

# TOWNE BANK

April 18, 2008

Dear Fellow Stockholder:

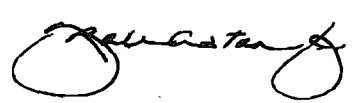
You are cordially invited to attend the Annual Meeting of Stockholders of TowneBank. It will be held on Thursday, May 22, 2008 at 11:30 a.m. at the Virginia Beach Convention Center, 1000 19<sup>th</sup> Street in Virginia Beach, Virginia.

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 Goodman & Company, LLP, as the Company's independent auditors for 2008, and approve the TowneBank 2008 Stock Incentive Plan. Furthermore, we will report to you on our progress during 2007 and our plans for the future.

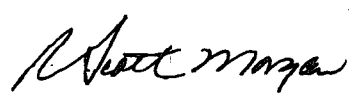
We hope you will be with us on May 22. Whether you plan to attend or not, please complete, sign, date and return the enclosed proxy card as soon as possible in the postage-paid envelope provided.

We greatly appreciate and value your continuing support.

Sincerely,



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



R. Scott Morgan  
*President*

**Filings Services**

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# TOWNE BANK

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## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

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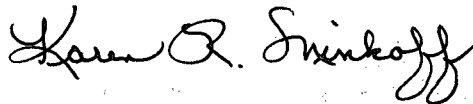
**To be Held on May 22, 2008**

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 Thursday, May 22, 2008 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 Goodman & Company, LLP, independent certified public accountants, as auditors of the Company for 2008;
4. To approve the TowneBank 2008 Stock Incentive Plan; 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, 2008 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

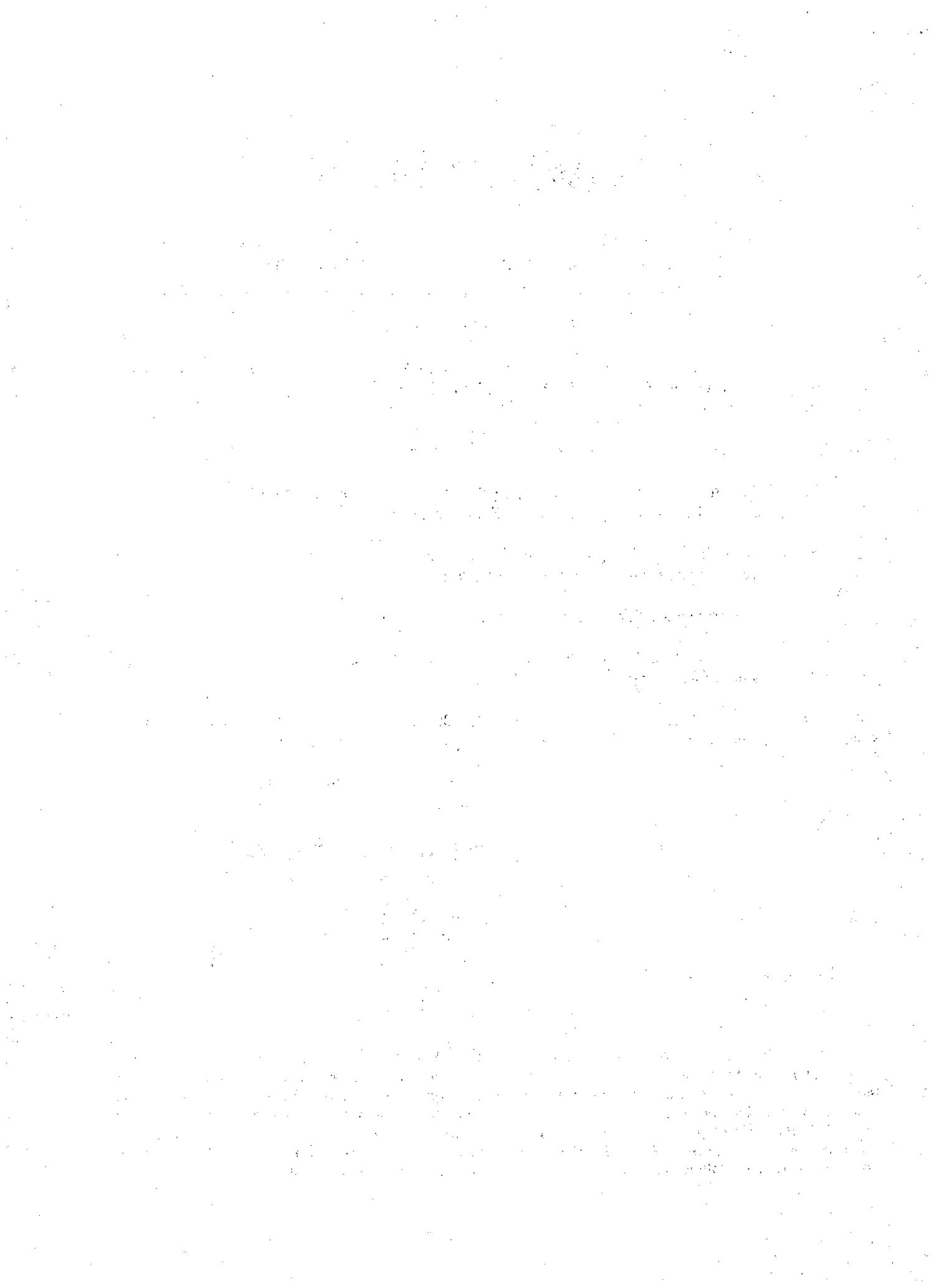


Karen R. Minkoff  
*Secretary to the Board*

April 18, 2008

### 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 prepaid 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.



**PROXY STATEMENT**  
**ANNUAL MEETING OF STOCKHOLDERS**  
**MAY 22, 2008**

**GENERAL**

We are providing these proxy materials in connection with the solicitation of proxies by the Board of Directors of TowneBank for the 2008 Annual Meeting of Stockholders (the "Annual Meeting") of the Company to be held on Wednesday, May 22, 2008. 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 18, 2008.

**Voting Rights of Stockholders**

Only stockholders of record at the close of business on March 31, 2008 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, 2008, there were 24,520,687 shares of the Company's common stock outstanding and entitled to vote at the Annual Meeting. The Company has no other class of stock outstanding. A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business.

Each share of common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting. Shares for which the holder has elected to abstain or to withhold the proxies' authority to vote (including broker non-votes) on a matter will count toward a quorum, but they will not be included in determining the number of votes cast with respect to such matter.

**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 Web site shown on your proxy card or by telephone through the number shown on your proxy card. Proxies will extend to, and will be voted at, any adjourned session of the Annual Meeting.

**Revocation of Proxies**

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

**Solicitation of Proxies**

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

## ELECTION OF DIRECTORS — PROPOSAL ONE

The Company's Board of Directors is divided into three classes (I, II and III), and the term of office for the Class I directors will expire at the Annual Meeting. Each of the Class I nominees currently serves as a director of the Company. If elected, the nominees will serve until the Annual Meeting of Stockholders held in 2011. 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 Board of Directors recommends the nominees, as set forth below, for election and that stockholders vote "FOR" these nominees.**

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years</u>
<b>2008 Class (Director Nominees to Serve Until the 2011 Annual Meeting):</b>		
Alvin P. Anderson (60)*	2004	Partner, Kaufman & Canoles, P.C. (law firm), Williamsburg, Virginia, since 1999; Director, Harbor Bank, from July 1996 to March 2004
John W. Failes (63)*	1999	CPA, Retired
Sandra W. Ferebee (60)	2005	President, GSH Residential Real Estate Company (wholly-owned subsidiary of TowneBank), Virginia Beach, Virginia
William I. Foster III (52)	2005	President, TowneBank Norfolk, since February 2005; Chief Financial Officer, IntraNexus, Inc. (information system provider), Virginia Beach, Virginia, from January 2002 to August 2003
William T. Hodsdon (59)	1999	Executive Vice President of TowneBank (Retired), from January 1999 to December 2006
J. Alan Lindauer (68)*	1999	Chairman, Waterside Capital Corporation (Retired)
Juan M. Montero, II, M.D. (66)*	1999	General and Thoracic Surgeon (Retired), President, Montero Home Care, Virginia Beach, Virginia
P. Ward Robinett, Jr. (60)	1999	President, TowneBank Portsmouth, since March 1999; Trustee, Beazley Foundation (private foundation); Member, Board of Directors of AAA of Tidewater, Inc. (automobile association)
Alan S. Witt (52)*	2004	Chief Executive Officer, Witt Mares, PLC, Newport News, Virginia, since 1989; Director, Harbor Bank, from July 1996 to March 2004

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years</u>
<b>2009 Class (Directors to Serve Until the 2009 Annual Meeting):</b>		
Jacqueline B. Amato (58)	2000	President, TowneBank Mortgage, since October 2000
Richard S. Bray (62)*	2006	President, Beazley Foundation, Inc. (private foundation), Portsmouth, Virginia, since September 2002; Senior Judge, Court of Appeals of Virginia (Retired)
William A. Copeland, Jr. (66)	1999	President, TowneBank Chesapeake, since April 1999
Elizabeth A. Duke (55)	2005	Senior Executive Vice President and Chief Operating Officer, TowneBank, since October 2005; Executive Vice President, Wachovia Bank, from November 2004 to October 2005; Executive Vice President, SouthTrust Bank, from November 2001 to November 2004
Paul J. Farrell (70)*	1999	President, Rosewell Corporation (real estate development), Chesapeake, Virginia, since March 1981; President, Rosewell Homes, Inc. (home building), Chesapeake, Virginia, since November 2004
Andrew S. Fine (71)*	1999	President, Runnymede Corporation (real estate development), Virginia Beach, Virginia
Gordon L. Gentry, Jr. (71)	2004	Chairman, Board of Directors of TowneBank Peninsula, since April 2004; President and Chief Executive Officer, Harbor Bank, from July 1995 to March 2004
Ernest F. Hardee (68)*	1999	President, Hardee Realty Corporation (real estate management), Norfolk, Virginia
John R. Lawson, II (56)*	2004	President and Chief Executive Officer, W.M. Jordan Company, Inc. (general construction contractor), Newport News, Virginia; Director, Harbor Bank, from July 1996 to March 2004
W. Ashton Lewis (62)*	1999	President, Excelleration, LLC (engine design and development for the NASCAR racing circuit), Concord, North Carolina; President, Lewis Gibbs Corporation (automobile dealership holding company), Chesapeake, Virginia, since 1999
R. Scott Morgan (63)	1999	President and Senior Loan Officer of TowneBank, since April 1999
William D. Sessoms, Jr. (54)	2005	President, TowneBank Virginia Beach, since February 2005; Senior Vice President and Business Banking Director, Wachovia, from January 1988 to January 2005

