

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

**SCHEDULE 14A**

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

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐

Preliminary Proxy Statement

☐

**Confidential, for Use of the Corporation Only (as permitted by Rule 14a-6(e)(2))**

☒

Definitive Proxy Statement

☐

Definitive Additional Materials

☐

Soliciting Material Pursuant to § 240.14a-12

TOWNEBANK

(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

☒

No fee required.

☐

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: \_\_\_\_\_

(2) Aggregate number of securities to which transaction applies: \_\_\_\_\_

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): \_\_\_\_\_

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Fee paid previously with preliminary materials.

☐

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(1) Amount Previously Paid: \_\_\_\_\_

(2) Form, Schedule or Registration Statement No.: \_\_\_\_\_

(3) Filing Party: \_\_\_\_\_

(4) Date Filed: \_\_\_\_\_

# TOWNE BANK

April 15, 2016

Dear Fellow Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of TowneBank. It will be held on Wednesday, May 18, 2016, at 11:30 a.m. at the Virginia Beach Convention Center, 1000 19<sup>th</sup> Street in Virginia Beach, Virginia.

At the meeting, we will vote to elect nine directors; ratify the appointment of members to the respective boards of directors of each of the TowneBanking Groups and Towne Financial Services; ratify the appointment of Dixon Hughes Goodman LLP as TowneBank's independent auditors for 2016; and approve, on a non-binding advisory basis, TowneBank's named executive officer compensation. Furthermore, we will report to you on our progress during 2015 and our plans for the future.

We hope you will be with us on May 18<sup>th</sup>. Whether you plan to attend or not, please cast your vote over the Internet or by telephone, or complete, sign, date, and return the enclosed proxy card as soon as possible in the postage-paid envelope provided.

We greatly appreciate and value your continuing support.

Sincerely,



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



J. Morgan Davis  
*President and Chief Banking Officer*

# TOWNE BANK

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## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

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**To be Held on May 18, 2016**

The Annual Meeting of Stockholders of TowneBank will be held at the Virginia Beach Convention Center, 1000 19<sup>th</sup> Street, Virginia Beach, Virginia, on Wednesday, May 18, 2016, at 11:30 a.m. for the following purposes:

1. To elect nine (9) directors to serve for a three-year term;
2. To ratify the appointment of members to the respective boards of directors of each of the TowneBanking Groups and Towne Financial Services;
3. To ratify the selection of Dixon Hughes Goodman LLP, independent certified public accountants, as auditors of TowneBank for 2016;
4. To approve, on a non-binding advisory basis, TowneBank's named executive officer compensation; and
5. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The Board of Directors has fixed March 31, 2016, as the record date for determination of stockholders entitled to notice of and to vote at the meeting and any adjournments thereof.

By Order of the Board of Directors



Karen R. Minkoff  
*Secretary to the Board*

April 15, 2016

### **YOUR VOTE IS IMPORTANT**

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

**PROXY STATEMENT**  
**ANNUAL MEETING OF STOCKHOLDERS**  
**May 18, 2016**

**GENERAL**

We are providing these proxy materials in connection with the solicitation of proxies by the Board of Directors of TowneBank for the 2016 Annual Meeting of Stockholders (the “Annual Meeting”) of the Company to be held on Wednesday, May 18, 2016. In this proxy statement, we refer to the Board of Directors as the “Board” and to TowneBank as “we,” “us,” or the “Company.” The approximate mailing date of this proxy statement and accompanying proxy is April 15, 2016.

**Voting Rights of Stockholders**

Only stockholders of record of the Company’s common stock at the close of business on March 31, 2016, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the close of business on March 31, 2016, there were 51,679,556 shares of the Company’s common stock outstanding and entitled to vote at the Annual Meeting. The Company has no other class of voting stock outstanding. Each share of common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting.

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

**Voting of Proxies**

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

**Revocation of Proxies**

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

**Solicitation of Proxies**

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

## ELECTION OF DIRECTORS — PROPOSAL ONE

The Company's Board of Directors is divided into three classes (I, II and III), and the term of office for the Class III directors will expire at the Annual Meeting. Each of the Class III nominees currently serves as a director of the Company, including Elizabeth W. Robertson, who was nominated to the Board on June 24, 2015. If elected, the Class III nominees will serve until the Annual Meeting of Stockholders held in 2019. The persons named in the proxy will vote for the election of the nominees named below unless authority is withheld. If, for any reason, the persons named as nominees below should become unavailable to serve, an event which management does not anticipate, proxies will be voted for such other persons as the Board of Directors may designate.

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

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

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

<b><u>Name (Age)</u></b>	<b><u>Served as Director Since</u></b>	<b><u>Principal Occupation During Past Five Years and Qualifications</u></b>
<b>2016 Class (Director Nominees to Serve Until the 2019 Annual Meeting):</b>		
G. Robert Aston, Jr. (70)	1999	<p>Mr. Aston has served as Chairman of the Board and Chief Executive Officer since the founding of TowneBank in 1998. He served as President and Chief Executive Officer of BB&amp;T of Virginia from January 1995 to June 1998 and as President and Chief Executive Officer of Commerce Bank from April 1985 to January 1995. Mr. Aston began his career at Citizens Trust Company in 1964 and rose through the ranks to serve as President and Chief Executive Officer from 1981 to 1985.</p> <p>Through his 50 years of service to the community as a hometown banker and the leader of several community banks, Mr. Aston has gained a significant level of management experience in all aspects of community banking. During his career, he has served in numerous senior management positions, including that of senior lending officer, chief administrative officer and chief operating officer.</p>

<b><u>Name (Age)</u></b>	<b><u>Served as Director Since</u></b>	<b><u>Principal Occupation During Past Five Years and Qualifications</u></b>
E. Lee Baynor (76)*	1999	<p>Mr. Baynor has served as President of HBMD, LLC (land developer), Chesapeake, Virginia, since 2006 and President of Lee Baynor, Inc. (real estate development and home building company), Chesapeake, Virginia, since 1989. Mr. Baynor also served as President of Baynor Furniture, Inc., Chesapeake, Virginia, from 1960 to October 2010.</p> <p>Mr. Baynor has over 50 years of experience as the President of a local retail business, along with many years in residential and commercial construction, land development and commercial leasing. Mr. Baynor's extensive business experience in the local community, combined with over 25 years of service as a director at banking institutions, make him a valuable asset to the Board.</p>
Thomas C. Broyles (85)*	1999	<p>Mr. Broyles has served as Vice Chairman of the Board of Directors of TowneBank since 1999. Mr. Broyles is retired from Kaufman &amp; Canoles, P.C. (law firm), Norfolk/Virginia Beach, Virginia, where he was formerly a partner.</p> <p>Mr. Broyles' extensive legal background serves as an asset to the Board in matters of corporate governance, while his business and investing experience benefits the Board in operational and financial matters. Prior to his service on the Board of TowneBank, Mr. Broyles previously served on the boards of two banking institutions, including serving as Chairman of the Board of Commerce Bank.</p>
Bradford L. Cherry (75)*	1999	<p>Mr. Cherry has served as Chairman of the Board and Secretary of Cherry Carpet, Inc. since December 2010 and President of Cherry Properties Associates, L.C., Portsmouth, Virginia, since 1989. Mr. Cherry also served as President and Chief Executive Officer of Cherry Carpet, Inc. from 1989 to December 2010.</p> <p>Mr. Cherry's senior management experience and financial expertise obtained as the Chief Executive Officer of a local business and his director experience at TowneBank and other banking institutions provide a valuable benefit to the Board of Directors.</p>

<b><u>Name (Age)</u></b>	<b><u>Served as Director Since</u></b>	<b><u>Principal Occupation During Past Five Years and Qualifications</u></b>
J. Morgan Davis (65)	1999	<p>Mr. Davis has served as President and Chief Banking Officer of TowneBank since July 2011. He served as President of Towne Financial Services Group from March 2005 to June 2011, and as President of TowneBank Virginia Beach from May 1999 to March 2005.</p> <p>Mr. Davis is a 37-year banking veteran and served as the founding president of a local banking institution for 13 years and served as President of TowneBank Virginia Beach for six years. Mr. Davis has served as a key negotiator in several of TowneBank's acquisitions and has served on the boards of several prominent community organizations. Mr. Davis provides vital senior management experience and business acumen to our Board of Directors.</p>
Harry T. Lester (70)*	2010	<p>Mr. Lester served as President of Eastern Virginia Medical School ("EVMS"), Norfolk, Virginia, from 2005 until April 2013. Previously, Mr. Lester was a member of the EVMS Board of Visitors for five years and served a portion of that time as Rector of the EVMS Board.</p> <p>During his tenure as President of EVMS, Mr. Lester was a catalyst for positive change throughout the school, including implementation of a series of strategic initiatives, forging stronger relationships with other educational institutions and with EVMS' teaching hospitals, and securing additional funding to accommodate the growth of the school. Previously, he served as an officer in the U.S. Navy and had a successful career in commercial real estate of over 30 years. An active community leader, he serves on numerous boards, including serving 16 years as a regional director for TowneBank. Mr. Lester's extensive senior management and community service experience, coupled with his knowledge of banking and commercial real estate, provides significant benefits to our Board.</p>
Elizabeth W. Robertson (63)*	2015	<p>Ms. Robertson currently serves as Chief Financial Officer of Monument Restaurants, LLC, Richmond, Virginia. She was a director of Franklin Financial Corporation and Franklin Federal Savings Bank (together, "Franklin Federal") until their merger with TowneBank on January 2, 2015. Ms. Robertson joined Franklin Federal in 1996. She served as Chairperson of the Audit Committee and then Chairperson of the Compensation Committee. Previously, she worked with KPMG LLP and Virginia Resources Authority.</p> <p>Ms. Robertson has extensive experience in audit and public accounting. Her involvement in multiple business and civic organizations in the Richmond, Virginia community provides valuable insight regarding our business and operations.</p>

