run as part of the Monument Avenue 10K. The TowneBank Richmond Family also helped collect hundreds of running shoes to help kids 'run like the wind.'

Industry Perspective

To paraphrase Ronald Reagan, we take inspiration from the past, but we live for the future. However, the past gives us clues as to where the future may take the banking industry.

The day we opened the doors of Towne, there were 8,586 FDIC insured banks in the United States, operating with an average net interest margin of 4.04%. Fast forward twenty years and the number of banks has declined 45% to 4,708 institutions, with an average net interest margin of 3.35%. At year end 2019, the top four mega banks in the markets we serve had an average net interest margin of 2.77% with the lowest margin at 2.35%.

In business you generally have two drivers of profitability: margin, defined as the spread between cost of goods sold and prices charged, and the dollar volume of the goods sold. Speaking in banking terms, the interest we pay to our depositors becomes our cost or "goods" sold, while the volume of money we lend or invest and the interest rate we charge the borrower drives the revenue.

The big players in the banking industry follow somewhat the same pattern, but the scale of those banks' balance sheets plays a major role in better operating efficiency.

Two of the biggest areas of expense savings benefiting from balance sheet scale reside in technology and innovation investments, and the ability to cover the rapidly rising cost of regulatory compliance. As an example, one of our major bank competitors spent \$12 billion on technology and innovation in 2018, an amount equal to the total assets on our balance sheet.

In the area of regulatory compliance, a Rice University study stated, "The Dodd-Frank Act roughly doubled the number of regulations applied to U.S. banks which hiked industry cost by more than \$50 billion a year."

The Future State

In spite of lower margins, rapidly changing technology, regulatory challenges, and the always present up and down movement of the economy, we have proven we can compete with the major banks and win.

The market share numbers in our home market speak for themselves. In 1999, the big four consisting of Bank of America, Wachovia (now Wells Fargo), SunTrust and BB&T combined had an 82% deposit market share. Today, that combined number is 58.8% with Towne having 23.9%. Not too bad! In our newest markets in Richmond and North Carolina, we have enjoyed market share growth each and every year since entering those markets. We are winning out on the street every day where the game is being played.

To meet our earnings growth objectives, we clearly need additional scale to absorb the expense of new technology enhancements and the necessary refinement of our systems and processes needed to meet expanding regulatory and member expectations. We believe the needed balance sheet growth will be achieved through several avenues. First, through the extraordinary bankers we have throughout the existing bank network who continue to build close relationships with our members and the communities we serve.

Secondly, through the development of our newest denovo expansions in Greenville, NC, and Greensboro, NC, where each new bank already exceeds \$100 million in deposits.

Thirdly, through the expansion of banking offices in Richmond, Raleigh, and Charlotte. During 2019, we began construction and buildout of two new locations in Charlotte and a new Chesterfield County main office in the Richmond region.

And lastly, through an opportunistic merger and acquisition strategy in the Carolinas and Virginia.

From a technology perspective, Brad Schwartz, our Chief Operating Officer, and Denys Diaz, our Chief Information Officer, are leading the effort to install a new core bank operating system better designed to support our growing company. We have been working on this project for several years, and have updated our transaction payments systems, improved the look of our statements and notices, upgraded and consolidated our consumer and business online and mobile banking platforms, consolidated our document management systems, and improved our treasury systems and remote deposit capabilities. We expect to complete the project in the next year to provide the architecture we need to propel the company forward – enhancing member mobility, improving our speed of service, and driving better efficiency.

Our final key objective is to build the management structure for the future including the roles now filled by Morgan Davis and me. With our new Corporate Management Group that was announced last year, we are continuing to move forward with talent development throughout the company.

Towne's New Corporate Banking Division



Brian Woodell
Senior Vice President

Karen Priest
Executive Vice President

Charity Volman
President

Laura Morgan
Senior Vice President



TowneBank Founding Officers were recognized at the bank's 20th Shareholder Meeting and anniversary celebration.

In Gratitude,

The remarkable success of Towne over these past twenty years stands on the shoulders of our dedicated Board of Directors, our shareholder partners, our Towne members who bless us with their friendship and their business, and our 2,853 Towne Family members and their personal families who stand behind them each day as they bring TowneBank to life serving others and enriching lives.

It is truly a blessing to be part of the Towne Family.

Most sincerely,

G. Robert Aston, Jr.
Executive Chairman of the Board

J. Morgan Davis
President & CEO



Best Wishes

In December 2019, Starr Oliver, our Chief Marketing and H.R. officer, announced her retirement after 45 years beside us in community banking. Starr, one of our founding officers, is considered to be the mother and standard bearer of the Towne brand. Words cannot adequately express our deepest appreciation, and that of our entire Towne Family, for the love, support, loyalty, and contributions that Starr has provided to make Towne the special place that it is today.

Culture of Caring

The Towne Family is pleased to support hundreds of local organizations, generously volunteering their time and talents.



2019
\$10.4 million
COMMUNITY
SUPPORT
provided by
TOWNEBANK
& our Foundations

Since 1999 — \$67.4 million
Cumulative Community Support



Towne Family of Companies

TowneBank
Towne Insurance
Towne Benefits
Towne Investment Group
Towne Wealth Management
TowneBank Commercial Mortgage
TowneBank Mortgage
Berkshire Hathaway HomeServices
Towne Realty
Virginia Home Title & Settlements
Real Estate Security Agency
Towne Vacations
Towne 1031 Exchange



In Remembrance

David Patterson, a valued member of our Accounting team, served as TowneBank's Controller and EVP.

He played a key role in the management of several accounting functions, as well as our financial reporting. A CPA with more than three decades of experience, David's passing in July 2019 leaves a void in our hearts. We lost a true friend, and a talented member of our Towne Family.

Forward Looking Statements: This document may contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These statements may address issues that involve significant risks, uncertainties, estimates and assumptions made by management. Certain factors may cause actual results to differ materially from those contemplated by such forward-looking statements. Discussion of these factors can be found in the company's annual report filed with the Federal Deposit Insurance Corporation on Form 10-K for the fiscal year ended December 31, 2019.



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FDIC
ONLY DEPOSIT
PRODUCTS ARE
FDIC INSURED

EQUAL
OPPORTUNITY
EMPLOYER

NMLS#512138

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