<u>Name (Age)</u>	<u>Served as Director Since</u>	<u>Principal Occupation During Past Five Years</u>
<b>2010 Class (Directors to Serve Until the 2010 Annual Meeting):</b>		
G. Robert Aston, Jr. (63)	1999	Chairman and Chief Executive Officer of TowneBank, since April 1999
E. Lee Baynor (68)*	1999	President, HBMD, LLC (land developer), Chesapeake, Virginia, since 2006; President, Lee Baynor, Inc. (real estate development and home building company), Chesapeake, Virginia, since 1989; President, Baynor Furniture, Inc., Chesapeake, Virginia, since 1960; President, LNJG Corporation (land developer), from 1996 to December 2005
Thomas C. Broyles (77)*	1999	Vice Chairman, Board of TowneBank, since 1999; Attorney, Kaufman & Canoles, P.C. (law firm), Norfolk/Virginia Beach, Virginia
Bradford L. Cherry (67)*	1999	President and Chief Executive Officer, Cherry Carpet, Inc. and Cherry Properties, Portsmouth, Virginia, since 1989
Anne C. H. Conner (42)	2005	President, TowneBank Williamsburg, since February 2005; Chief Executive Officer, Christopher Newport University Foundations, Newport News, Virginia, from 2004 to 2005; Senior Vice President, Bank of America, from 1986 to 2004
J. Morgan Davis (57)	1999	President, Towne Financial Services Group, since March 2005; President, TowneBank of Virginia Beach, from May 1999 to March 2005
Paul D. Fraim (57)*	2005	Mayor, City of Norfolk, Virginia, since 1994; Member, Norfolk City Council, since 1986; President, Fraim and Fiorella, P.C. (law firm), Norfolk, Virginia, since 2003; President and Managing Partner, Helig, McKenry, & Fraim (law firm), Norfolk, Virginia, from 1977 to 2003
Gerald L. Passaro (59)	2004	President, TowneBank Real Estate Finance Group, since 2007; President, TowneBank Peninsula, from 2004 to 2007; Chief Executive Officer, Harbor Bank, from 2003 to 2004; Senior Vice President, Harbor Bank, from 2002 to 2003
Richard B. Thurmond (56)	2000	President, William E. Wood and Associates (realty company) since 1990, Virginia Beach, Virginia
F. Lewis Wood (69)*	2003	President, Hampton Chevrolet-Mazda, Hampton, Virginia, since 1990

\* An "independent director" as defined in Rule 4200(a)(15) of the Marketplace Rules of The NASDAQ Stock Market, LLC (the "NASDAQ").



## Board of Directors and Committees

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of the director's duties, including attendance at Board and committee meetings. There were 12 meetings of the Board of Directors in 2007. No incumbent director attended less than 75% of the meetings of the Board of Directors and its committees in 2007 except Messrs. Fraim, Lawson and Lewis. Directors are encouraged to attend stockholders meetings, and 24 of 30 directors attended the Annual Meeting of Stockholders held May 23, 2007.

There are no family relationships among any of the directors or among any directors and any officer, except for Messrs. Wood and Lewis, who are first cousins. No directors of the Company serve as directors of other publicly held companies, except for Dr. Montero, who serves as a director of Waterside Capital Corporation.

The Board of Directors of the Company has established various committees, including Executive, Audit and Compensation committees. The nominating committee consists of the members who serve on the Compensation committee the Company or who may otherwise lack independence abstain from participation. The Board has reviewed the definition of "independent director" as defined in NASDAQ Marketplace Rule 4200(a)(15) in connection with determining independence.

*Executive Committee.* The Executive Committee is composed of Messrs. Broyles (Chairman), Anderson, Aston, Farrell, Fine, Hardee, Lawson, Lindauer and Morgan. 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 2007, there were 28 meetings of the Executive Committee.

*Audit Committee.* The Audit Committee is composed of Messrs. Hardee (Chairman), Baynor, Failes, Montero and Witt. Serving as consultants to the Audit 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. John A. Tilhou, a director of the Virginia Beach TowneBanking Group board; and Mr. Robert E. Yancey, a director of the Peninsula TowneBanking Group board. The five committee members are considered "independent directors" as defined by NASDAQ Marketplace Rule 4200(a)(15). The Board of the Company has established that the Company has two audit committee financial experts: Mr. John W. Failes and Mr. Alan S. Witt. The Board has determined that Messrs. Failes and Witt possess the requisite accounting and related financial management expertise to qualify for the position. Pursuant to the written charter of the Audit Committee, the functions of the committee are to recommend 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. The charter of the Audit Committee was included in the Company's proxy statement relating to its 2007 annual stockholders meeting, and is available upon request. To obtain a copy of the charter, please submit a written request to the Company's Corporate Secretary at the address given in the "Stockholder Communications" section in this proxy statement.

The Audit Committee is responsible for reviewing all transactions between the Company and any officer or director of the Company or any entity in which an officer or director has a material interest. Any such transactions must be on terms no less favorable than those that could be obtained on an arm's-length basis

from independent third parties. The Audit Committee met five times in 2007. The Audit Committee Report begins on page 30.

*Compensation Committee.* The Compensation Committee is composed of Messrs. Fine (Chairman), Anderson, Broyles, Hardee, Lindauer, Montero and Wood. The primary function of this committee is to recommend the compensation to be paid to the executive officers of the Company. It also administers all incentive and stock option plans for the benefit of Company officers and directors eligible to participate in such plans. The committee does not have a charter. The Compensation Committee met three times in 2007. The Compensation Committee Report is included on page 17.

*Compensation Committee Interlocks and Insider Participation.* During 2007, there were transactions between TowneBank and the members of the Compensation Committee (Messrs. Fine, Anderson, Broyles, Hardee, Lindauer, Montero and Wood), or their associates, all consisting of extensions of credit by the Company in the ordinary course of its business. The Company rents space from Pavilion Center Associates, LLC, a company in which Mr. Fine is a manager with 1% ownership. In addition, Mr. Fine has a 12.45% ownership interest in Runnymede Corporation, which charges management fees to Pavilion Center Associates, LLC. Each transaction was made on substantially the same terms, including interest rates, lease rates, 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.

#### **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 "independent directors" of the Board, as defined by NASDAQ Marketplace Rule 4200(a)(15) (together, the "Independent Directors").

*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, as amended) of a Candidate shall have any material personal, financial or professional interest in any present or potential competitor of the Company.
- Each Candidate shall be prepared to participate fully in Board activities, including active membership on at least one Board committee and attendance at, and active participation in, meetings of the Board and the committee of which he or she is a member, and not have other personal or professional commitments that would, in the Independent Directors' 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 paragraph 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 Independent Directors will evaluate a Candidate proposed by any single stockholder or group of affiliated stockholders who has beneficially owned more than 5% of the 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 Independent Directors 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 Independent Directors 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 Independent Directors or by applicable law. Any Candidate submitted by a Qualified Stockholder must also meet the definition of an "independent director" under NASDAQ Marketplace Rule 4200(a)(15).

*Evaluation of Candidates.* The Independent Directors 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 Independent Directors' initial evaluation, a Candidate continues to be of interest, certain Independent Directors will interview the Candidate and communicate their evaluation to the other Independent Directors members, the chairman of the Board, and the president and chief executive officer.

Members of the Independent Directors and senior management will conduct later reviews. Ultimately, background and reference checks will be conducted and the Independent Directors 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 Independent Directors meet 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 Independent Directors intend to review the Nominations Policy at least annually and anticipate 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 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 2007 with the following exceptions: Two late Form 4 reports were filed by J. Alan Lindauer with respect to two separate transactions, one was filed on May 4, 2007 for the acquisition of 2,000 shares, and one was filed on June 8, 2007 for the acquisition of 25 shares; one late Form 4 report was filed by John R. Lawson, II on June 20, 2007 for the acquisition of 3,500 shares; and one late Form 4 report was filed by Andrew S. Fine on August 14, 2007 for the acquisition of 1,000 shares.

## APPOINTMENT OF DIRECTORS OF TOWNEBANKING GROUPS — PROPOSAL TWO

The Company has established a “TowneBanking Group” for each of its six targeted banking markets and 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 and TFS board. Although ratification is not required by our by-laws or otherwise, the Board of Director 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 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:**

**John W. Brown, Chairman**

*Attorney, Brown, & Kubovcik, P.C.*

**Jeffrey W. Ainslie**

*President, Ainslie Widener*

**G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

**Dr. C. Fred Bateman**

*Executive Director, Urban Superintendents Association of America*

**E. Lee Baynor**

*President, Baynor, Inc.*

**James P. Bradner**

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

**The Honorable Richard S. Bray**

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

**Rickard E. Burnell**

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

**Ray A. Conner**

*Commissioner of the Revenue, City of Chesapeake*

**William A. Copeland, Jr.**

*President, TowneBank Chesapeake*

**Joseph A. Falk**

*President, Little Joe’s Auto*

**Paul J. Farrell**

*President, Rosewell Homes, Inc.*

**S. Grey Folkes, Jr., P.E.**

*President, Hassell & Folkes, P.C.*

**Linda L. Forehand**

*Senior Associate Director of Philanthropy, The Nature Conservancy of Virginia*

**Donald Z. Goldberg**

*President, D.D. Jones Transfer & Warehouse Company*

**Larry R. Hill**

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

**John G. Horton**

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

**Robert D. Jones**

*Attorney, Ryan Jones & Associates, P.L.C.*

**W. Ashton Lewis**

*President, Excelleration, LLC; 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); President, Montero Home Care*

**R. Scott Morgan**

*President & Senior Loan Officer, TowneBank*

**William D. Stevenson, Sr.**

*Chief Executive Officer, Stevenson Tractor, Inc.*

**David W. Stockmeier**

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

**Mervin R. Troyer**

*President, Cypress Point Enterprises, Inc.*

**TowneBank Norfolk:**

**The Honorable Paul D. Fraim, Chairman**

*Mayor of the City of Norfolk; President & Partner,  
Fraim & Fiorella, P.C.*

**G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

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

*Medical Director, The Executive Evaluation Center*

**Alonzo C. Brandon**

*Vice President for Development and Alumni Relations  
& Executive Director of Foundations, Old  
Dominion University*