<b><u>Name (Age)</u></b>	<b><u>Served as Director Since</u></b>	<b><u>Principal Occupation During Past Five Years and Qualifications</u></b>
Richard B. Thurmond (64)	2000	<p>Mr. Thurmond currently serves as the Southeast Regional President of Howard Hanna Real Estate Services. He served as President of William E. Wood and Associates (realty company), Virginia Beach, Virginia, from 1990 until its merger with Howard Hanna Real Estate Services in December 2013.</p> <p>Mr. Thurmond's background as an executive officer and his extensive knowledge of the real estate industry bring a valuable perspective to the Board.</p>
F. Lewis Wood (77)*	2003	<p>Mr. Wood has served as President of Hampton Chevrolet-Mazda, Hampton, Virginia, since 1971.</p> <p>Mr. Wood has over 40 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.</p>
<b>2017 Class (Continuing Directors to Serve Until the 2017 Annual Meeting):</b>		
Douglas D. Ellis (71)*	2010	<p>Mr. Ellis has served as President of Ellis-Gibson Development Group (real estate development and property management), Virginia Beach, Virginia, since 1988.</p> <p>Mr. Ellis has over 40 years of experience in commercial real estate, including over 25 years as founder and President of the Ellis-Gibson Development Group. He has also served on the boards of several civic and business organizations, including the Virginia Beach Development Authority since 2001 and as a TowneBank regional director since 2005. Mr. Ellis' extensive business, civic, and real estate experience in the local community, combined with his service as a TowneBank regional director, makes him a valuable asset to the Board.</p>
John W. Failes (71)*	1999	<p>Mr. Failes, a retired Certified Public Accountant, was the founder and owner of one of the largest local public accounting firms in the state of Virginia.</p> <p>Mr. Failes spent over 30 years in public accounting, working with a diverse cross-section of businesses in the local community, including banking institutions. Mr. Failes also has two decades of experience as a director of banking institutions and has served as a member on many civic and nonprofit boards.</p>



<b><u>Name (Age)</u></b>	<b><u>Served as Director Since</u></b>	<b><u>Principal Occupation During Past Five Years and Qualifications</u></b>
William I. Foster III (60)	2005	<p>Mr. Foster has served as President of TowneBank Virginia Beach since July 2011. He served as President of TowneBank Norfolk from February 2005 to June 2011. Previously, Mr. Foster was employed as the Chief Financial Officer of IntraNexus, Inc. (information systems provider), Virginia Beach, Virginia, from January 2002 to August 2003. He served as the Hampton Roads Regional President of Central Fidelity Bank from 1993 to 1998.</p> <p>Mr. Foster has over 30 years of experience in the banking industry, with a background in retail and commercial real estate. Mr. Foster's extensive experience in banking and commercial real estate provides significant insight and expertise to our Board.</p>
Stephanie J. Marioneaux, M.D. (57)*	2010	<p>Dr. Marioneaux has served as an ophthalmologist in Chesapeake, Virginia, since 1989.</p> <p>Dr. Marioneaux has over 15 years of experience serving on a regional board of TowneBank. She has also served the local community as an ophthalmologist since 1989 and has been active in civic and professional organizations. Dr. Marioneaux has been recognized for her high ethical standards and volunteerism. She was one of five recipients of the Benjamin F. Boyd Humanitarian Medal for Services to the Americas in 2011, presented by the Pan-American Association of Ophthalmology, for her successful efforts to ship over \$500,000 of ophthalmology equipment to Haiti after the earthquake in 2011. Dr. Marioneaux provides our Board with a valuable combination of community service experience and banking industry expertise.</p>
Juan M. Montero, II, M.D. (74)*	1999	<p>Dr. Montero is retired from practice as a General and Thoracic Surgeon.</p> <p>Dr. Montero has over 25 years of experience serving on the boards of banking institutions, including TowneBank. He also served the local community as a general/thoracic surgeon for 15 years. Dr. Montero brings a unique perspective to our Board by combining banking industry expertise with a strong focus on service in the community.</p>

<b><u>Name (Age)</u></b>	<b><u>Served as Director Since</u></b>	<b><u>Principal Occupation During Past Five Years and Qualifications</u></b>
Thomas K. Norment, Jr. (70)*	2009	<p>Mr. Norment has served as a professor at the College of William &amp; Mary since 2008 and as a Commissioner of Accounts for the City of Williamsburg, Virginia, and James City County, Virginia, since 2009. In addition, he is “of counsel” at Kaufman &amp; Canoles, P. C., where he was formerly a partner. A Virginia State Senator who serves on the Senate Finance Committee, Mr. Norment has represented the 3rd Senatorial District since 1992.</p> <p>Mr. Norment’s experience as an elected public official provides insight into the workings of state government and the issues facing constituents, many of whom reside in the Hampton Roads area.</p>
Alan S. Witt (60)*	2004	<p>Mr. Witt has served as Chief Executive Officer of PBMAres, LLP (accounting and business consulting firm), Newport News, Virginia, since its formation in January 2013. He previously served as Chief Executive Officer of Witt Mares, PLC from 1989 to December 2012, before its merger with PBGH, LLP in January 2013. He also served as a director of Harbor Bank from July 1996 until its merger with TowneBank in March 2004.</p> <p>Mr. Witt is a licensed CPA, practicing in public accounting and serving numerous clients in various industries, giving him broad-based experience and expertise in financial operating and reporting matters. Mr. Witt also has prior experience serving on the boards of several banking institutions. During his career, Mr. Witt served on the AICPA Credit Union Committee, and for a period of time served as the chairman of the subcommittee tasked with writing the AICPA Audit Guide – Audits of Credit Unions, issued in 1986. Mr. Witt provides an expertise in technical auditing and reporting matters related to financial institutions, which, combined with his experience as chief executive officer of a large regional public accounting and business consulting firm, is a unique and valuable asset to the Board.</p>

**2018 Class (Continuing Directors to Serve Until the 2018 Annual Meeting):**

Jacqueline B. Amato (66)	2000	<p>Ms. Amato has served as Chairman and Chief Executive Officer of TowneBank Mortgage since October 2012. Previously, she was President of TowneBank Mortgage from October 2000 to October 2012.</p> <p>Ms. Amato has over 30 years of experience running a successful mortgage company. Ms. Amato’s extensive experience with corporate strategy and the mortgage industry provide invaluable insight and guidance to our Board.</p>
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<b><u>Name (Age)</u></b>	<b><u>Served as Director Since</u></b>	<b><u>Principal Occupation During Past Five Years and Qualifications</u></b>
Richard S. Bray (70)*	2006	<p>Judge Bray has served as President, Chief Executive Officer, and Chairman of Beazley Foundation, Inc. (private foundation), Portsmouth, Virginia, since September 2002. He retired as Senior Judge, Court of Appeals of Virginia, in 2002.</p> <p>Judge Bray's legal career spanned 32 years, culminating with him serving as Senior Judge on the Court of Appeals of Virginia. He has over 15 years of experience serving on the boards of three banking institutions, including TowneBank. Judge Bray's experience in the legal community and his experience gained serving as a director in the banking industry are valuable assets to the Board.</p>
Paul J. Farrell (78)*	1999	<p>Mr. Farrell has served as President of Rosewell Corporation (real estate development), Chesapeake, Virginia, since March 1981, and President of Rosewell Homes, Inc. (home building), Chesapeake, Virginia, since November 2004.</p> <p>Mr. Farrell has over 50 years of experience in construction and real estate development. He also brings over 10 years of service as a regional director of banking institutions prior to his service with TowneBank. Mr. Farrell brings to our Board extensive knowledge of real estate and its related investment and financing activities, and provides insight into the state of the local economy.</p>
Andrew S. Fine (79)	1999	<p>Mr. Fine serves as President of The Runnymede Corporation (real estate development), Virginia Beach, Virginia.</p> <p>Mr. Fine has an extensive legal, business, and banking background. He has served as a director on the board of banking institutions, including TowneBank, for over 35 years. Mr. Fine's background as an executive officer and his expertise in banking and legal matters make him a valuable member of the Board.</p>
Gordon L. Gentry, Jr. (79)	2004	<p>Mr. Gentry has served as Chairman of the Board of Directors of TowneBank Peninsula since April 2004. Mr. Gentry previously served as President and Chief Executive Officer of Harbor Bank from July 1995 until its merger with TowneBank in March 2004.</p> <p>Mr. Gentry began his banking career in 1960 and has served as president, regional executive, chief executive officer, and chairman of banking organizations since 1976. Mr. Gentry brings to our Board a wealth of leadership experience and community banking expertise.</p>

<b><u>Name (Age)</u></b>	<b><u>Served as Director Since</u></b>	<b><u>Principal Occupation During Past Five Years and Qualifications</u></b>
John R. Lawson, II (64)*	2004	<p>Mr. Lawson serves as President and Chief Executive Officer, W.M. Jordan Company, Inc. (general construction contractor), Newport News, Virginia. He was a director of Harbor Bank from July 1996 to March 2004, when it was acquired by TowneBank.</p> <p>Mr. Lawson provides the valuable perspective gained from more than 30 years of leading a company with over \$450 million in annual revenue as the Chief Executive Officer of W. M. Jordan Company, Inc.</p>
W. Ashton Lewis (70)*	1999	<p>Mr. Lewis has served as President of Lewis Gibbs Corporation (automobile dealership holding company), Chesapeake, Virginia, and Treasurer of First Team Automotive Group, Chesapeake, Virginia, since 1999.</p> <p>Mr. Lewis has over 40 years of experience as the owner/operator of new auto dealerships and over 30 years of experience as a director of banking institutions. Mr. Lewis' experience as a local entrepreneur and his banking industry experience make him an asset to the Board.</p>
R. Scott Morgan (71)	1999	<p>Mr. Morgan retired from service as President and Senior Loan Officer of TowneBank in June 2011. He served as President and Senior Loan Officer of TowneBank from April 1999 to June 2011.</p> <p>During Mr. Morgan's 45 years in banking and financial services, he served in numerous leadership roles focusing on lending, policy, review, and management. As one of the founding officers of TowneBank, Mr. Morgan brings to our Board a deep understanding of our Company's business, history, and organization, as well as extensive leadership, community banking expertise, and management experience.</p>
R.V. Owens, III (59)	2011	<p>Mr. Owens is President and Chief Executive Officer of R.V. Owens Enterprises LLC (real estate development firm), Kill Devil Hills, North Carolina. He also served as owner of R.V.'s Restaurant in Nags Head, North Carolina.</p> <p>Mr. Owens' experience as the owner and President of a local retail business, combined with his extensive knowledge of the local communities in northeastern North Carolina, makes him a valuable asset to the Board.</p>

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years and Qualifications</u>
Richard T. Wheeler, Jr. (69)	2015	<p>Mr. Wheeler was Chairman, President and Chief Executive Officer of Franklin Federal until its merger with TowneBank on January 2, 2015. Mr. Wheeler joined Franklin Federal in 1992. Previously, he was a partner with KPMG LLP.</p> <p>Mr. Wheeler's extensive experience in the local banking industry, prior experience as the Virginia banking industry leader for KPMG LLP, and involvement in business and civic organizations in the Richmond, Virginia community provides valuable insight regarding our business and operations.</p>

\* 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 11 meetings of the Board of Directors in 2015. Excluding Ms. Robertson, who was appointed to the Board on June 24, 2015, no incumbent director attended fewer than 75% of the meetings of the Board of Directors and its committees in 2015 except Mr. Norment. Directors are encouraged to attend stockholders' meetings, and 23 of 25 of our incumbent directors, excluding Ms. Robertson, attended the Annual Meeting of Stockholders held May 20, 2015.