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

*Professor & Chairman, Plastic and Cosmetic  
Surgery Center, Eastern Virginia Medical School*

**Robert W. Cross**

*Executive Director, Virginia Arts Festival*

**Peter G. Decker, Jr.**

*Partner, Decker, Cardon, Thomas, Weintraub &  
Neskis, P.C.*

**Norma J. Dorey**

*President & Owner, Changes Hairstyling and  
City Spa, Inc.*

**Joseph A. Dorto**

*CEO & General Manager, Virginia International  
Terminals*

**Matthew D. Fine**

*President, The Safe Place Mini Storage*

**William I. Foster III**

*President, TowneBank Norfolk*

**D. Bart Frye, Jr.**

*CEO, Frye Properties, Inc.*

**Michael A. Glasser**

*Partner, Glasser & Glasser, P.L.C.*

**A. J. Kalfus**

*Partner, Kalfus & Nachman*

**Richard F. Kiefner, Jr.**

*Insurance Broker, Northwestern Mutual Life  
Insurance Company*

**David M. Limroth**

*Partner, McPhillips, Roberts & Deans, PLC*

**J. Alan Lindauer**

*Chairman, Waterside Capital Corporation (Retired)*

**Caroline McCartney**

*Executive Sales Vice President, GSH Residential Real  
Estate Company*

**Charles V. McPhillips**

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

**Jeffrey G. Miller**

*President, Miller Oil Company, Inc.*

**R. Scott Morgan**

*President & Senior Loan Officer, TowneBank*

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

*President, Cardiology & Arrhythmia Consultants, Inc.*

**Vito Piraino**

*Italian Consul of Italy; Vice President, Mediterranean  
Shipping Company*

**Anita O. Poston**

*Partner, Vandeventer Black, LLP*

**Ulysses Turner**

*Developer, Atlantic Apartment Rentals & Development  
Company*

**Mark B. Warlick, SIOR**

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

**Walter J. Wilkins, II**

*President, Bay Chevrolet Saab Kia*

## **TowneBank Peninsula:**

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

*Chairman, TowneBank Peninsula*

### **Alvin P. Anderson**

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

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

*Chairman & CEO, TowneBank*

### **M. Clark Baldwin**

*Senior Director, Virginia Peninsula Office,  
Advantis Real Estate Services Company*

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

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

### **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.*

### **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.*

### **Branch P. Lawson**

*President, Hampton Roads Division, East West  
Partners*

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

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

### **Aubrey L. Layne**

*President, Great Atlantic Management*

### **St. George Lee**

*Cardiologist (Retired)*

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

*Dean, Hampton University; Virginia State Senator*

### **Patrick B. McDermott**

*Senior Partner, McDermott, Rowe & Walter*

### **C. Roger McLellon**

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

### **R. Scott Morgan**

*President & Senior Loan Officer, TowneBank*

### **Gerald L. Passaro**

*President, TowneBank Real Estate Finance Group*

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

*President, Ritchie-Curbow Construction, Inc.*

### **Walter S. Segaloff**

*President & CEO, Warwick Group, LTD*

### **Brian K. Skinner**

*President, TowneBank Peninsula*

### **Timothy J. Sullivan**

*President & CEO, The Mariners Museum*

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

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

### **Gary H. Tarpley**

*Owner & President, Cable Associates of Virginia, LLC*

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

*Consultant, MICG Investment Management*

### **Alan S. Witt**

*Chief Executive Officer, Witt Mares, PLC*

### **F. Lewis Wood**

*President, Hampton Motor Corporation*

### **Robert E. Yancey**

*President & CEO, John Yancey Companies*

**TowneBank Portsmouth:**

**W. Durbin Donahue, D.V.M., Chairman**

*Veterinarian (Retired)*

**James E. Andrews**

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

**G. Robert Aston, Jr.**

*Chairman & CEO, TowneBank*

**Michael J. Blachman**

*Attorney, Bangel, Bangel & Bangel, LLP*

**J. Robert Bray**

*Senior Advisor, Kaufman and Canoles Consulting*

**Allen Bynum, III**

*President, Bynum Finance Corporation*

**Bradford L. Cherry**

*President, Cherry Carpet, Inc.*

**Donald W. Comer, Jr.**

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

**W. Carroll Creecy**

*President, Sales Systems, Ltd.*

**Jimmie L. Currin, Sr.**

*President, Star Masonry*

**Dr. Neal P. Davis**

*Orthodontist (Retired)*

**Richard S. Fuller**

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

**Alan E. Gollihue**

*President & CEO, Portsmouth General Hospital Foundation*

**Ernest F. Hardee**

*President, Hardee Realty Corporation*

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

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

**William T. Hodsdon**

*Executive Vice President, TowneBank (Retired)*

**The Honorable James W. Holley, III, D.D.S.**

*Dentist, Holley & Holley Family Dentistry; Mayor of Portsmouth*

**The Honorable Johnny S. Joannou**

*Attorney, Joannou, Knowles & Associates; Member, Virginia House of Delegates*

**F. M. Jones**

*President, Azalea Realty & Development Corporation*

**The Honorable S. Chris Jones**

*President & Pharmacist, Bennett's Creek Pharmacy; Member, Virginia House of Delegates*

**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**

*Retired*

**R. Scott Morgan**

*President & Senior Loan Officer, TowneBank*

**John P. Motley**

*Treasurer, Portsmouth Lumber Corporation*

**C. Dick Park, M.D.**

*Thoracic and Vascular Surgeon, Commonwealth Surgical (Retired)*

**Daniel L. Plante**

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

**P. Ward Robinett, Jr.**

*President, TowneBank Portsmouth*

**Wayne K. Sawyer**

*President, Bennetts Creek Wholesale Nursery*

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

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

**Robert L. Sondej**

*Attorney, Sondej & Radin, P.C. (Retired)*

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

*Oral and Maxillofacial Surgeon, Drs. Dodson, Taylor, Jett, Sellers & Buch (Retired)*

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

*President and Surgeon, Commonwealth Surgical Associates*

**David R. Tynch**

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

**Robert T. Williams**

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



## TowneBank Virginia Beach:

### **John A. Tilhou, Chairman**

*Partner, Troutman Sanders L.L.P.*

### **Jacqueline B. Amato**

*President, TowneBank Mortgage*

### **Richard P. Anoaia**

*General Manager, Saveras Corporation*

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

*Chairman & CEO, TowneBank*

### **Tom A. Barton, III**

*Vice President, Beach Ford and Barton Ford Lincoln-Mercury*

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

*Vice President, NAI Harvey Lindsay Commercial Real Estate*

### **Thomas C. Broyles**

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

### **Sandra C. Canada**

*President, Canada and Associates*

### **Glenn R. Croshaw**

*Partner, Willcox and Savage, P.C.*

### **Herbert A. Culpepper**

*Owner & Broker, Pungo Realty Company*

### **J. Morgan Davis**

*President, Towne Financial Services Group*

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

*Practice Consultant, Tidewater Cardiovascular Institute*

### **Elizabeth A. Duke**

*Senior Executive Vice President & Chief Operating Officer, TowneBank*

### **Douglas D. Ellis**

*President, Ellis-Gibson Development Group*

### **John W. Failes**

*CPA (Retired)*

### **Andrew S. Fine**

*President, Runnymede Corporation*

### **Jack L. Frieden**

*President, TFA Benefits*

### **Scott M. Gandy**

*General Manager, Stock Building Supply*

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

*Pathologist, General Hospital Pathologists, Ltd.*

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

*President, Virginia Oncology Associates*

### **William W. Harrison, Jr.**

*Partner, Williams Mullen*

*Ernest L. Hudson*

*Owner, Hudson Enterprises*

### **H. Gordon Huey**

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

### **Harold B. Kellam, Jr.**

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

### **Harry T. Lester**

*President, Eastern Virginia Medical School*

### **John T. Litz**

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

### **John F. Malbon**

*President & CEO of Papco, Inc.*

### **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)*

### **R. Scott Morgan**

*President & Senior Loan Officer, TowneBank*

### **Michael P. Rashkind**

*General Partner, Dam Neck Properties*

### **John W. Richardson**

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

### **B. Rod Rodriguez**

*President & CEO, Bay Mechanical, Inc.*

### **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*

### **Michael C. Savvides**

*Chairman, Savvides Enterprises t/a Black Angus*

### **William D. Sessoms, Jr.**

*President, TowneBank Virginia Beach*

### **William R. Shepherd, Jr.**

*Chairman & CEO, Southern Hospitality Auto Group*

### **Jean F. Siebert**

*President, Siebert Realty*

### **Louisa Strayhorn**

*President, LSA Consulting, LLC*

### **Honorable Kenneth W. Stolle**

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

### **J. Randolph Sutton**

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

### **Howard R. Sykes, Jr.**

*Attorney & Senior Partner, Sykes, Bourdon, Ahern & Levy, PC*

### **Richard B. Thurmond**

*President, William E. Wood & Associates*

### **Barbara M. Wolcott**

*President & CEO, Prudential Decker Realty*

## **TowneBank Williamsburg:**

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

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

### **Alvin P. Anderson**

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

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

*Chairman & CEO, TowneBank*

### **Charles D. Brooks**

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

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

*President, Practice Management Associates, Inc.*

### **Anne C. H. Conner**

*President, TowneBank Williamsburg*

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

*President, Davis Mason Builders*

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

*Chairman, TowneBank Peninsula*

### **James R. Golden**

*Associate Vice President, Economic Development,  
The College of William and Mary*