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

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

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

*Executive Committee.* The Executive Committee is composed of Messrs. Broyles (Chairman), Aston, Bray, Farrell, Fine, Lawson, Morgan, Wheeler, and Witt. The committee, which is subject to the supervision and control of the Board of Directors, has been delegated substantially all of the powers of the Board of Directors to act between meetings of the Board, except for certain matters reserved to the Board by law. The Executive Committee also considers new loan applications that are in excess of individual officer limits and monitors, with management, the Company's loan portfolio. In 2015, there were 16 meetings of the Executive Committee.

*Audit and Risk Committee.* The Audit and Risk Committee is composed of Messrs. Lewis (Chairman), Baynor, Failes, Montero, Witt and Ms. Robertson. Serving as consultants to the Audit and Risk Committee are Dr. C. Fred Bateman, a Director of the Chesapeake TowneBanking Group board; Mr. Michael J. Blachman, a Director of the Portsmouth TowneBanking Group board; Mr. W. Arthur Hudgins, a Director of the Williamsburg TowneBanking Group board; Mr. David M. Limroth, a Director of the Norfolk TowneBanking Group board; Mr. Daniel N. Ryan, Sr., a Director of the Virginia Beach TowneBanking Group board; and Mr. Robert E. Yancey, a Director of the Peninsula TowneBanking Group board. The six 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 three Audit and Risk Committee financial experts: Mr. John W. Failes, Ms. Elizabeth W. Robertson, and Mr. Alan S. Witt. The Board has determined that Mr. Failes, Ms. Robertson, and Mr. Witt possess the requisite accounting and related financial management expertise to qualify for the position. Pursuant to the written charter of the Audit and Risk Committee, the functions of the committee are to review and approve the selection of independent certified public accountants; to review the reports of examination by the regulatory agencies, the independent accountants and the internal auditor; and to issue its report to the Board of Directors. A copy of the charter of the Audit and Risk Committee is available on the “Investor Relations” page of the Company's website at <https://www.townebank.com> under the heading “Governance Documents.”

The Audit and Risk Committee is responsible for reviewing all transactions between the Company and any officer or director of the Company or any entity in which an officer or director has a material interest. Any such transactions must be on terms no less favorable than those that could be obtained on an arm's-length basis from independent third parties. The Audit and Risk Committee met eight times in 2015. The Audit and Risk Committee Report begins on page 40.

*Compensation Committee.* The Compensation Committee is composed of Messrs. Broyles (Chairman), Bray, Lewis, Montero, and Wood. The five committee members are considered “independent directors” as defined by NASDAQ Marketplace Rule 5605(a)(2). Pursuant to the written charter of the Compensation Committee, the primary function of the committee is to provide independent oversight of TowneBank's compensation practices and to determine compensation or provide recommendations to the Board for the compensation of the Chief Executive Officer and all other executive officers of TowneBank. The committee also monitors all incentive and equity compensation plans for the benefit of Company officers and directors eligible to participate in such plans. The Compensation Committee met four times in 2015. The Compensation Committee Report is included on page 24. A copy of the charter of the Compensation Committee is available on the “Investor Relations” page of the Company's website at <https://www.townebank.com> under the heading “Governance Documents.”

*Compensation Committee Interlocks and Insider Participation.* During 2015, there were transactions between TowneBank and certain members of the Compensation Committee, or their associates, primarily consisting of extensions of credit and purchases of goods and services by the Company in the ordinary course of its business. Each transaction was made on substantially the same terms, including interest rates, lease rates, purchase prices, collateral and repayment terms, as those prevailing at the time for comparable transactions with the general public. In the opinion of management, none of the transactions involve more than the normal risk of collectibility or present other unfavorable features.

*Risk Oversight.* In accordance with NASDAQ requirements, the Audit and Risk Committee is primarily responsible for overseeing the risk management function at TowneBank on behalf of the Board. In carrying out its responsibilities, the Audit and Risk Committee appoints members to the Risk Management Committee and engages the Risk Management Committee as consultants to manage the Company's risk. The Risk Management Committee works closely with TowneBank's senior risk officer and other members of TowneBank's risk management team. The Risk Management Committee meets with the senior risk officer, internal audit, and other members of management, and receives a comprehensive report on risk management, including management's assessment of risk exposures

(including risks related to liquidity, credit, operations and regulatory compliance, among others), and the processes in place to monitor and control such exposures.

In addition to the Audit and Risk Committee, the other committees of the Board consider the risks within their areas of responsibility. For example, the Compensation Committee considers the risks that may be implicated by our executive compensation programs. For a discussion of the Compensation Committee's review of TowneBank's senior executive officer compensation plans and employee incentive compensation plans and the risks associated with these plans, see "Compensation Discussion and Analysis" beginning on page 24 of this proxy statement.

### **TowneBank's Director Nominations Process**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

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

Based upon a review of filings with the FDIC and written representation that no other reports were required, the Company believes that all of its directors and executive officers were in compliance with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 during 2015, except G. Robert Aston, Jr., J. Morgan Davis, William I. Foster III, Keith D. Horton, William B. Littreal, Clyde E. McFarland, Jr., U. Starr Oliver, and Philip M. Rudisill each had one late Form 4 filing in connection with single transactions covering the grant of restricted stock, one late Form 4 report was filed by Paul J. Farrell reporting the disposition of shares in one transaction, one late Form 4 report was filed by Philip M. Rudisill reporting the disposition of shares in one transaction, and one late Form 4 report was filed by F. Lewis Wood reporting the disposition of shares in four transactions and the acquisition of shares in three transactions.

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

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

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

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

**TowneBank Chesapeake:**

**Robert D. Jones, Chairman**

*Attorney, The Jones Firm, P.L.C.*

**Jeffrey W. Ainslie**

*President, Ainslie Group, Inc.*

**G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

**Wesley E. Barnes, Jr., CPA**

*Barnes, Brock, Cornwell, & Painter, PLC*

**Dr. C. Fred Bateman**

*Executive Director, Urban Superintendents  
Association of America*

**E. Lee Baynor**

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

**Rickard E. Burnell**

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

**William A. Copeland, Jr.**

*President, TowneBank Chesapeake (Retired)*

**J. Michael Council, CPA**

*Jones, Madden & Council, PLC*

**J. Morgan Davis**

*President & Chief Banking Officer, TowneBank*

**Joseph A. Falk**

*President, Little Joe's Auto*

**Paul J. Farrell**

*President, Rosewell Homes, Inc.*

**Dawn S. Glynn**

*President, TowneBank Chesapeake/Portsmouth/Suffolk*

**Larry R. Hill**

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

**John G. Horton**

*President, Horton & Dodd, P.C.*

**W. Ashton Lewis**

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

**Stephanie J. Marioneaux, M.D.**

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

**Juan M. Montero, II, M.D.**

*General and Thoracic Surgeon (Retired)*

**John R. Newhart\***

*Sheriff, City of Chesapeake (Retired)*

**Jim O'Sullivan**

*Sheriff, City of Chesapeake*

**Patrick L. Reynolds**

*President, Ashby Development*

**Ronald C. Ripley**

*President, Ripley Heatwole Company, Inc.*

**Jeffrey A. Saunders**

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

**William D. Stevenson, Sr.**

*Chairman of the Board, Stevenson Tractor, Inc.*

**David W. Stockmeier**

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

**Mervin R. Troyer**

*President, Cypress Point Enterprises, Inc.*

**Shepelle Watkins-White**

*Attorney, ShepelleWatkinsWhite Consulting & Law,  
PLLC*

\* Director Emeritus

## **TowneBank of Currituck:**

### **Stanley D. Griggs, Chairman**

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

### **G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

### **The Honorable Richard S. Bray**

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

### **William Brumsey, IV**

*Brumsey & Brumsey, PLLC*

### **W.E. Curling, Sr.**

*President, W.E. Curling, Inc.*

### **J. Morgan Davis**

*President & Chief Banking Officer, TowneBank*

### **Diane H. Ferebee**

*Realtor, Howard Hanna*

### **Cecil E. Hobbs, Jr.**

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

### **Sam T. Moore, Jr.**

*CEO, The Bank of Currituck (Retired)*

### **Jerry L. Old**

*President, Currituck Homes, Inc.*

### **J. Wesley Peoples, Jr.**

*President, Peoples Auction Co, Inc.*

### **H. Taylor Sugg**

*President, TowneBank of Currituck*

### **Clark S. Twiddy**

*Vice President, Twiddy & Company*

## **TowneBank Dare County:**

### **Rufus Pritchard, Jr., Chairman**

*Owner, The Dunes Restaurant/Grits Grill*

### **G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

### **The Honorable Richard S. Bray**

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

### **Allison L. Breaux**

*President & Owner Sun Realty*

### **Robert Flintoff**

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

### **John M. Harris**

*Owner, Kitty Hawk Kites*

### **Robert Lawson**

*Owner, R. Lawson Construction Co., Inc.*

### **Timothy W. Midgett**

*President, Midgett Realty*

### **R.V. Owens, Jr.**

*Owens Restaurant (Retired)*

### **R.V. Owens, III**

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

### **H. Taylor Sugg**

*President, TowneBank of Currituck*

### **Paul Tine**

*Member, North Carolina House of Representatives;  
Owner, Midgett Insurance Agency*

### **Robert E. Wells**

*President, Southern Insurance Agency*

**TowneBank Norfolk:**

**Anita O. Poston, Chair**

*Partner, Vandeventer Black, LLP*

**G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

**Tony K. Atwater, Ph.D.**

*Professor, Norfolk State University*

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

*BOA and Staff Physician, Volunteers in Medicine of Martin County*

**Alonzo C. Brandon**

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

**James H. Carraway, M.D.**

*Professor, Division of Plastic Surgery, Eastern Virginia Medical School*

**Robert W. Cross**

*Executive Director, Virginia Arts Festival*

**J. Morgan Davis**

*President & Chief Banking Officer, TowneBank*

**Peter G. Decker, III**

*Attorney, Decker, Cardon, Thomas & Weintraub & Neskis, PC*

**Norma J. Dorey**

*President & Owner, Changes City Spa-Jakes Place*

**Joseph A. Dorto**

*CEO & General Manager, Virginia International Terminals (Retired)*

**Matthew D. Fine**

*President, The Safe Place Mini Storage*

**D. Bart Frye, Jr.**

*CEO, Frye Properties, Inc.*

**A. J. Kalfus**

*Partner, Kalfus & Nachman, PC*

**Richard F. Kiefner, Jr.**

*Insurance Broker, Northwestern Mutual Life Insurance Company*

**David M. Limroth**

*Partner, McPhillips, Roberts & Deans, PLC*

**John P. Matson**

*President, TowneBank Norfolk*

**Caroline McCartney**

*Agent, Berkshire Hathaway HomeServices, Inc. Towne Realty*

**Charles V. McPhillips**

*Partner, Kaufman & Canoles, P.C.*

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

*President, Fort Norfolk Plaza Cardiology Associates*

**Susan C. Pilato**

*President, PC&A Business Environments*

**Vito Piraino**

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

**Brad N. Robinson, D.C.**

*Wards Corner Chiropractic, Owner*

**Thomas V. Rueger**

*Senior Executive Vice President, TowneBank*

**Karen J. Scherberger**

*CEO, Norfolk Festevents, Ltd.*

**Robert M. Stanton**

*Chairman, Stanton Partners, Inc.*

**Ulysses Turner**

*Developer, Atlantic Apartment Rentals*

**Alvin A. Wall, CPA**

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

**Walter J. Wilkins, II**

*President, Bay Automotive*

**Rolf A. Williams**

*President, Anders Williams & Co.; Executive Vice President, Marine Oil Service, Inc.*

\* Director Emeritus

## **TowneBank Peninsula:**

### **Gordon L. Gentry, Jr., Chairman**

*Chairman, TowneBank Peninsula*

### **G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

### **M. Clark Baldwin**

*Senior Vice President, Harvey Lindsey  
Commercial Real Estate*

### **Charles A. Banks, III**

*Group Chief Executive, Wolseley plc (Retired);  
Partner, Clayton, Dubilier & Rice*

### **Stephen C. Barrs**

*President, C.A. Barrs Contractor, Inc.*

### **Robert R. Brown**

*President, Robert Brown & Associates, Inc.*

### **Arthur S. Casey**

*Owner, President & CEO, Casey Auto Group*

### **Lawrence G. Cumming**

*Partner, Kaufman & Canoles, P.C.*

### **J. Morgan Davis**

*President & Chief Banking Officer, TowneBank*

### **William B. Downey**

*President & CEO, Riverside Health System*

### **Curry C. Hall, III**

*President & CEO, Bluewater Yacht Sales*

### **Norma B. Harvey**

*Business Counselor, Hampton University (Retired)*

### **Robert R. Hatten**

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

### **Thomas N. Hunnicutt, III**

*President & CEO, Pembroke Construction  
Company, Inc.*

### **Herbert V. Kelly, Jr.**

*Vice President - Partner, Jones, Blechman,  
Woltz & Kelly, P.C.*

### **Branch P. Lawson**

*President, Hampton Roads Division, East West Partners*

### **John R. Lawson, II**

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

### **Dr. St. George Lee**

*Owner, Dr. St. George Lee Medical Practice*

### **The Honorable Mamie E. Locke**

*Dean, Hampton University; Virginia State Senator*

### **Patrick B. McDermott**

*President, McDermott & Ward, P.C.*

### **C. Roger McLellon**

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

### **Matthew J. Mulherin**

*Corporate Vice President, Huntington Ingalls Industries  
President, Newport News Shipbuilding*