### **Myrl L. Hairfield**

*President, Dominion Property Services, Inc.*

### **William W. Hamner**

*President, Hamner Development Company*

### **W. Arthur Hudgins**

*President, Holiday Chevrolet Cadillac, Inc.*

### **William G. Kellam**

*Retired, TowneBank of Williamsburg*

### **Gary M. Massie**

*President, Jack L. Massie Contractor, Inc.*

### **Joseph S. Mastaler, Jr., CPA**

*Member of the Firm, Witt Mares, PLC*

### **R. Scott Morgan**

*President & Senior Loan Officer, TowneBank*

### **Gerald L. Passaro**

*President, TowneBank Real Estate Finance Group*

### **Thomas P. Power, Sr.**

*Owner & President, The Cheese Shop*

### **Edgar B. Roesch**

*President, Service Metal Fabricators, Inc.*

### **Leslie H. Schultz**

*Project Manager, Henderson, Inc.*

### **Kimber A. Smith**

*President, Prudential McCardle Realty, Inc.*

### **Carlton A. Stockton**

*Retired, MCI Corporation*

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

*Orthodontist, Williamsburg Orthodontics*

## **Towne Financial Services:**

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

*President, Rosewell Homes, Inc.*

### **The Honorable Richard S. Bray, Executive Committee Chairman**

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

### **Jeffrey W. Ainslie**

*President, Ainslie Widener*

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

*Chairman & CEO, TowneBank*

### **J. Morgan Davis**

*President, Towne Financial Services Group*

### **Gerald S. Divaris**

*President, Divaris Real Estate*

### **John W. Failes**

*CPA (Retired)*

### **Burrell R. Johnson**

*Commercial Insurance Agent, Henderson*

*Phillips Insurance Agency (Retired)*

### **William H. Kline**

*President, Kline Realty Company*

### **J. Alan Lindauer**

*Chairman, Waterside Capital Corporation (Retired)*

### **Gary D. McMahan**

*President & CEO, Professional Advisory  
Resources, LLC*

### **Elza H. Mitchum**

*President, C & M Industries, Inc.*

### **R. Scott Morgan**

*President & Senior Loan Officer, TowneBank*

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

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

### **James A. Thompson**

*Agent, Prudential Decker Realty*

### **John A. Tilhou**

*Partner, Troutman Sanders L.L.P.*

## OWNERSHIP OF COMPANY COMMON STOCK

The following table sets forth, as of March 14, 2008, 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 14, 2008, based upon a review of filings with the FDIC, the Company is unaware of any holders of more than 5% of the outstanding shares of TowneBank stock.

<u>Name</u>	<u>Number of Shares Beneficially Owned (1)</u>	<u>Percent of Class</u>
Jacqueline B. Amato.....	114,552 (2)(3)(4)	*
Alvin P. Anderson.....	75,460 (2)(4)	*
G. Robert Aston, Jr.....	318,508 (2)(3)(4)(5)	1.15%
E. Lee Baynor.....	148,339 (2)(4)	*
Richard S. Bray.....	28,108	*
Thomas C. Broyles.....	162,721 (4)	*
Bradford L. Cherry.....	103,801 (2)(4)	*
Anne C. H. Conner.....	5,208 (3)(5)	*
William A. Copeland, Jr.....	171,375 (2)(3)(4)(5)	*
J. Morgan Davis.....	127,817 (2)(3)(4)(5)	*
Elizabeth A. Duke.....	18,026 (3)(4)(5)	*
John W. Failes.....	46,051 (2)(4)	*
Paul J. Farrell.....	411,749 (2)(4)	1.49%
Sandra W. Ferebee.....	191,247	*
Andrew S. Fine.....	329,644 (2)(4)	1.19%
William I. Foster III.....	11,577 (3)	*
Paul D. Fraim.....	3,077	*
Gordon L. Gentry, Jr.....	173,710 (2)(3)(4)	*
Ernest F. Hardee.....	235,649 (2)(4)	*
William T. Hodsdon.....	38,930 (2)(3)(5)	*
John R. Lawson, II.....	624,656 (2)(4)	2.26%
W. Ashton Lewis.....	93,410 (2)(4)	*
J. Alan Lindauer.....	208,184 (2)(4)	*
Clyde E. McFarland, Jr.....	28,967 (2)(4)(5)	*
Juan M. Montero, II, M.D.....	48,496 (2)(4)	*
R. Scott Morgan.....	260,587 (2)(3)(4)(5)	*
Gerald L. Passaro.....	31,422 (3)(4)(5)	*
P. Ward Robinett, Jr.....	119,004 (2)(3)(4)(5)	*
William D. Sessoms, Jr.....	18,725 (3)(5)	*
Richard B. Thurmond.....	106,992 (2)(4)	*
Alan S. Witt.....	67,892 (2)(4)	*
F. Lewis Wood.....	76,803 (4)	*
All directors and executive officers as a group (33 persons).....	4,460,502 (6)	16.14%

\* 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.

- (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, 908 shares; Mr. Anderson, 15,048 shares; Mr. Aston, 12,984 shares; Mr. Baynor, 36,516 shares; Mr. Cherry, 12,555 shares; Mr. Copeland, 98,672 shares; Mr. Davis, 861 shares; Mr. Failes, 20,681 shares; Mr. Farrell, 364,676 shares; Mr. Fine, 142,890 shares; Mr. Gentry, 157,918 shares; Mr. Hardee, 207,606 shares; Mr. Hodsdon, 16,542 shares; Mr. Lawson, 390,601 shares; Mr. Lewis, 20,819 shares; Mr. Lindauer, 136,468 shares; Mr. McFarland, 564 shares; Dr. Montero, 41,776 shares; Mr. Morgan, 4,766 shares; Mr. Robinett, 6,341 shares; Mr. Thurmond, 99,408 shares; and Mr. Witt, 8,565 shares.
- (3) Includes shares of common stock underlying stock options that are currently exercisable as follows: 14,484 shares issuable to Ms. Amato; 141,187 shares issuable to Mr. Aston; 2,000 shares issuable to Ms. Conner; 38,457 shares issuable to Mr. Copeland; 31,800 shares issuable to Mr. Davis; 6,000 shares issuable to Ms. Duke; 4,120 shares issuable to Mr. Foster; 3,089 shares issuable to Mr. Gentry; 10,248 shares issuable to Mr. Hodsdon; 30,900 shares issuable to Mr. Morgan; 21,629 shares issuable to Mr. Passaro; 15,450 shares issuable to Mr. Robinett; and 10,300 shares issuable to Mr. Sessoms. These shares cannot be voted at the Annual Meeting because the stock options have not been exercised.
- (4) Includes shares of common stock into which Towne Capital Notes (Series I and II) may be converted as follows: Ms. Amato, 1,738 shares; Mr. Anderson, 1,359 shares; Mr. Aston, 3,128 shares; Mr. Baynor, 8,990 shares; Mr. Broyles, 7,223 shares; Mr. Cherry, 4,239 shares; Mr. Copeland, 8,860 shares; Mr. Davis, 135 shares; Ms. Duke, 69 shares; Mr. Failes, 3,815 shares; Mr. Farrell, 38,563 shares; Mr. Fine, 27,579 shares; Mr. Gentry, 339 shares; Mr. Hardee, 4,425 shares; Mr. Lawson, 33,990 shares; Mr. Lewis, 8,688 shares; Mr. Lindauer, 38,996 shares; Mr. McFarland, 209 shares; Dr. Montero, 348 shares; Mr. Morgan, 2,730 shares; Mr. Passaro, 849 shares; Mr. Robinett, 2,773 shares; Mr. Thurmond, 1,121 shares; Mr. Witt, 680 shares; and Mr. Wood, 10,934 shares. Also includes shares of common stock into which Harbor Bonds may be converted as follows: Mr. Anderson, 5,871 shares; Mr. Gentry, 1,174 shares; Mr. Lawson, 45,827 shares; Mr. Passaro, 1,761 shares; and Mr. Witt, 3,992 shares. These shares cannot be voted at the Annual Meeting.
- (5) Includes shares of common stock that are restricted stock holdings as follows: Mr. Aston, 18,529 shares; Ms. Conner, 2,643 shares; Mr. Copeland, 3,090 shares; Mr. Davis, 6,180 shares; Ms. Duke, 6,881 shares; Mr. Hodsdon, 3,090 shares; Mr. McFarland, 3,090 shares; Mr. Morgan, 12,360 shares; Mr. Passaro, 3,836 shares; Mr. Robinett, 1,853 shares; and Mr. Sessoms, 5,749 shares. The shares are subject to a vesting schedule, forfeiture risk and other restrictions. These shares can be voted at the Annual Meeting.
- (6) Includes 327,665 shares of common stock underlying stock options that are currently exercisable, 67,301 shares of common stock that are restricted stock holdings, 211,780 shares of common stock underlying convertible Towne Capital Notes (Series I and II) and 58,626 shares of common stock underlying convertible Harbor Bonds. Only the shares that are restricted stock holdings can be voted at the Annual Meeting.

## COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis (the "CD&A") for the year ended December 31, 2007 with management. In reliance on the reviews and discussions referred to above, the Compensation Committee recommended to the Board of Directors that the CD&A be included in this proxy statement.

### Submitted by the Compensation Committee of TowneBank:

Andrew S. Fine, Chairman  
Alvin P. Anderson  
Thomas C. Broyles  
Ernest F. Hardee  
J. Alan Lindauer  
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 (the "Committee") of the Board of Directors has established objectives that capture our overall philosophy towards 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, 2007, and each of the four other most highly compensated executive officers of TowneBank included in the Summary Compensation Table on page 23, 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 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 for approval.

*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. With respect to the Company's other 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. The Committee annually reviews Mr. Aston's performance and reaches a recommendation as to Mr. Aston's compensation. Mr. Aston does not make recommendations or participate in the review of his compensation.

*Competitor Groups.* While the Company does not establish compensation and benefits at set percentage levels, the Committee does seek to provide salary, incentive compensation opportunity and employee benefits that fall within the average practice of peer group institutions within the financial services industry operating within Virginia, regionally and nationally. Due to the rapid growth of the Company, its diversified product lines and future plans for growth, the Company often competes with larger financial institutions for executive talent. In 2007, the committee reviewed executive compensation and performance information for the following group of banks headquartered on the East Coast of the United States:

**Between \$2 and \$4 Billion of Assets**

Capital City Bank Group, Inc.

Community Banks, Inc

Financial Institutions, Inc.

First Community Bancshares, Inc.

Harbor Florida Bancshares, Inc.

Harleysville National Corp.

Hudson Valley Holding Corp.

KNBT Bancorp, Inc.

Lakeland Bancorp, Inc.

Main Street Banks, Inc.

S&T Bancorp, Inc.

Sandy Spring Bancorp, Inc.

Seacoast Banking Corporation of Florida

Sterling Bancorp

Sterling Financial Corp.

Sun Bancorp Inc.

Tompkins Trustco, Inc.

Union Bankshares Corp.

U.S.B. Holding Co., Inc.

WSFS Financial Corporation

Yardville National Bancorp

## **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 guidelines described above. The particular elements of the compensation programs for such persons are set forth in more detail below.