### **Joseph C. Ritchie, Jr.**

*President & CEO, Ritchie-Curbow Construction, Inc.*

### **Brian K. Skinner**

*President, TowneBank Peninsula/Williamsburg*

### **Allen C. Tanner, Jr.**

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

### **Gary H. Tarpley**

*President, Cable Associates of Virginia, LLC*

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

*Orthopaedic Surgeon, Virginia Medical Center - Hampton*

### **Alan S. Witt**

*CEO, PBMares, LLP*

### **F. Lewis Wood**

*President, Hampton Chevrolet-Mazda*

### **Robert E. Yancey**

*President & CEO, John Yancey Companies*

**TowneBank Portsmouth/Suffolk:**

**Donald W. Comer, Jr., Chairman**

*President, Don Comer Ford, Inc. (Retired)*

**James E. Andrews\***

*President, Anzell Automotive, Inc. (Retired)*

**G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

**Ikshvanku A. Barot, M.D.**

*CEO, Arima Health, Inc.*

**R. Stephen Best**

*CEO, Southeast Virginia Community Foundation*

**Michael J. Blachman**

*Attorney, Bangel, Bangel & Bangel, LLP*

**J. Robert Bray**

*Senior Advisor, Kaufman & Canoles Consulting*

**Allen Bynum, III**

*President, Bynum Finance Corporation*

**Bradford L. Cherry**

*Chairman of the Board, Cherry Carpet, Inc.*

**Jun K. Chung, M.D.**

*Executive Director, Cardiovascular Specialists*

**W. Carroll Creecy**

*President, Sales Systems, Ltd.*

**J. Morgan Davis**

*President & Chief Banking Officer, TowneBank*

**Dr. Neal P. Davis \***

*Orthodontist (Retired)*

**Richard S. Fuller\***

*President, Smithfield Companies, Inc. (Retired)*

**Dawn S. Glynn**

*President, TowneBank Chesapeake/Portsmouth/Suffolk*

**Alan E. Gollihue**

*President & CEO, Portsmouth General Hospital Foundation*

**Carl L. Hardee**

*Vice President & COO, The Lawson Companies*

**William H. Hargrove, A.I.A.**

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

**William R. Hatcher, D.D.S.**

*Orthodontist, Hatcher Orthodontics*

**William T. Hodsden**

*EVP, TowneBank (Retired)*

**Johnny S. Joannou**

*Attorney, Joannou & Associates*

**F. M. Jones**

*President, Azalea Realty & Development Corporation*

**William H. Kline**

*President, Kline Realty Company*

**The Honorable L. Louise Lucas**

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

**Gene C. Luke \***

*Fleet Commercial Manager, Hall Chevrolet (Retired)*

**Brian P. Midgette, D.D.S.**

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

**R. Scott Morgan**

*President, TowneBank (Retired)*

**John P. Motley**

*Treasurer, Portsmouth Lumber Corporation*

**Daniel L. Plante**

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

**P. Ward Robinett, Jr.**

*President, TowneBank Portsmouth (Retired)*

**Eric J. Sasser**

*President, Sasser Construction, L.L.C.*

**Robert B. Seal, M.D.**

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

**Robert L. Sondej\***

*Attorney (Retired)*

**Ned D. Taylor, D.M.D.**

*Oral and Maxillofacial Surgeon (Retired)*

**Vasken K. Tenekjian, M.D.**

*Thoracic and Vascular Surgeon, Physician Advisor  
Bon Secours*

**David R. Tynch**

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

**Robert T. Williams**

*President & CEO, Tri-City Developers, LLC*

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

*Veterinarian, Churchland Animal Clinic, Inc.*

\* Director Emeritus

## **TowneBank Richmond:**

### **Richard T. Wheeler, Jr., Chairman**

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

### **G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

### **David Boardman**

*Private Investor, Kyna Resources, LLC*

### **Brad H. Booker**

*Executive Vice President, TowneBank Richmond*

### **T. Patrick Collins**

*President, TowneBank Richmond*

### **J. Morgan Davis**

*President & Chief Banking Officer, TowneBank*

### **Jerry P. Fox**

*CPA, Partner, Cherry Bekaert, LLP (Retired)*

### **B. Keith Fulton**

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

### **Hugh T. Harrison II**

*Attorney, Williams Mullen*

### **S. Tyler Perkinson, D.D.S.**

*Dentist, Virginia Family Dentistry*

### **Elizabeth W. Robertson**

*CFO, Monument Restaurants, LLC*

### **George L. Scott**

*Partner, KPMG, LLP (Retired)*

## **TowneBank Virginia Beach:**

### **Douglas D. Ellis, Chairman**

*President, Ellis-Gibson Development Group*

### **Jacqueline B. Amato**

*Chairman & CEO, TowneBank Mortgage*

### **Richard P. Anoaia**

*Owner, Saveras Corporation*

### **G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

### **Thomas A. Barton, III**

*President, Beach Ford*

### **Robert R. Beasley, Jr.**

*Senior Vice President, NAI Harvey Lindsay Commercial Real Estate*

### **Thomas C. Broyles**

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

### **Sandra C. Canada**

*President, Canada and Associates*

### **Herbert A. Culpepper**

*Owner & Broker, Pungo Realty Company*

### **J. Morgan Davis**

*President & Chief Banking Officer, TowneBank*

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

*Cardiologist (Retired)*

### **Gerald S. Divaris**

*Chairman & CEO, Divaris Real Estate, Inc.*

### **Dr. Russell Dunnington**

*Physician, Arthritis Consultants of Tidewater (Retired)*

### **W. Jeffrey Dyckman**

*President, Towne Business Strategy Group*

### **John W. Failes**

*CPA (Retired)*

### **John F. Malbon**

*President & CEO, Papco, Inc.*

### **Jeffrey L. Marks**

*Partner, Kaufman & Canoles, P.C.*

### **Cheryl P. McLeskey**

*CEO, McLeskey & Associates*

### **Michael D. Marquart**

*President, Windmark, Inc.*

### **Augustus C. Miller**

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

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

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

### **Vincent A. Napolitano**

*President, Napolitano Homes*

### **Michael P. Rashkind**

*General Partner, Dam Neck Properties*

### **John W. Richardson**

*Managing Partner, Virginia Beach office, Kaufman & Canoles, P.C.*

### **B. Rod Rodriguez**

*Chairman & CEO, Bay Mechanical, Inc.*

### **Thomas V. Rueger**

*Senior Executive Vice President, TowneBank*

### **Daniel N. Ryan, Sr.**

*President, Dan Ryan's for Men*

### **Lynn G. Sachs**

*President, The Sachs Group*

### **Warren E. Sachs, D.D.S.**

*Dentist, Lefcoe, Weinstein, Sachs & Schiff*

### **John R. Savino**

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

**TowneBank Virginia Beach (continued):**

**Andrew S. Fine**

*President, The Runnymede Corporation*

**Linda L. Forehand**

*Executive Director, Shellhammer Urological  
Research Foundation*

**William I. Foster III**

*President, TowneBank Virginia Beach*

**Jack L. Frieden**

*President Emeritus, TFA Benefits*

**Scott M. Gandy**

*President, Kempsville Building Materials*

**Valerio M. Genta, M.D.**

*Pathologist, General Hospital Pathologists, Ltd.*

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

*President, Virginia Oncology Associates (Retired)*

**Dr. Bernie J. Grablowski, Ph.D.**

*President & CEO, United Property Associates*

**William W. Harrison, Jr.\***

*Partner, Williams Mullen*

**Ernest L. Hudson\***

*Owner, Hudson Enterprises*

**Akhil Jain**

*President/Owner, Landmark Hotel Group*

**Harold B. Kellam, Jr.**

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

**Harry T. Lester**

*President, Eastern Virginia Medical School (Retired)*

**John T. Litz**

*Senior Vice President, S.L. Nusbaum Realty Company*

**Michael C. Savvides**

*Chairman, Savvides Enterprises t/a Black Angus*

**William R. Shepherd, Jr.**

*Chairman & CEO, Southern Hospitality Auto Group*

**Prescott Sherrod**

*President & CEO, PEMCCO, Inc.*

**Jean F. Siebert**

*President, Siebert Realty*

**The Honorable Tina E. Sinnen**

*Clerk of Court, City of Virginia Beach*

**The Honorable Kenneth W. Stolle**

*Sheriff, City of Virginia Beach*

**J. Randolph Sutton**

*President & Co-Owner, Waterfront Marine  
Construction, Inc.*

**Howard R. Sykes, Jr.**

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

**Richard B. Thurmond**

*President, Howard Hanna*

**The Honorable Ronald J.A. Villanueva**

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

**M. Nicole Williams**

*Partner, Williams Mullen*

**Barbara M. Wolcott**

*Chairman & CEO, Berkshire Hathaway  
HomeServices Towne Realty*

\* Director Emeritus



## **TowneBank Williamsburg:**

### **The Honorable Thomas K. Norment, Jr., Chairman**

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

### **G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

### **Charles D. Brooks**

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

### **Robin D. Carson**

*General Manager, Kingsmill Resort (Retired)*

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

*CEO, EScribe Management Services*

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

*President, Davis Design, LLC*

### **J. Morgan Davis**

*President & Chief Banking Officer, TowneBank*

### **Beth M. Duke**

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

### **B.W. Franks, Jr. (Bill)**

*President & CEO, BWF Port Logistics Consulting, LLC*

### **Gordon L. Gentry, Jr.**

*Chairman, TowneBank Peninsula*

### **James R. Golden**

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

### **W. Arthur Hudgins**

*President, Holiday Chevrolet Cadillac, Inc.*

### **William G. Kellam**

*EVP, TowneBank Williamsburg (Retired)*

### **Gary M. Massie**

*President, J.S.G. Corporation*

### **Deborah L. Nice**

*Vice President, David A. Nice Builders, Inc.*

### **Catherine P. Pattisall (Cathy)**

*CEO, The Cheese Shop/Fat Canary*

### **Edgar B. Roesch, Jr.\***

*President, Service Metal Fabricators, Inc.*

### **Leslie H. Schultz**

*Vice President, Henderson, Inc.*

### **Brian K. Skinner**

*President, TowneBank Peninsula/Williamsburg*

### **Kimber A. Smith**

*COO, Berkshire Hathaway HomeServices Towne Realty*

### **Carlton A. Stockton**

*MCI Corporation (Retired)*

### **Peter D. Wendell, DDS, PLLC**

*Orthodontist, Williamsburg Orthodontics*

\* Director Emeritus

## **Towne Financial Services:**

### **Paul J. Farrell, Chairman**

*President, Rosewell Homes, Inc.*

### **G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

### **The Honorable Richard S. Bray**

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

### **John W. Failes**

*CPA (Retired)*

### **Gary D. McMahan**

*President & CEO Professional Advisory  
Resources, LLC*

## OWNERSHIP OF COMPANY COMMON STOCK

The following table sets forth, as of March 15, 2016, certain information with respect to the beneficial ownership of the Company's common stock held by each director and director nominee, each executive officer named in the Summary Compensation Table below, and the directors and all executive officers as a group. As of March 15, 2016, based upon a review of filings with the FDIC, the Company is not aware of any holders of more than 5% of the outstanding shares of TowneBank common stock.

<u>Name</u>	<u>Number of Shares Beneficially Owned (1)</u>	<u>Percent of Class</u>
Jacqueline B. Amato.....	133,594 (2)	*
G. Robert Aston, Jr. ....	386,048 (2)(3)	*
E. Lee Baynor.....	170,005 (2)	*
Richard S. Bray.....	65,348 (2)	*
Thomas C. Broyles.....	186,744	*
Bradford L. Cherry.....	157,996 (2)	*
J. Morgan Davis.....	128,327 (2)(3)	*
Douglas D. Ellis.....	184,602	*
John W. Failes.....	51,046 (2)	*
Paul J. Farrell.....	436,190 (2)	*
Andrew S. Fine.....	477,138 (2)	*
William I. Foster III.....	42,965 (3)(4)	*
Gordon L. Gentry, Jr. ....	203,821 (2)	*
John R. Lawson, II.....	1,909,976 (2)	3.70%
Harry T. Lester.....	45,076 (2)	*
W. Ashton Lewis.....	81,132 (2)	*
William B. Littreal.....	51,143 (3)(4)	*
Stephanie J. Marioneaux, M.D. ....	26,070 (2)	*
Clyde E. McFarland, Jr. ....	44,999 (2)(3)	*
Juan M. Montero, II, M.D. ....	3,109	*
R. Scott Morgan.....	289,045 (2)	*
Thomas K. Norment, Jr. ....	52,065 (2)	*
R.V. Owens, III.....	8,440	*
Elizabeth W. Robertson.....	77,271 (2)	*
Richard B. Thurmond.....	134,320 (2)	*
Richard T. Wheeler, Jr. ....	200,005	*
Alan S. Witt.....	90,169	*
F. Lewis Wood.....	132,065	*
All directors, director nominees and executive officers as a group (34 persons).....	5,967,199 (5)	11.54%

\* 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, 2,146 shares; Mr. Aston, 78,203 shares; Mr. Baynor, 48,498 shares; Mr. Bray, 2,278 shares; Mr. Cherry, 952 shares; Mr. Davis, 453 shares; Mr. Failes, 24,201 shares;

Mr. Farrell, 423,002 shares; Mr. Fine, 267,357 shares; Mr. Gentry, 162,712 shares; Mr. Lawson 1,570,729 shares; Mr. Lester, 5,122 shares; Mr. Lewis, 42,587 shares; Dr. Marioneaux, 87 shares; Mr. McFarland, 402 shares; Mr. Morgan, 4,687 shares; Mr. Norment, 18,848 shares; Ms. Robertson, 76,971 shares; and Mr. Thurmond, 5,550 shares.

- (3) Includes shares of common stock that are restricted stock holdings as follows: Mr. Aston, 38,668 shares; Mr. Davis, 15,629 shares; Mr. Foster, 7,536 shares; Mr. Littreal, 11,259 shares; and Mr. McFarland, 1,772 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 shares of common stock underlying stock options that are currently exercisable as follows: 21,217 shares issuable to Mr. Foster; and 21,115 shares issuable to Mr. Littreal. These shares cannot be voted at the Annual Meeting because the stock options have not been exercised.
- (5) Includes 68,082 shares of common stock underlying stock options that are currently exercisable and 81,878 shares of common stock that are restricted stock holdings. Only the shares that are restricted stock holdings can be voted at the Annual Meeting.

## **COMPENSATION COMMITTEE REPORT**

The Compensation Committee (the “Committee”) has reviewed and discussed the Compensation Discussion and Analysis (the “CD&A”) for the year ended December 31, 2015 with management. Based on this review and discussion, the Committee recommended to the Board of Directors that the CD&A be included in this proxy statement.

### **Submitted by the Compensation Committee of TowneBank:**

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

## **COMPENSATION DISCUSSION AND ANALYSIS**

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

Throughout this proxy statement, the individuals who served as the Company’s Chief Executive Officer and Chief Financial Officer during the year ended December 31, 2015, and each of the three next most highly compensated executive officers of TowneBank included in the Summary Compensation Table on page 31, are collectively referred to as the “Named Executive Officers.”

The structure of executive compensation programs is a matter of critical importance to TowneBank. Our Board of Directors has established the Committee to assist the Board by recommending, managing and monitoring compensation and benefit plans for our Chief Executive Officer and managing and approving compensation and benefit plans for our other Named Executive Officers. With respect to Chief Executive Officer compensation, the Committee holds its discussions in executive sessions and recommends a final compensation package to the independent directors of the Board for approval. The Company has not employed a compensation consultant to assist in any manner in any year reported in this proxy statement.

The Committee considers the results of the stockholder advisory say-on-pay vote in its deliberations regarding Named Executive Officer compensation. At our 2015 Annual Meeting of Stockholders, 93.01% of our stockholders who voted at the meeting voted for the approval of the compensation provided to our Named Executive Officers.

The remainder of this Compensation Discussion and Analysis outlines our compensation philosophy, executive compensation structure, and an analysis of compensation decisions made during 2015.

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

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

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

*Competitor Groups.* The Company competes against a wide range of financial institutions, including local, regional and national banks, as well as numerous other financial service providers. Due to the significant market share position of the regional and national banks in the Company's primary markets, coupled with the Company's growth, the Company primarily competes with these larger institutions for executive talent. Accordingly, the Committee reviewed the compensation programs and philosophies of the major banks serving Hampton Roads, SNL Financial Executive Compensation Data for East Coast banks with assets ranging from \$5 billion to \$10 billion, 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.

## **Executive Compensation Components**

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

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

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

*Base Salary.* The Company provides the Named Executive Officers and other employees with a base salary to compensate them for services rendered during the year. Base salary levels for the Named Executive Officers are primarily determined by the Committee for each executive based on his or her position and responsibility and what the Committee deems necessary or appropriate to attract the level of competence needed for the position. Length of service, experience, and job performance are also considered. The Committee reviews base salary levels annually and focuses on individual performance from prior years, current industry conditions, and current market considerations to ensure that base salary levels for the Company's executive officers and key employees are competitive within a range that the Committee considers to be reasonable and necessary. Salary adjustments for the Named Executive Officers other than the Chief Executive Officer are recommended by the Chief Executive Officer, with final approval given by the Committee. All matters pertaining to the Chief Executive Officer's compensation are the exclusive responsibility of the Committee or the Board of Directors.

The base salaries of our Named Executive Officers were increased during 2015 in relation to their contributions to the Company and to ensure that their salaries were in a competitive range when compared to similar positions at peer companies. Mr. Aston voluntarily decreased his base salary to \$900,000 from the Compensation Committee approved amount of \$1,000,000, Mr. Davis' base salary increased to \$650,000, Mr. McFarland's base salary increased to \$375,000, and Mr. Littreal's base salary increased to \$398,000. For further discussion on this topic, see "Compensation Earned by the Chief Executive Officer" in this document on page 29.

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

Historically, the Committee establishes performance goals for executive officers, as a group, within the first 90 days of each year. In determining final awards, the Committee may consider adjusting the Company's net income target and other performance measures for unplanned, unusual, or non-recurring items of gain or expense. The Committee did not adjust the target measure for any unplanned, unusual or non-recurring items in 2015. The performance goals for subsequent years may be expanded to include individual and business unit/function performance measures at the discretion of the Committee.

Under the current stockholder-approved Annual Incentive Compensation Plan, eligible executives had a target incentive of 40% of base salary for 2015. Final awards for the Named Executive Officers, other than the Chief Executive Officer, may be adjusted, at the discretion of the Chief Executive Officer and the Committee, for business segment and individual performance. The final award for the Chief Executive Officer may be adjusted for his individual performance at the discretion of the Committee. Based upon

the Company's financial performance, and the achievement of the corporate goals and objectives for 2015, eligible participants earned an award equal to 40% of their respective base salaries, which represents full achievement of the target incentive. The Committee, at management's recommendation, determined that the award would be paid as a cash incentive, which is reported under the Non-Equity Incentive Plan column of the Summary Compensation Table.

In 2014, a portion of the annual incentive compensation was awarded through the issuance of performance-based restricted stock, which was granted in February 2015. Because the Summary Compensation Table reports equity-based awards only in the year in which they were granted, the value of the awards has been reported as compensation to the executives in 2015 despite being related to the Company's 2014 performance.

Ms. Amato did not participate in the Incentive Compensation Plan, as she received performance-based incentive compensation pursuant to the terms of her employment agreement. See "Employment Agreements and Change-in-Control Agreements" beginning on page 35.

*Stock Incentive Plan.* The Company maintains a stock incentive plan that is designed to attract and retain qualified personnel in key positions and provide employees with a proprietary interest in the Company as an incentive to contribute to the success of the Company. The Company's 2008 stock incentive plan replaced the Company's 1999 stock incentive plan, and became effective on May 22, 2008, after stockholders approved the plan at the 2008 annual meeting. The stock incentive plan provides for the grant of incentive stock options intended to comply with the requirements of Section 422 of the Internal Revenue Code of 1986 ("incentive stock options") and nonqualified stock options, as well as restricted stock awards.

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

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

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

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

The use of these instruments is intended to provide incentives to the Company's executive officers and key employees to work toward the long-term growth of the Company by providing them with a benefit that will increase only to the extent the value of the common stock increases. Currently, options and

restricted shares are not granted by the Committee or the Board of Directors as a matter of course as part of the regular annual compensation of any executive or key employee. The decision to grant options or restricted shares is based on the perceived incentive that the grant will provide, as well as the benefits that the grant may have on long-term stockholder value. The determination of the number of shares granted is based on the level and contribution of the employee. Consideration is also given to the anticipated contribution to overall stockholder value of the business operations for which the optionee has responsibility.

Except as related to the 2014 annual incentive compensation discussed above, there were no stock-based awards granted to our Named Executive Officers during 2015.

*401(k) Plan.* The Company has adopted a defined contribution plan established in accordance with Section 401(k) of the Internal Revenue Code of 1986 (the “401(k) Plan”). Employees of the Company are eligible to participate in their second month of employment. Under the 401(k) Plan, employees may contribute a percentage of their annual salary, subject to statutory limitations. The Company may make matching and discretionary contributions under the 401(k) Plan. Employer contributions, if any, vest 100% for employees employed on the plan’s effective date; employees entering the 401(k) Plan subsequent to this date vest 33%, 66%, and 100% after the first, second, or third year of service, respectively. In 2015, the Company matched employee contributions up to 4.2% of their salary.

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

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

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

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

The Company has the option to match an employee's combined nonqualified deferred compensation and 401(k) deferrals up to a maximum of 6% of his or her salary. The Company does not match deferrals made by employees who are participants in the Supplemental Executive Retirement Plan or any deferrals related to compensation exceeding \$735,000. Compensation deferred pursuant to the program is invested in a rabbi trust and participants are credited with an annual return equal to 120% of the long-term Applicable Federal Rate as published and effective each July. There was no Company match of contributions made by Named Executive Officers in 2015.

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

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

### **Compensation Earned by the Chief Executive Officer**

In establishing the Chief Executive Officer's base salary, the Committee considers the overall financial, market and competitive performance of the Company during the fiscal year under consideration. The Committee also considers individual and combined measures of progress of the Company, including the quality of the loan and investment portfolios, desirable changes in capital ratios, the overall growth of the Company, the improvement in earnings per share, the level of non-performing loans and real estate owned, the performance of the non-bank financial service companies, and other objectives as may be established by the Board of Directors. Additionally, the Committee takes into account the ratings under the Uniform Financial Institutions Rating System in connection with the Company's most recent examination from the Virginia State Corporation Commission or the Federal Deposit Insurance Corporation. Lastly, the Committee reviewed the compensation and benefit levels of comparable positions at institutions with assets between \$5 billion and \$10 billion and located on the East Coast of the United States. The Committee believes the information shows Mr. Aston's total compensation to be within the range for chief executive officers of other institutions.

### **162(m) Disclosure**

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



## **Compensation Policies that Affect Risk Management**

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

## NAMED EXECUTIVE OFFICERS COMPENSATION

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

### Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards(1)	Non-Equity Incentive Plan Compensation(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(3)	All Other Compensation(4)	Total
G. Robert Aston, Jr. Chairman/CEO TowneBank	2015	\$ 900,000	—	\$ 129,670	\$ 360,000	\$ 314,825	\$ 32,325	\$ 1,736,820
	2014	\$ 875,000	—	—	\$ 97,825	\$ 147,090	\$ 18,807	\$ 1,138,722
	2013	\$ 875,000	—	\$ 199,999	\$ 212,000	—	\$ 20,101	\$ 1,307,100
Clyde E. McFarland, Jr. Senior Executive Vice President/CFO TowneBank	2015	\$ 365,000	—	\$ 52,614	\$ 150,000	\$ 338,408	\$ 22,468	\$ 928,490
	2014	\$ 355,000	—	—	\$ 39,689	\$ 198,974	\$ 19,309	\$ 612,972
	2013	\$ 345,000	—	—	\$ 75,260	\$ 79,858	\$ 19,814	\$ 519,932
J. Morgan Davis President/Chief Banking Officer, TowneBank	2015	\$ 600,000	—	\$ 81,512	\$ 260,000	\$ 523,208	\$ 29,998	\$ 1,494,718
	2014	\$ 550,000	—	—	\$ 61,490	\$ 741,909	\$ 27,398	\$ 1,380,797
	2013	\$ 500,000	—	\$ 499,991	\$ 116,600	\$ 508,041	\$ 23,794	\$ 1,648,426
William B. Littreal (5) Senior Executive Vice President/COO TowneBank	2015	\$ 388,000	—	\$ 56,014	\$ 159,200	\$ 37,799	\$ 24,849	\$ 665,862
	2014	\$ 378,000	—	—	\$ 42,260	\$ 47,978	\$ 19,618	\$ 487,856
Jacqueline B. Amato Chairman TowneBank Mortgage	2015	\$ 41,600	\$ 843,509	—	\$ 1,868,300	\$ 17,219	\$ 34,392	\$ 2,805,020
	2014	\$ 41,600	\$ 582,646	—	\$ 883,836	\$ 27,093	\$ 33,015	\$ 1,568,190
	2013	\$ 41,600	\$ 727,208	—	\$ 1,260,420	\$ 110,591	\$ 26,813	\$ 2,166,632

- (1) Amounts reflect the aggregate grant date fair value of stock awards for 2015 computed in accordance with FASB ASC Topic 718. The assumptions made in the valuation of the restricted stock awards are set forth in note 13 of the Notes to Consolidated Financial Statements in TowneBank's Annual Report on Form 10-K for the year ended December 31, 2015.
- (2) Consists of incentive compensation paid to the officers under the Executive Incentive Compensation Program which is described on page 26 other than to Ms. Amato, who earned such compensation pursuant to the terms of her employment agreement with the Company. In 2015, the officers earned an award equal to the targeted incentive of 40% of their respective base salaries, which was paid as a cash award. The awards were calculated based upon Mr. Aston's base salary of \$900,000, Mr. Davis' base salary of \$650,000, Mr. McFarland's base salary of \$375,000, and Mr. Littreal's base salary of \$398,000. The compensation under Ms. Amato's employment agreement, 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 35).
- (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. 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 2015, consists of amounts with respect to (i) deferred compensation plan and 401(k) plan contributions, and group life and long-term disability insurance payments; (ii) personal usage of a company automobile for Mr. Aston, \$3,962; Mr. McFarland, \$4,517; Mr. Davis, \$1,654; Mr. Littreal, \$12,265; and Ms. Amato, \$2,138; and (iii) Company-paid travel for Mr. Aston, \$3,079 and Mr. Davis, \$3,324. Each Named Executive Officer is responsible for paying income tax on the amounts other than with respect to plan contributions and insurance premiums.
- (5) Mr. Littreal became a Named Executive Officer as of December 31, 2014.

## Grants of Plan-Based Awards

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

The following table shows equity and non-equity awards granted to the Named Executive Officers during the year ended December 31, 2015.

Name	Grant Date	Actual Payout (1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (2)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	Grant Date Fair Value of Stock and Option Awards
			Threshold	Target	Maximum	Threshold	Target	Maximum		
G. Robert Aston, Jr.	2/3/15	—	—	—	—	—	—	—	8,732	\$ 129,670
	—	\$ 360,000	—	\$ 360,000	\$ 360,000	—	—	—	—	—
Clyde E. McFarland, Jr.	2/3/15	—	—	—	—	—	—	—	3,543	\$ 52,614
	—	\$ 150,000	—	\$ 150,000	\$ 150,000	—	—	—	—	—
J. Morgan Davis	2/3/15	—	—	—	—	—	—	—	5,489	\$ 81,512
	—	\$ 260,000	—	\$ 260,000	\$ 260,000	—	—	—	—	—
William B. Littreal	2/3/15	—	—	—	—	—	—	—	3,772	\$ 56,014
	—	\$ 159,200	—	\$ 159,200	\$ 159,200	—	—	—	—	—
Jacqueline B. Amato	—	\$ 1,868,300	—	\$ 1,425,758	N/A	—	—	—	—	—

- (1) Actual amounts paid in 2016 for the 2015 incentive are also reflected in the Summary Compensation Table under the Non-Equity Incentive Compensation column. See that table and related footnote (2) for more information.
- (2) Represents threshold, target and maximum company performance or formulaic annual incentive amounts for 2015.

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, 2015.

### Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised 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.	—	—	—	—	—	7,973 (4)	\$ 166,397	—	—
	—	—	—	—	—	—	—	8,732 (6)	\$ 182,237
Clyde E. McFarland, Jr.	—	—	—	—	—	—	—	3,543 (6)	\$ 73,942
J. Morgan Davis	—	—	—	—	—	19,934 (4)	\$ 416,023	—	—
	—	—	—	—	—	—	—	5,489 (6)	\$ 114,555
William B. Littreal	10,300	15,450	—	\$15.00 (2)	04/02/2021	—	—	—	—
	10,815	—	—	\$19.11 (3)	05/29/2018	—	—	—	—
	—	—	—	—	—	9,996 (5)	\$ 208,617	—	—
	—	—	—	—	—	—	—	3,772 (6)	\$ 78,722
Jacqueline B. Amato	—	—	—	—	—	—	—	—	—

- (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, 2015 (\$20.87 per share).
- (2) Stock options vest at the rate of 10%/year, with vesting dates starting April 1, 2012. The exercise price has been adjusted to reflect stock splits and dividends.
- (3) Stock options vested at the rate of 14.29%/year, with vesting dates starting May 28, 2009. The exercise price has been adjusted to reflect stock splits and dividends.
- (4) The restricted stock awards vest at the rate of 20%/year beginning on the first anniversary of the grant date, based on a service requirement, which requires each executive to remain continuously employed through the applicable vesting date. In the event of retirement in accordance with the Company's retirement policy, the shares will continue to vest in accordance with the described vesting components.
- (5) Restricted stock vests at the rate of 10%/year, with vesting dates starting April 1, 2012.
- (6) The restricted stock awards consist of two equal tranches, each of which has two vesting components: (1) a performance requirement, which requires that the Company reach a targeted annual return on average assets of 0.90% or greater for the years ended December 31, 2015 and 2016; and (2) a service requirement, which requires each executive to remain continuously employed through the applicable vesting date. In the event of retirement in accordance with the Company's retirement policy, the shares will continue to vest in accordance with the described vesting components.

## 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 2015.

<u>Name</u>	<u>Option Awards</u>		<u>Stock Awards</u>	
	<u>Number of Shares Acquired on Exercise</u>	<u>Value Realized on Exercise</u>	<u>Number of Shares Acquired on Vesting</u>	<u>Value Realized on Vesting (1)</u>
G. Robert Aston, Jr.	—	—	7,239	\$ 115,262
Clyde E. McFarland, Jr.	—	—	1,924	\$ 31,073
J. Morgan Davis	—	—	9,087	\$ 142,636
William B. Littreal	—	—	3,804	\$ 61,768
Jacqueline B. Amato	—	—	—	—

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

## Supplemental Executive Retirement Plan

The following table shows the actuarial present value of accumulated benefits payable to each of the participating Named Executive Officers as of December 31, 2015, including the number of years of service credited to each such Named Executive Officer, under the SERP using interest rate and mortality rate assumptions consistent with those used in the Company's financial statements. Benefits under these plans are payable as a monthly annuity for a 15-year period upon attainment of retirement age and remain subject to certain loyalty and confidentiality covenants, including non-competition, non-solicitation, and other restrictions.

<u>Name</u>	<u>Plan Name</u>	<u>Number of Years Credited Service</u>	<u>Present Value of Accumulated Benefit</u>	<u>Payments During Last Fiscal Year</u>	<u>Total Percentage Vested</u>	<u>Vested Annual Benefit</u>
G. Robert Aston, Jr.	SERP	7.08	\$ 5,359,275	—	100.00%	\$ 584,929
Clyde E. McFarland, Jr.	SERP	7.08	\$ 1,010,117	—	100.00%	\$ 175,479
J. Morgan Davis	SERP	7.08	\$ 2,684,323	—	100.00%	\$ 247,470
William B. Littreal	SERP	3.38	\$ 121,991	—	33.33%	\$ 354,919
Jacqueline B. Amato	SERP	7.08	\$ 680,606	—	100.00%	\$ 60,000

## 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 2015. 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 31.

<u>Name</u>	<u>Executive Contributions in Last Fiscal Year (1)</u>	<u>Registrant Contributions in Last Fiscal Year</u>	<u>Aggregate Earnings in Last Fiscal Year</u>	<u>Aggregate Withdrawals/ Distributions</u>	<u>Aggregate Balance at Last Fiscal Year-End</u>
G. Robert Aston, Jr.	—	—	\$ 28,108	—	\$ 836,124
Clyde E. McFarland, Jr.	\$ 58,663	—	\$ 23,757	—	\$ 732,426
J. Morgan Davis	—	—	\$ 20,791	—	\$ 618,451
William B. Littreal	—	—	—	—	—
Jacqueline B. Amato	—	—	\$ 175,099	—	\$ 5,208,701

(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 Ms. Amato 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 in such amounts as may be determined by the Board, and are subject to non-competition and non-solicitation covenants.

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

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

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

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

*Other Agreements.* The Company and Jacqueline B. Amato, President and Chief Operating Officer of TowneBank Mortgage and a Director of the Company, entered into an employment agreement as of October 1, 2005. The agreement had an initial term of three years and renews automatically each year for an additional calendar year until either party gives notice of non-renewal before the expiration of any renewal term of the agreement. Under the agreement, Ms. Amato received an initial base salary of \$40,000, subject to annual increases. As is customary in the mortgage loan industry, Ms. Amato is also eligible for incentive compensation in the form of commissions and incentive plan payments based on the mortgage loan production and profitability of TowneBank Mortgage. Ms. Amato's employment agreement provides for an annual incentive plan payment, which is not based on commissions, in an amount equal to a fixed percentage of the net pre-tax operating income (as defined in the agreement) of TowneBank Mortgage for the calendar year. This incentive plan payment is not subject to any minimum or maximum amount. Ms. Amato may voluntarily terminate her employment at any time under the agreement. The contract does not include a provision for termination by the employee for "good reason." The Company may terminate Ms. Amato's employment with or without cause by giving her written notice of termination. If the Company terminates Ms. Amato for cause, she will receive severance payments based on her base salary then in effect and recent commissions and bonuses earned before the termination date.

The following table provides information on the potential payment upon termination of employment or a change in control of the Company for the Named Executive Officers, assuming a termination or change in control occurring December 31, 2015.

## Potential Payments Upon Termination or Change in Control

<u>Name</u>	<u>Benefit</u>	<u>Before Change in Control Termination Without Cause or for Good Reason</u>	<u>After Change in Control Termination Without Cause or for Good Reason</u>	<u>Death Benefit</u>	<u>Disability Benefit</u>
G. Robert Aston, Jr.	Post-Termination Compensation	\$ 2,700,000	\$ 3,051,000	\$ —	\$ 75,000
	Early Vesting of Restricted Stock	348,633	553,924	553,924	553,924
	Health Care Benefits Continuation	83,758	295,269	—	6,980
	Retirement Benefit (1)	8,773,939	8,773,939	8,773,939	—
	Excise Tax Gross-up	—	7,943	—	—
	Total Value	\$ 11,906,330	\$ 12,682,075	\$ 9,327,863	\$ 635,904
Clyde E. McFarland, Jr.	Post-Termination Compensation	\$ 1,125,000	\$ 1,271,250	\$ —	\$ 31,250
	Early Vesting of Restricted Stock	73,942	117,483	117,483	117,483
	Health Care Benefits Continuation	60,628	479,816	—	5,052
	Retirement Benefit (1)	2,632,182	2,632,182	2,632,182	—
	Excise Tax Gross-up	—	110,392	—	—
	Total Value	\$ 3,891,752	\$ 4,611,123	\$ 2,749,665	\$ 153,785
J. Morgan Davis	Post-Termination Compensation	\$ 1,950,000	\$ 2,203,500	\$ —	\$ 54,167
	Early Vesting of Restricted Stock	530,578	843,006	843,006	843,006
	Health Care Benefits Continuation	60,628	409,194	—	5,052
	Retirement Benefit (1)	3,712,051	3,712,051	3,712,051	—
	Excise Tax Gross-up	—	284,538	—	—
	Total Value	\$ 6,253,257	\$ 7,452,289	\$ 4,555,057	\$ 902,225
William B. Littreal	Post-Termination Compensation	\$ 1,194,000	\$ 1,194,000	\$ —	\$ 33,167
	Early Vesting of Restricted Stock	287,338	287,338	287,338	287,338
	Early Vesting of Stock Options	51,912	51,912	51,912	51,912
	Health Care Benefits Continuation	74,074	74,074	—	6,173
	Retirement Benefit (1)	5,323,786	5,323,786	5,323,786	—
	Excise Tax Gross-up	—	—	—	—
	Total Value	\$ 6,931,110	\$ 6,931,110	\$ 5,663,036	\$ 378,590
Jacqueline B. Amato	Post-Termination Compensation	\$ 6,449,644	\$ 6,449,644	\$ 1,433,475	\$ 1,433,475
	Early Vesting of Restricted Stock	—	—	—	—
	Health Care Benefits Continuation	39,474	39,474	—	—
	Retirement Benefit (1)	900,000	900,000	900,000	—
	Excise Tax Gross-up	—	—	—	—
	Total Value	\$ 7,389,118	\$ 7,389,118	\$ 2,333,475	\$ 1,433,475

(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.



## COMPENSATION OF DIRECTORS

As compensation for their services during 2015, 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 2015, each member of the Board of Directors of the Company received an annual retainer of \$20,000. Chairmen of the Board of Directors of the Company, each TowneBanking Group Board, and each TFS division Board, Vice Chairmen of the Board of Directors of the Company, and Committee Chairmen received an additional \$3,000 retainer fee. Board members who are also officers did not receive any additional compensation above their regular compensation for service on the Board or serving as a committee chairman.

### 2015 Director Compensation

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>All Other Compensation</u>	<u>Total</u>
E. Lee Baynor	\$ 27,325	—	\$ 27,325
Richard S. Bray	\$ 35,800	—	\$ 35,800
Thomas C. Broyles	\$ 41,650	—	\$ 41,650
Bradford L. Cherry	\$ 24,850	—	\$ 24,850
Douglas D. Ellis	\$ 28,850	—	\$ 28,850
John W. Failes	\$ 32,525	—	\$ 32,525
Paul J. Farrell	\$ 33,275	—	\$ 33,275
Andrew S. Fine	\$ 28,775	—	\$ 28,775
John R. Lawson, II	\$ 27,400	—	\$ 27,400
Harry T. Lester	\$ 24,800	—	\$ 24,800
W. Ashton Lewis	\$ 27,425	—	\$ 27,425
Stephanie J. Marioneaux, M.D.	\$ 24,500	—	\$ 24,500
Juan M. Montero, II, M.D.	\$ 27,850	—	\$ 27,850
R. Scott Morgan	\$ 28,425	—	\$ 28,425
Thomas K. Norment, Jr.	\$ 26,300	—	\$ 26,300
R.V. Owens, III	\$ 23,900	—	\$ 23,900
Elizabeth W. Robertson	\$ 13,350	—	\$ 13,350
Richard B. Thurmond	\$ 23,300	—	\$ 23,300
Richard T. Wheeler, Jr.	\$ 30,625	—	\$ 30,625
Alan S. Witt	\$ 27,475	—	\$ 27,475
F. Lewis Wood	\$ 25,500	—	\$ 25,500
Total	<u>\$ 583,900</u>	<u>—</u>	<u>\$ 583,900</u>

## RELATED PARTY TRANSACTIONS

Certain directors and officers of the Company and members of their immediate families, and corporations, partnerships and other entities with which such persons are associated, are customers of the Company. As such, these persons engaged in transactions with the Company in the ordinary course of business during 2015, and will have additional transactions with the Company in the future.