In recommending the compensation of executive officers and key employees to 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, CAMELS 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 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, with the exception of 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. For further discussion on this topic, see "Compensation Earned by the Chief Executive Officer" in this document on page 22.

*Executive Incentive Compensation Program.* The Company provides incentive compensation to the Named Executive Officers in the form of annual cash bonuses relating to financial achievements during the prior year. 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. Financial achievements are based on the approved consolidated annual financial plan.

The Committee established performance goals for executive officers, as a group, within the first 90 days of each year. In 2007, for our Named Executive Officers, performance measures were based exclusively on corporate performance measures, which were based exclusively on pre-tax net income. A calculated "award pool" was created and that amount was distributed to all of the executive officers at the same set percentage of their respective salaries. The award pool was calculated such that executives received 8% of their base salary, as long as 2007 pre-tax net income reached or exceeded prior year pre-tax net income. Executives received an additional 1.28% of their base salary related to the amount that 2007 pre-tax net income exceeded the prior year. For 2007, the Committee approved the award as calculated to the resultant 9.28% of each of the named executives' salaries. Therefore, each of the named executives, including the Chief Executive Officer, received an incentive award equal to 9.28% of their base salary. The incentive compensation and base salary together represent the executives' planned income. Jacqueline B. Amato does not participate in the program but receives incentive compensation pursuant to the terms of her employment agreement with the Company. See "Employment Agreements and Change in Control Agreements" beginning on page 25. The performance goals for subsequent years may be expanded to include individual and business unit/function performance measures at the discretion of the Committee.

In calculating the above award amounts, the Committee assesses actual performance relative to pre-set goals and, in doing so, determines the amount of any final award payment. In determining final awards, the Committee may consider adjusting pre-tax net income and other performance measures for unplanned, unusual or non-recurring items of gain or expense. In 2007, there were no such adjustments.

*Stock Incentive Plan.* The Company maintains a stock incentive plan that is designed to attract and retain qualified personnel in key positions and provide employees with a proprietary interest in the Company as an incentive to contribute to the success of the Company. The stock incentive plan provides for the grant of incentive stock options intended to comply with the requirements of Section 422 of the Internal Revenue Code of 1986 ("incentive stock options") and non-qualified 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 10 years from the date of adoption by the Board of Directors, which was March 11, 1999.

Under the stock incentive plan, the Committee determines which employees will be granted options, whether such options will be incentive or non-qualified 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.

*Stock options are vested and exercisable in the manner specified by the Committee.* In general, each stock option or portion thereof shall be exercisable at any time on or after it vests and is exercisable until 10 years after its date of grant. Generally, stock options are nontransferable except by will or the laws of descent and distribution. Non-qualified stock options may be transferred to immediate family members or a family trust.

The Committee 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 10 years, 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 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

*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 quarter of employment. Under the 401(k) Plan, employees may contribute a percentage of their annual salary, subject to statutory limitations, and the Company will match 100% of the employees' contributions up to 6% of their salary. The Company may also make discretionary profit-sharing contributions, allocated to eligible employees on the basis of relative compensation or "qualified nonelective contributions" allocated on the basis of relative compensation but only to eligible non-highly compensated employees. Employer contributions, if any, vest 100% for employees employed on the plan's effective date; employees entering the plan subsequent to this date vest 33%, 66% and 100% after the first, second or third year of service, respectively. The Company's matching contribution is in the form of Company common stock.

*Supplemental Executive Retirement Plan ("SERP").* During the 4<sup>th</sup> quarter of 2007, the Company invested \$36 million in bank-owned life insurance policies, in general account products, with the intent to fund a newly created SERP for certain executives. The SERP was established on January 1, 2008 to provide retirement benefits and postretirement health benefits to 21 officers covered under the plan.

The officers would be provided with either a fixed benefit amount or a percentage of the 2007 base wage with an annual minimum 4% increase to retirement age of 65, except for Messrs. Aston and Morgan, which increase to a retirement age of 67. The initial vesting on January 1, 2008 varies per officer, and ranges from zero vesting upon implementation of the plan to 80%, with years to full vesting ranging from 4 to 15 years.

The bank-owned life insurance was used 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.

*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 a pre-tax basis. Deferral elections are made by eligible executives in November of each year for amounts to be earned in the following year.

The Company matches 100% of the named executives' combined nonqualified deferred compensation and 401(k) deferrals up to a maximum of 6% of their salary. The Company does not match deferrals related to compensation exceeding \$695,000 for any employee. Earnings deferred pursuant to the program are invested in various mutual funds, with the portfolio composition up to the discretion of the Named Executive Officer.

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 five 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 reviews the compensation and benefit levels of comparable positions to peer group institutions within the financial services industry as described in "Competitor Groups" on page 18. This Committee believes the information shows Mr. Aston's total compensation to be in the average range for chief executive officers of financial institutions the size of the Company.

### **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, which makes compensation paid to certain executives in amounts in excess of \$1 million not deductible unless the compensation is paid under a predetermined objective performance plan meeting certain requirements, or satisfies one of various other exemptions. The Company believes that compensation paid is generally fully deductible for federal income tax purposes. However, in certain situations, the Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation for its executive officers.

## NAMED EXECUTIVE OFFICERS COMPENSATION

The following table sets forth information regarding compensation for services rendered for the years ended December 31, 2007 and 2006 to the Named Executive Officers.

### Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Stock Awards (1)</u>	<u>Non-Equity Incentive Plan Compensation (2)</u>	<u>All Other Compensation (3)</u>	<u>Total</u>
G. Robert Aston, Jr. Chairman/CEO TowneBank	2007	\$731,250	---	\$ 29,997	\$ 69,600	\$139,978	\$ 970,825
	2006	\$501,896	---	\$ 29,997	\$214,548	\$138,151	\$ 884,592
Clyde E. McFarland, Jr. Senior Executive Vice President/CFO TowneBank	2007	\$212,000	---	\$ 5,000	\$ 20,045	\$ 34,051	\$ 271,096
	2006	\$190,000	---	\$ 5,519	\$ 63,480	\$ 44,188	\$ 303,187
R. Scott Morgan President/Senior Loan Officer TowneBank	2007	\$381,250	---	\$ 19,998	\$ 37,120	\$107,921	\$ 546,289
	2006	\$308,750	---	\$ 20,518	\$ 103,155	\$107,266	\$ 539,689
J. Morgan Davis President Towne Financial Services Group	2007	\$305,000	---	\$ 9,999	\$ 29,232	\$ 82,425	\$ 426,656
	2006	\$258,750	---	\$ 10,519	\$ 87,285	\$ 76,104	\$ 432,658
Elizabeth A. Duke Senior Executive Vice President/COO TowneBank	2007	\$276,705	---	\$ 84,323	\$ 26,912	\$ 51,511	\$ 439,451
	2006	\$250,000	---	\$ 84,254	\$ 79,350	\$ 27,410	\$ 441,014
Jacqueline B. Amato President/COO TowneBank Mortgage	2007	\$ 41,200	\$296,941	\$ 14,570	\$ 541,307	\$ 59,955	\$ 953,973
	2006	\$ 39,500	\$345,596	\$ 14,550	\$ 646,993	\$ 66,094	\$ 1,112,733

- (1) Amounts reflect expense recognized for outstanding stock awards calculated in accordance with SFAS 123R. The expense pertains to awards issued in prior years, as there were no stock awards granted to Named Executive Officers in 2007 or 2006. Assumptions made in the calculation of these amounts are contained in Note 12 to the Company's audited financial statements for the year ended December 31, 2007 included in the Company's Annual Report on Form 10-K, as filed with the FDIC.
- (2) Consists of incentive compensation paid to the officers under the Executive Incentive Compensation Program which is described on pages 19-20 other than to Ms. Amato, who earned such compensation pursuant to the terms of her employment agreement with the Company (see "Employment Agreements and Change in Control Agreements" on page 25).
- (3) 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) an automobile allowance for Mr. Aston, \$3,998; Mr. McFarland, \$4,718; Mr. Morgan, \$7,106; Mr. Davis, \$2,213; Ms. Duke, \$10,796; and Ms. Amato, \$4,473; (iii) Company-paid travel for Mr. Aston, \$10,581; Mr. Morgan, \$12,056; Mr. Davis, \$12,056; Ms. Duke, \$12,056; and Ms. Amato, \$6,028; (iv) country club dues for Mr. Aston, \$2,183; Mr. McFarland, \$751; Mr. Morgan, \$6,210; Mr. Davis, \$10,534; and Ms. Amato, \$4,478; and (v) tax gross-ups on restricted stock for Mr. Aston, \$68,284; Mr. McFarland, \$11,381; Mr. Morgan, \$45,523; and Mr. Davis, \$22,394. Each Named Executive Officer is responsible for paying income tax on the amounts other than with respect to plan contributions and insurance premiums.

### Grants of Plan-Based Awards

The Company's stock incentive plan provides for the grant of both incentive and non-qualified stock options and restricted awards to executives and key employees of the Company. No equity grants were awarded to the Named Executive Officers in 2007.

The following table shows non-equity awards granted to the Named Executive Officers during the year ended December 31, 2007.

Named Executive	Grant Date	Actual Payout (2)	Estimated Payouts Under Non-Equity Incentive Plan Awards (1)		
			Threshold (3)	Target	Maximum
G. Robert Aston, Jr.	N/A	\$ 69,600	\$60,000	\$240,000	\$300,000
Clyde E. McFarland, Jr.	N/A	\$ 20,045	\$17,280	\$ 69,120	\$ 86,400
R. Scott Morgan	N/A	\$ 37,120	\$32,000	\$128,000	\$160,000
J. Morgan Davis	N/A	\$ 29,232	\$25,200	\$100,800	\$126,000
Elizabeth A. Duke	N/A	\$ 26,912	\$23,200	\$ 92,800	\$116,000
Jacqueline B. Amato	N/A	\$541,307	\$0	\$877,528	N/A

- (1) Represents threshold, target and maximum company performance or formulaic annual incentive amounts for 2007.  
(2) Actual amounts paid in January 2008 for the 2007 incentive are also reflected in the Summary Compensation Table.  
(3) There was no threshold under the plan if 2007 net income did not exceed prior year net income.

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, 2007

### Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option Exercise Price (1)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (2)	Market Value of Shares or Units of Stock That Have Not Vested (3)	Equity Incentive Plan Awards: Number of 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
G. Robert Aston, Jr.	141,367	---	---	\$ 3.24	4/27/2009	18,540	\$298,494	---	---
Clyde E. McFarland, Jr.	---	---	---	---	---	3,090	\$ 49,749	---	---
R. Scott Morgan	30,900	---	---	\$ 3.24	4/27/2009	12,360	\$198,996	---	---
J. Morgan Davis	61,800	---	---	\$ 3.24	5/1/2009	6,180	\$ 99,498	---	---
Elizabeth A. Duke	6,000	24,000	---	\$21.80	11/16/2015	6,881	\$110,784	---	---
Jacqueline B. Amato	14,484	8,691	---	\$11.65	7/24/2012	---	---	---	---

- (1) The exercise price has been adjusted to reflect stock splits and dividends.  
(2) Awards vest in ten equal installments each year beginning on the first anniversary of the grant date.  
(3) The market value of the stock awards that have not vested was determined based on the per-share market price of the Company's common stock on December 31, 2007 (\$16.10), the last trading day for 2007.

The following table provides certain information on the options exercised and restricted stock vested with respect to the Named Executive Officers during 2007.

### Option Exercises and Stock Vested

<u>Name</u>	<u>Option Awards</u>		<u>Stock Awards</u>	
	<u>Number of Shares Acquired on Exercise</u>	<u>Value Realized on Exercise (1)</u>	<u>Number of Shares Acquired on Vesting</u>	<u>Value Realized on Vesting (2)</u>
G. Robert Aston, Jr.	---	---	9,270	\$ 173,813
Clyde E. McFarland, Jr.	---	---	1,545	\$ 28,969
R. Scott Morgan	40,973	\$653,929	6,180	\$ 115,875
J. Morgan Davis	---	---	3,090	\$ 57,165
Elizabeth A. Duke	---	---	2,293	\$ 38,362
Jacqueline B. Amato	---	---	---	---

(1) Value represents market value at exercise less the exercise price.

(2) Value represents the market value of our common stock on the vesting date.

### 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 2007. The amounts included in the Executive Contributions column represent deferrals of salary amounts that are included in Salary and Bonus columns of the Summary Compensation Table on page 23.

<u>Name</u>	<u>Executive Contributions in Last Fiscal Year (1)</u>	<u>Registrant Contributions in Last Fiscal Year (2)</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.	\$ 87,500	\$27,000	\$ 32,708	---	\$ 458,891
Clyde E. McFarland, Jr.	\$130,145	\$ 1,087	\$ 9,766	---	\$ 267,612
R. Scott Morgan	\$ 36,000	\$14,208	\$ 4,847	---	\$ 355,922
J. Morgan Davis	\$ 61,234	\$ 8,950	\$ 42,005	---	\$ 296,023
Elizabeth A. Duke	\$ 21,702	\$ 7,193	\$ 1,308	---	\$ 35,311
Jacqueline B. Amato	\$127,564	\$27,000	\$226,023	---	\$2,718,302

(1) The amounts in this column are included in the Salary and Bonus columns of the Summary Compensation Table.

(2) The matching contributions are shown in the All Other Compensation column of the Summary Compensation Table.

### Employment Agreements and Change in Control Agreements

*Employment Agreements.* The Company has entered into employment agreements with each of its Named Executive Officers. The employment agreements for the officers, excluding Jacqueline B. 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, and an annual cash bonus in such amounts as may be determined by the Board.

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 Jacqueline B. Amato, 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 2.9 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 has 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 bonuses based on the mortgage loan production and profitability of TowneBank Mortgage. 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 or a change in control of the Company for the Named Executive Officers.

**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 Benefits</u>	<u>Disability Benefit</u>
G. Robert Aston, Jr.	Post Termination Compensation .....	\$ 2,250,000	\$ 2,456,658	\$ --	\$ 62,500
	Early vesting of Restricted Stock .....	465,829	465,829	465,829	465,829
	Early vesting of Stock Options .....	--	--	--	--
	Health care benefits continuation .....	67,649	259,320	--	5,637
	Excise Tax Gross-up .....	--	--	--	--
	Total Value .....	\$ 2,783,478	\$ 3,181,807	\$ 465,829	\$ 533,966
Clyde E. McFarland, Jr.	Post Termination Compensation .....	\$ 648,000	\$ 709,320	\$ --	\$ 18,000
	Early vesting of Restricted Stock .....	77,638	77,638	77,638	77,638
	Early vesting of Stock Options .....	--	--	--	--
	Health care benefits continuation .....	34,910	161,021	--	2,909
	Excise Tax Gross-up .....	--	--	--	--
	Total Value .....	\$ 760,548	\$ 947,979	\$ 77,638	\$ 98,547
R. Scott Morgan	Post Termination Compensation .....	\$ 1,200,000	\$ 1,299,155	\$ --	\$ 33,333
	Early vesting of Restricted Stock .....	310,553	310,553	310,553	310,553
	Early vesting of Stock Options .....	--	--	--	--
	Health care benefits continuation .....	50,572	179,530	--	4,214
	Excise Tax Gross-up .....	--	26,335	--	--
	Total Value .....	\$ 1,561,125	\$ 1,815,573	\$ 310,553	\$ 348,1010
J. Morgan Davis	Post Termination Compensation .....	\$ 945,000	\$ 1,029,135	\$ --	\$ 26,250
	Early vesting of Restricted Stock .....	155,276	155,276	155,276	155,276
	Early vesting of Stock Options .....	--	--	--	--
	Health care benefits continuation .....	66,325	320,017	--	5,527
	Excise Tax Gross-up .....	--	132,043	--	--
	Total Value .....	\$ 1,166,601	\$ 1,636,471	\$ 155,276	\$ 187,053
Elizabeth A. Duke	Post Termination Compensation .....	\$ 870,000	\$ 946,450	\$ --	\$ 24,167
	Early vesting of Restricted Stock .....	110,784	110,784	110,784	110,784
	Early vesting of Stock Options .....	--	--	--	--
	Health care benefits continuation .....	49,613	225,326	--	4,134
	Excise Tax Gross-up .....	--	122,797	--	--
	Total Value .....	\$ 1,030,397	\$ 1,405,357	\$ 110,784	\$ 139,085
Jacqueline B. Amato	Post Termination Compensation .....	\$ 2,911,574	\$ 2,911,574	\$ 634,668	\$ 634,668
	Early vesting of Restricted Stock .....	--	--	--	--
	Early vesting of Stock Options .....	--	--	--	--
	Health care benefits continuation .....	34,910	34,910	--	--
	Excise Tax Gross-up .....	--	--	--	--
	Total Value .....	\$ 2,946,484	\$ 2,946,484	\$ 634,668	\$ 634,668

## COMPENSATION OF DIRECTORS

Effective April 1, 2007, as compensation for their services, each member of the Board of Directors of the Company, as well as each member of the board of directors of each TowneBanking Group, received \$300, increased from \$250 for 2006, for each meeting of the Company Board and/or TowneBanking Group attended. In addition, standing committee members received \$175, increased from \$150 for 2006, for each committee meeting attended. Furthermore, as compensation for their services during 2007, each member of the Board of Directors of the Company received an annual retainer of \$12,000. Chairmen of the Board of Directors and TowneBanking Groups, Vice Chairmen of the Board of Directors and Committee Chairmen received a \$2,500 retainer fee.

Pursuant to the merger agreement between TowneBank and Harbor Bank, for the three-year period that ended in March 2007, each former Harbor Bank director serving on the Company Board and/or TowneBanking Group received \$600 for each meeting of the Company Board and/or TowneBanking Group attended. In addition, committee members received \$400 for each committee meeting attended. These fees were provided independently, and individuals received retainers for serving on the Company Board and/or TowneBanking Groups as members, Chairmen, Vice Chairmen and/or Committee Chairmen. Board members who are also officers did not receive any additional compensation above their regular salary for service on the Board or serving as a committee chairman.

### 2007 Director Compensation

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>All Other Compensation</u>	<u>Total</u>
Alvin P. Anderson	\$23,800	----	\$23,800
E. Lee Baynor	\$20,550	----	\$20,550
Richard S. Bray	\$22,600	----	\$22,600
Thomas C. Broyles	\$27,350	----	\$27,350
Bradford L. Cherry	\$19,500	----	\$19,500
John W. Failes	\$24,825	----	\$24,825
Paul J. Farrell	\$28,275	----	\$28,275
Andrew S. Fine	\$27,325	----	\$27,325
Paul D. Fraim	\$18,575	----	\$18,575
Ernest F. Hardee	\$33,525	----	\$33,525
John R. Lawson, II	\$21,325	----	\$21,325
W. Ashton Lewis	\$14,250	----	\$14,250
J. Alan Lindauer	\$27,950	----	\$27,950
Juan M. Montero, II, M.D.	\$20,325	----	\$20,325
Richard B. Thurmond	\$16,350	----	\$16,350
Alan S. Witt	\$18,325	----	\$18,325
F. Lewis Wood	\$18,225	----	\$18,225



## 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 2007, 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 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 a 24.9% ownership interest in Runnymede Corporation, which charges management fees to Pavilion Center Associates, LLC. Rent expense related to this lease was \$338,800 for the year ended December 31, 2007. The Company rents space from William E. Wood & Associates and Warwick Wood Associates, LLC, companies in which Mr. Richard B. Thurmond shares ownership. Rent expense and other payments related to these leases for 2007 were \$95,500 and 493,700, respectively.

The Company rents space from various companies as a result of its acquisition of GSH Residential Real Estate Corporation in January 2005. In particular, the Company rents three locations from GSH Associates, GSH College Park Associates and 4141 Associates, respectively. Additionally, the Company rented space from GSH Green Run Associates through July 2007. Ms. Sandra W. Ferebee, a director, shares ownership in those companies. Rent expense related to these leases totaled \$271,700 for the year ended December 31, 2007. 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.

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. The Company made payments to W.M. Jordan Company, Inc., for which John R. Lawson, II serves as President and Chief Executive Officer, in connection with construction of certain facilities. Payments made to W.M. Jordan totaled \$521,000 for the year ended December 31, 2007.