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

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

The Company rents space for various financial centers from companies affiliated with certain directors. All leases are made in the ordinary course of business upon substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons. The Company rents space from Pavilion Center Associates, LLC, a company in which Mr. Andrew S. Fine is a manager with 1% ownership. In addition, Mr. Andrew S. Fine has an 11.00% ownership interest in The Runnymede Corporation, which charges management fees to Pavilion Center Associates, LLC. Rent expense related to this lease was \$471,000 for the year ended December 31, 2015. The Company also rents space from Pavilion Center II, LLC, which is 30.99% owned by Pavilion Center Associates, LLC and 69.01% by The Runnymede Corporation. Rent expense related to this lease was \$1,829,000 for the year ended December 31, 2015. The Company rents space from Warwick Wood Associates, LLC. Mr. Richard B. Thurmond has a 50% ownership interest in Warwick Wood Associates, LLC. Rent expense and other payments related to this lease for 2015 was \$149,000.

In the ordinary course of its business, the Company obtains certain goods and services from companies affiliated with certain directors. Such transactions are made in the ordinary course of business upon substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons. In 2015, the Company made payments totaling \$214,000 in connection with the purchase of automobiles for use by certain employees, including maintenance on those vehicles, from First Team Automotive Group, for which Mr. Ashton Lewis serves as Treasurer and has a 37.50% ownership interest, and First Team Honda, for which Mr. Lewis serves as Vice President and has a 29.45% ownership interest.

The Company is a 51% partner in a consolidated joint venture, Out of Town, LLC d/b/a Red Sky Travel Insurance ("Red Sky"), with current director R.V. Owens, III. Mr. Owens owns 24.5% of Red Sky and received distributions of partnership earnings of \$676,895 during 2015. Red Sky offers travel, medical, and baggage protection insurance for travelers via vacation property management companies.

## AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee assists the Board of Directors of the Company in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. During the year ended December 31, 2015, the committee met eight times. In addition to regularly scheduled meetings, the Audit and Risk Committee is available either as a group or individually to discuss any matters that might affect the financial statements, internal controls or other financial aspects of the operations of the Company. Each of the members of the Audit and Risk Committee is an “independent director” as defined by NASDAQ Marketplace Rule 5605(a)(2).

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

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

The Audit and Risk Committee discussed and reviewed the audited financial statements of the Company as of and for the fiscal year ended December 31, 2015, with management and the independent auditors. Management has the responsibility for the preparation of the Company’s financial statements, and the independent auditors have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Audit and Risk Committee recommended to the Board that the Company’s audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2015, for filing with the Federal Deposit Insurance Corporation.

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

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

### *Consultants to the Audit and Risk Committee:*

Dr. C. Fred Bateman  
Michael J. Blachman  
W. Arthur Hudgins  
David M. Limroth  
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, 2015 and 2014. All services were reviewed by the Audit and Risk Committee, which concluded that the provision of such services by Dixon Hughes Goodman LLP was compatible with maintaining the accounting firm's independence. It is the Audit and Risk Committee's policy to approve fees for services rendered by the Company's independent auditors only upon a review of such fees.

	2015	2014
Audit Fees (1)	\$ 762,153	\$ 546,909
Audit-related Fees (2)	33,000	49,556
Tax Fees (3)	12,375	12,499
All Other Fees (4)	—	—
Total	<u>\$ 807,528</u>	<u>\$ 608,964</u>

- (1) Audit fees represent professional services rendered in connection with the audit of the Company's annual financial statements and reviews of the financial statements included in the Company's Forms 10-Q for the fiscal years. Also included in the total amount billed are fees related to the report on effectiveness of internal control as required by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), the report on internal control as required by the Sarbanes-Oxley Act Section 404, and services performed in connection with statutory and regulatory filings or engagements.
- (2) Audit-related fees consisted primarily of accounting consultations and other attestation services, including employee benefit plan audits and its due diligence, accounting assistance and other attestation services in connection with proposed or consummated mergers or acquisitions.
- (3) Tax fees consisted of tax return preparation and other tax-related services rendered, including cost segregation studies and tax assistance related to merger and acquisitions. In 2015 and 2014, the Company also contracted with KPMG, LLP for most of its consolidated company tax-related services and made payments to KPMG, LLP totaling \$122,589 and \$117,975 for such tax services, respectively.
- (4) All other fees consist of all services rendered other than those set forth above. In 2015 and 2014, the Company contracted with KPMG, LLP for certain consulting and valuation services and made payments to KPMG, LLP totaling \$62,390 and \$63,265 for such services, respectively.

### Pre-Approval Policy

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

## INDEPENDENT AUDITORS — PROPOSAL THREE

The Board of Directors, upon recommendation of the Audit and Risk Committee, has appointed Dixon Hughes Goodman LLP as the Company's independent public accountants for the year ending December 31, 2016, and has further directed that management submit the selection of independent public accountants for ratification by the stockholders at the Annual Meeting.

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

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

**The Board of Directors recommends that you vote “FOR” the ratification of the appointment of Dixon Hughes Goodman LLP as independent auditors for the fiscal year ending December 31, 2016.**

#### **ADVISORY VOTE ON TOWNEBANK’S EXECUTIVE COMPENSATION — PROPOSAL FOUR**

Stockholders are being given the opportunity to vote on an advisory (non-binding) resolution at the Annual Meeting to approve TowneBank’s executive compensation policies and procedures as described in the Compensation Discussion and Analysis, the compensation tables, and related discussion in TowneBank’s 2016 proxy statement. This proposal, commonly known as a “say-on-pay” proposal, gives stockholders the opportunity to endorse or not endorse TowneBank’s executive pay program through the following resolution:

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

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

The Compensation Committee respectfully requests that you consider the following:

- Since the founding of the Company in 1998, TowneBank’s ultimate strategic business concept has been to attract, recruit and retain the best bankers in Hampton Roads. It was and remains our belief that extraordinary people will achieve extraordinary results.
- Since the founding of the Company, the leadership of TowneBank has created a \$6.30 billion local bank, making it one of the top performing new banks in the United States. Additionally, the Bank enjoys a stellar reputation based on honesty, integrity, and doing the right thing.
- TowneBank recorded its 16th consecutive year of increased earnings.
- We believe our employees are our most important and valuable asset.

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

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

## STOCKHOLDER PROPOSALS

To be considered for inclusion in the Company's proxy statement relating to the 2017 Annual Meeting of Stockholders, stockholder proposals must be received no later than December 16, 2016, and comply with the Company's bylaws. To be considered for presentation at such meeting, although not included in the Company's proxy statement, a stockholder proposal must comply with the Company's bylaws and must be delivered to the Company not less than 60 nor more than 90 days before May 20, 2017. All stockholder proposals should be marked for the attention of Corporate Secretary, TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23435.

## STOCKHOLDERS SHARING THE SAME ADDRESS

The Company has adopted a procedure called "householding," which has been approved by the Securities and Exchange Commission. Under this procedure, the Company will deliver only one copy of the Company's 2015 Annual Report to Stockholders (the "2015 Annual Report") and this proxy statement to multiple stockholders who share the same address (if they appear to be members of the same family) unless the Company has received contrary instructions from an affected stockholder. Stockholders who participate in householding will continue to receive separate proxy cards. This procedure reduces the Company's printing costs, mailing costs and fees.

Copies of the 2015 Annual Report and this proxy statement are available on the "Investor Relations" page of the Company's website at <https://www.townebank.com> under the heading "Documents." The Company will deliver promptly upon written or oral request a separate copy of the 2015 Annual Report and this proxy statement to any stockholder at a shared address to which a single copy of either of those documents was delivered. To receive a separate copy of the 2015 Annual Report or this proxy statement, stockholders should contact the Company at:

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

If you are a stockholder and share an address and last name with one or more other stockholders and would like to revoke your householding consent and receive a separate copy of the Company's 2015 Annual Report or proxy statement in the future, please contact the Computershare Trust Company, N.A. at (800) 368-5948 or email them at [Shareholder@computershare.com](mailto:Shareholder@computershare.com). You will be removed from the householding program within 30 days of receipt of the revocation of your consent.

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

## STOCKHOLDER COMMUNICATIONS

Stockholders and other parties interested in communicating directly with the non-management directors as a group may do so by writing to Corporate Secretary, TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23435. The Corporate Secretary of the Company reviews all such correspondence and regularly forwards to the Board a summary of all such correspondence and copies of all correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or committees thereof or otherwise requires its attention.

Directors may, at any time, review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of the

Company's internal audit division and handled in accordance with procedures established by the Audit and Risk Committee with respect to such matters.

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

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

**ANNUAL REPORT ON FORM 10-K**

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, excluding exhibits, as filed with the Federal Deposit Insurance Corporation, is available on the "Investor Relations" page of the Company's website at <https://www.townebank.com> under the heading "*Documents*." Upon request by any stockholder to the following address, a copy of the 2015 Form 10-K will be furnished without charge:

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

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





2016 Annual Meeting of  
TowneBank Stockholders  
May 18, 2016, 11:30 a.m. Local Time  
Virginia Beach Convention Center  
1000 19th Street  
Virginia Beach, Virginia

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

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**IMPORTANT: IN MAY, SHAREHOLDERS OF RECORD ON APRIL 28, 2016  
WILL RECEIVE PROXY MATERIAL PERTAINING TO THE ACQUISITION OF  
MONARCH BANK. PLEASE BE SURE TO VOTE!**

▼ IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ▼

**Proxy — TowneBank**



**This Proxy is solicited on behalf of the Board of Directors**

The undersigned, revoking all prior proxies, hereby appoints **E. Lee Baynor, Thomas C. Broyles, John R. Lawson, II, and R. Scott Morgan**, as proxies, and each or any of them with full power of substitution, and hereby authorizes them to represent and to vote, as 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 March 31, 2016, at the Annual Meeting of Stockholders to be held May 18, 2016, or any adjournment thereof.

This proxy, when properly executed, will be voted in the manner directed on the reverse hereof by the undersigned stockholder. **If no direction is made, this proxy will be voted "FOR" all nominees listed in Proposal 1 and "FOR" Proposals 2, 3 and 4.**

This card also serves to instruct the administrator of the TowneBank's Direct Stock Purchase and Dividend Reinvestment Plan and the trustee of the defined contribution plan sponsored by TowneBank how to vote shares held for a participant in any such plan. Unless your proxy for your defined contribution plan shares is received by May 17, 2016, 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.

**THANK YOU FOR VOTING**

**C Non-Voting Items**

**Change of Address** — Please print your new address below.

**Comments** — Please print your comments below.

IF VOTING BY MAIL, YOU MUST COMPLETE SECTIONS A - C ON BOTH SIDES OF THIS CARD.