In 2007, the Company entered into a joint venture, Towne Mortgage, LLC (the "Joint Venture"), with William E. Wood & Associates, Inc. ("WEW"). The Richard B. Thurmond Revocable Trust owns WEW, and Mr. Thurmond, the trustee of the trust and a director of the Company, controls WEW. The primary business of the Joint Venture is the mortgage brokerage and the mortgage lending business. Under the terms of the Amended and Restated Agreement for the Joint Venture, dated as of February 1, 2007, the Company owns thirty percent (30%) of the Joint Venture and WEW owns seventy percent (70%) of the Joint Venture. The Company has operational control of the Joint Venture through its two (2) managers on the three-person board of managers and the fact that major decisions relating to the Joint Venture require the unanimous consent of such board of managers.

In October 2000, in connection with its acquisition of the mortgage lending firm of Hampton Roads Funding Corporation, the Company entered into consulting and noncompetition agreements with four individuals, including Mr. Richard B. Thurmond, a director of the Company, who was a principal of the Hampton Roads Funding Corporation. Pursuant to the agreement, Mr. Thurmond received compensation for his consulting services to TowneBank Mortgage. The terms of the agreement were similar to those that would be extended to non-related parties. The contract was amended in 2007 in conjunction with the aforementioned joint venture agreement, to change the payee to WEW. The amount expensed in 2007 under the agreement was \$148,000.

In connection with its acquisition of the residential real estate firm of GSH Residential Real Estate Company, the Company entered into employment agreements as of January 7, 2005 with Sandra W. Ferebee, President of GSH and a director of the Company. The initial term of such agreements continues through January 6, 2010 and then renews automatically for additional periods of one year each until either party gives notice of non-renewal at least 90 days before the expiration of the initial or any renewal term of the agreement. Under the agreement, Ms. Ferebee receives a base salary of \$200,000, subject to annual increases, plus a guaranteed bonus of no less than \$35,000. As is customary in the real estate industry, Ms. Ferebee is also eligible for incentive compensation in the form of commissions and bonuses based on the profitability of GSH. Ms. Ferebee may voluntarily terminate her employment at any time under the agreement. The Company may terminate Ms. Ferebee's employment with or without cause by giving written notice of termination. If the Company terminates Ms. Ferebee for cause, she will be entitled to her base salary through the date of termination, but is not entitled to any incentive compensation for the period of the calendar year during which such termination occurs.

#### **AUDIT COMMITTEE REPORT**

The Audit Committee assists the Board of Directors of the Company in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. During the year ended December 31, 2007, the committee met five times. In addition to regularly scheduled meetings, the Audit Committee is available either as a group or individually to discuss any matters that might affect the financial statements, internal controls or other financial aspects of the operations of the Company. Each of the members of the Audit Committee is an "independent director" as defined by NASDAQ Marketplace Rule 4200(a)(15).

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from Goodman & Company, LLP (the "independent auditors") a formal written statement describing all relationships between the independent auditors and the Company that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," discussed with the independent auditors any relationships that may impact their objectivity and independence, and satisfied itself as to the auditors' independence. The committee also discussed with management, the internal auditor and the independent auditors the quality and adequacy of the Company's internal controls and the internal audit function's organization, responsibilities, budget and staffing. The committee reviewed with both the independent and internal auditors its audit plans, audit scope and identification of audit risks.

The Audit Committee discussed and reviewed with the independent auditors all communications required by generally accepted accounting standards, including those described in Statement on Audited Standards No. 61, as amended, "Communication with Audit Committees," and discussed and reviewed the results of the independent auditors' examination of the financial statements. The committee also discussed the results of the internal audit examinations.

The Audit Committee discussed and reviewed the audited financial statements of the Company as of and for the fiscal year ended December 31, 2007 with management and the independent auditors. Management has the responsibility for the preparation of the Company's financial statements, and the independent auditors have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Audit Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the Federal Deposit Insurance Corporation.

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

Ernest F. Hardee, Chairman  
 E. Lee Baynor  
 John W. Failes  
 Juan M. Montero, II, M.D.  
 Alan S. Witt

*Consultants to the Audit Committee:*

Dr. C. Fred Bateman  
 Michael J. Blachman  
 W. Arthur Hudgins  
 David M. Limroth  
 John A. Tilhou  
 Robert E. Yancey

**ACCOUNTING FIRM FEES**

The following table shows the fees billed for the audit and other services provided by Goodman & Company, LLP for fiscal years ended December 31, 2007 and 2006. All non-audit services were reviewed by the Audit Committee, which concluded that the provision of such services by Goodman & Company, LLP was compatible with maintaining the accounting firm's independence. It is the Audit Committee's policy to approve fees for services rendered by the Company's independent auditors only upon a review of such fees.

	<u>2007</u>	<u>2006</u>
Audit Fees (1) .....	\$ 202,250	\$ 175,750
Audit-related Fees (2) .....	12,100	12,010
Tax Fees (3) .....	--	--
All Other Fees (4) .....	--	5,000
Total.....	<u>\$ 214,350</u>	<u>\$ 192,760</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 2007 and 2006, the Company contracted with KPMG, LLC for most of its tax-related services and made payments to KPMG, LLC totaling \$96,000 and \$98,450 for such tax services, respectively.
- (4) All other fees consist of all services rendered other than those set forth above. In 2007, the Company contracted with KPMG, LLC for certain valuation services and made payments to KPMG, LLC totaling \$37,885 for such services.

### **Pre-Approval Policy**

Under the Audit Committee's pre-approval policy, the Audit Committee is required to review the services expected to be provided by the independent auditor to ensure that the provision of such services will not impair the auditor's independence. In addition to the annual audit and audit-related fees specified in the engagement letter, the Audit 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 Committee on an individual project basis is required. Approval for such services may be requested at the next Audit Committee meeting. If earlier approval is necessary, it may be obtained in accordance with the Audit Committee's delegation to the Audit Committee Chairman, in which case the decision must be presented to the full Audit Committee at its next meeting. The Audit 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 Committee.

### **INDEPENDENT AUDITORS — PROPOSAL THREE**

The Board of Directors, upon recommendation of the Audit Committee, has appointed Goodman & Company, LLP, as the Company's independent public accountants for the year ending December 31, 2008, 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 Board of Directors recommends that you vote "FOR" the ratification of the appointment of appointed Goodman & Company, LLP, as independent auditors for the fiscal year ending December 31, 2008.**

### **APPROVAL OF THE TOWNEBANK 2008 STOCK INCENTIVE PLAN — PROPOSAL FOUR**

#### **General**

The Board of Directors has adopted, subject to your approval, the TowneBank 2008 Stock Incentive Plan (the "2008 Plan"). The purpose of the 2008 Plan is to promote the interests of TowneBank and its stockholders by strengthening TowneBank's ability to attract, motivate and retain employees, directors and consultants upon whose judgment, initiative and efforts the financial success and growth of the business of TowneBank largely depend.

If approved by the stockholders, a total of 2,423,389 shares of common stock will be initially reserved for issuance under the 2008 Plan. The number of shares reserved under the 2008 Plan equals the number of shares available for issuance under the 1999 Stock Incentive Plan, which is set to expire in 2009. The material terms of the 2008 Plan are summarized below. Because this is a summary, it may not contain all

the information that you may consider important. In order to aid your understanding, the full text of the 2008 Plan, as proposed for adoption and approval by you, is provided as Appendix B to this proxy statement.

The Board recommends that you approve the adoption of the 2008 Plan. If the 2008 Plan is approved, TowneBank will terminate the 1999 Stock Incentive Plan and no shares of TowneBank's common stock will be available for issuance thereunder, other than shares already subject to outstanding equity awards under such plan.

### **Purpose**

The purpose of the 2008 Plan is to further the long-term stability and financial success of the Company by attracting and retaining personnel, including employees, directors and consultants, through the use of stock incentives and other rights that promote and recognize the financial success and growth of the Company. The Company believes that ownership of Company stock will stimulate the efforts of those persons upon whose judgment, interest and efforts the Company is and will be largely dependent for the successful conduct of its business and will further the identification of those persons' interests with the interests of the Company's stockholders.

### **Shares Available for Issuance**

Shares reserved for issuance under the 2008 Plan will be an aggregate of 2,423,389 shares of common stock, plus an annual increase in the number of shares effective as of each successive January 1 so that the maximum aggregate number of shares reserved under the 2008 Plan as of such date is equal to 20% of the fully-diluted number of shares of the Company's stock outstanding as of such date or such lesser number of shares as the Committee shall determine. The maximum number of shares with respect to which awards may be granted in any calendar year to any individual during a calendar year will be 100,000 shares. To date, no stock options, restricted stock awards or other stock-based awards have been granted under the 2008 plan.

### **Administration**

The 2008 Plan will be administered by the Compensation Committee. The Committee will have the power and complete discretion to, among other things, select award recipients, establish all award terms and conditions, determine whether a change in control exists, adopt modifications and amendments to the terms of previously granted awards, and adopt rules and regulations as necessary for carrying out the 2008 Plan. The Committee shall have the express discretionary authority to construe and interpret the 2008 Plan and the award agreements, to resolve any ambiguities, to define any terms, and to make any other determinations required by the Plan or an award agreement.

### **Eligibility**

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

### **Types of Awards**

Awards under the 2008 Plan may be in the form of options or restricted stock. Options granted under the 2008 Plan may be Incentive Stock Options ("ISO") or Non-Qualified Stock Options.

## **Stock Options**

The 2008 Plan allows the Committee to grant to a participant the right to purchase shares in such amounts and upon such terms as the Committee determines. An option may be granted as an Incentive Stock Option or as a Non-Qualified Stock Option, as set forth in any applicable award agreement. The Committee establishes the exercise price of options, which shall not be less than 100% of the fair market value of the shares subject to the options on the date of grant, provided that if the participant is a 10% shareholder, the exercise price of an ISO shall not be less than 110% of the fair market value of such shares on the date of grant.

Options may be exercised in whole or in part at such times as may be specified by the Committee in the participant's stock option agreement. The Committee may impose such vesting conditions and other requirements as the Committee deems appropriate, and the Committee may include such provisions regarding a change in control as the Committee deems appropriate.

The term of an ISO shall not be longer than ten years from the date of grant, except that an ISO granted to a 10% shareholder shall not have a term in excess of five years. No option may be exercised after the expiration of its term or, except as set forth in the participant's stock option agreement, after the termination of the participant's employment.

## **Restricted Stock Awards**

The 2008 Plan allows the Committee to grant to a participant restricted stock awards in such amounts and upon such terms as the Committee determines. The Committee may place such restrictions on the transferability and vesting of restricted stock as deemed appropriate. Restricted stock may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered until the restrictions on such shares have lapsed or have been removed.

A participant will hold shares of restricted stock subject to the restrictions set forth in the award agreement and in the 2008 Plan. In other respects, the participant shall have all the rights of a stockholder with respect to the shares of restricted stock, including, but not limited to, the right to vote such shares and the right to receive all cash dividends and other distributions paid thereon.

## **Transferability**

In general, restricted stock and option awards granted to participants are not transferable except by will or by the laws of descent and distribution. Non-Qualified Options may be transferred to family members in certain cases.

## **Change in Capitalization**

In the event of any change in the outstanding shares of common stock due to a stock dividend, stock split or combination of shares, spin-off, recapitalization or otherwise, the number and kind of shares of stock or securities of the Company to be issued under the 2008 Plan (under outstanding awards and awards to be granted in the future), the exercise price of options, and other relevant provisions shall be appropriately adjusted by the Committee, whose determination shall be binding on all persons.

## **Federal Income Tax Consequences**

A participant will not generally recognize taxable income upon exercising an ISO (except that the alternative minimum tax may apply). Upon exercising an option other than an ISO, the participant must

generally recognize ordinary income equal to the excess of the fair market value of the freely transferable and nonforfeitable shares acquired on the date of exercise over the exercise price.

The Company generally will be entitled to a tax deduction equal to the amount recognized as ordinary income by the participant in connection with a Non-Qualified Option. The Company generally is not entitled to a tax deduction with respect to the grant or exercise of an ISO. The Company may be entitled to a tax deduction on account of certain dispositions of ISO stock.

With respect to restricted stock awards that are restricted as to transferability and subject to a substantial risk of forfeiture, the participant must generally recognize ordinary income equal to the fair market value of the shares received at the first time the shares become transferable or no longer subject to a substantial risk of forfeiture, whichever occurs earlier. The Company generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the participant.

### Securities Authorized for Issuance Under Equity Compensation Plans

The only equity compensation plan of TowneBank pursuant to which options, rights or warrants have or may be granted is the TowneBank 1999 Stock Incentive Plan. The following table summarizes information, as of December 31, 2007, relating to our existing equity compensation plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (1) (excluding securities referenced in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,301,678	\$11.78	2,390,337
Equity compensation plans not approved by security holders	--	--	--
<b>Total</b>	<b>1,301,678</b>	<b>\$11.78</b>	<b>2,390,337</b>

(1) Consists of shares available for future issuance under the existing stock incentive plan.

### Stockholder Vote Required

The 2008 Stock Incentive Plan will be approved by stockholders if the votes cast in favor of the proposal exceed the votes opposing it.

**The Board of Directors recommends a vote “FOR” the proposal to approve the TowneBank 2008 Stock Incentive Plan.**

## STOCKHOLDER PROPOSALS

To be considered for inclusion in the Company's proxy statement relating to the 2009 Annual Meeting of Stockholders, stockholder proposals must be received no later than December 19, 2008 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 22, 2009. 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 2007 Annual Report to Stockholders (the "2007 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.

The 2007 Annual Report and this proxy statement are available at the Company's Web site at [http://www.townebank.com/investor\\_relations](http://www.townebank.com/investor_relations). The Company will deliver promptly upon written or oral request a separate copy of the 2007 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 2007 Annual Report or this proxy statement, stockholders should contact the Company at:

Investor Relations  
TowneBank  
6001 Harbour View Blvd.  
Suffolk, VA 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 Annual Report or proxy statement in the future, please contact Registrar and Transfer Company Investor Relations Department at (800) 368-5948 or e-mail them at [info@rtco.com](mailto:info@rtco.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 that he otherwise determines 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 department and handled in accordance with procedures established by the Audit Committee with respect to such matters.

#### **ANNUAL REPORT ON FORM 10-K**

**A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, excluding exhibits, as filed with the Federal Deposit Insurance Corporation is available at the Company's Web site at [www.townebank.com](http://www.townebank.com). Upon request by any stockholder to the following address, a copy of the 2007 Form 10-K will be furnished without charge:**

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

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

**TOWNEBANK**  
**2008 STOCK INCENTIVE PLAN**

1. Purpose and Effective Date.

(a) The purpose of the TowneBank 2008 Stock Incentive Plan (the "Plan") is to further the long-term stability and financial success of TowneBank (the "Bank") by attracting and retaining personnel, including employees, directors and consultants, through the use of stock incentives and other rights that promote and recognize the financial success and growth of the Bank. The Bank believes that ownership of Bank Stock will stimulate the efforts of those persons upon whose judgment, interest and efforts the Bank is and will be largely dependent for the successful conduct of its business and will further the identification of those persons' interests with the interests of the Bank's shareholders.

(b) The Plan was adopted by the Board of Directors of the Bank on February 27, 2008, subject to approval by the Bank's shareholders.

2. Definitions.

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

(b) Applicable Withholding Taxes. The aggregate amount of federal, state and local income and payroll taxes that the Bank is required to withhold (based on the minimum applicable statutory withholding rates) in connection with any exercise of an Option or the award, lapse of restrictions or payment with respect to Restricted Stock. Applicable Withholding Taxes may also include, to the extent reasonably designated by the Bank, any other applicable taxes recognized by a Participant in connection with any exercise of an Option or the award, lapse of restrictions or payment with respect to Restricted Stock.

(c) Award. The award of an Option or Restricted Stock under the Plan.

(d) Bank. TowneBank, a Virginia corporation, or any successor.

(e) Bank Stock. Common stock of the Bank. If the par value of the Bank Stock is changed, or in the event of a change in the capital structure of the Bank (as provided in Section 13 below), the shares resulting from such a change shall be deemed to be Bank Stock within the meaning of the Plan.

(f) Board. The Board of Directors of the Bank.

(g) Cause. If a Participant has entered into an employment agreement with the Bank or any of its affiliates that includes a definition of Cause, then the definition of Cause included in the employment agreement will govern and apply for purposes of this Plan with respect to that Participant. In all other cases, Cause shall mean:

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

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

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

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

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

(h) Change in Control.

(i) The acquisition by any Person (as defined below) of beneficial ownership of 20% or more of the then outstanding shares of common stock of the Bank;

(ii) Individuals who constitute the Board on the effective date of this Plan (the "Incumbent Board") cease to constitute a majority of the Board, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened solicitation for the purpose of opposing a solicitation by any other person relating to the election of directors of the Bank, as such terms are used in Rule 14a-12(c) promulgated under the Act;

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

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

(y) no Person beneficially owns 20% or more of either (1) the then outstanding shares of common stock of the corporation resulting from the transaction or (2) the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors; and

(z) at least one-half of the members of the board of directors of the corporation resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization; or

(iv) Approval by the shareholders of the Bank of a complete liquidation or dissolution of the Bank, or of the sale or other disposition of all or substantially all of the assets of the Bank.

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

(i) Code. The Internal Revenue Code of 1986, as amended.

(j) Committee. The Compensation Committee of the Board.

(k) Consultant. A person or entity rendering services to the Bank who is not an "employee" for purposes of employment tax withholding under the Code.

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

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

(n) Fair Market Value.

(i) If the Bank Stock is listed on any established stock exchange, its Fair Market Value shall be the closing price for such stock on such date as

(ii) reported by such exchange, or, if there are no trades on such date, the value shall be determined as of the last preceding day on which the Bank Stock was traded.

(iii) If the Bank Stock is not publicly traded, the Fair Market Value shall be determined by the Committee using any reasonable method in good faith.

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

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

(q) Option. A right to purchase Bank Stock granted under Section 6 at a price determined in accordance with the Plan.

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

(s) Restricted Stock. Bank Stock awarded upon the terms and subject to the restrictions set forth in Section 8 below.

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

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

3. General. Awards of Options or Restricted Stock may be granted under the Plan. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options.

4. Stock.

(a) Subject to Section 12 of the Plan, there shall be reserved for issuance under the Plan an aggregate of 2,423,389 shares of Bank Stock, plus an annual increase in the number of shares effective as of each successive January 1 so that the maximum aggregate number of shares reserved under the Plan as of such date is equal to 20% of the fully-diluted number of shares of Bank Stock outstanding as of such date or such lesser number of shares as the Committee shall determine. For purposes of determining the outstanding number of shares of Bank Stock under this Section 4, all outstanding securities, notes and warrants that are convertible or exercisable presently or in the future by the holder into shares of Bank Stock (excluding Options awarded under the Plan) shall be deemed to have been fully converted or exercised into the number of shares represented by such securities, notes and warrants. Shares allocable to Options granted under the Plan that expire or otherwise terminate unexercised and shares that are forfeited pursuant to restrictions on Restricted Stock awarded under the Plan may again be subjected to an Award under this Plan. For purposes of determining the number of shares that are available for Awards under the Plan, such number shall include the number of shares surrendered by a Participant or retained by the Bank (i) in connection with the exercise of an Option or (ii) in payment of Applicable Withholding Taxes.

(b) Subject to adjustment as provided in Section 12, in no event shall more than an aggregate of 2,000,000 shares of Bank Stock may be issued pursuant to the exercise of Incentive Stock Options granted under the Plan (including shares issued pursuant to the exercise of Incentive Stock Options that are the subject of disqualifying dispositions within the meaning of Sections 421, 422 and 423 of the Code).

(c) The maximum number of shares with respect to which Awards may be granted in any calendar year to any individual during a calendar year shall be 100,000 shares.

5. Eligibility.

(a) Any employee of, director of, or Consultant to the Bank (including an employee of, director of, or consultant to an affiliate of the Bank) who, in the judgment of the Committee, has contributed or can be expected to contribute to the profits or growth of the Bank is eligible to become a Participant. The Committee shall have the power and complete discretion, as provided in Section 14, to select eligible Participants and to determine for each Participant the terms, conditions and nature of the Award and the number of shares to be allocated as part of the Award; provided, however, that any Award made to a member of the Committee must be approved by the Board. The Committee is expressly authorized to make an Award to a Participant conditioned on the surrender for cancellation of an existing Award.

(b) The grant of an Award shall not obligate the Bank to pay an employee any particular amount of remuneration, to continue the employment of the employee after the grant or to make further grants to the employee at any time thereafter.

(c) Non-employee directors and Consultants shall not be eligible to receive the Award of an Incentive Stock Option.

6. Stock Options.

(a) Whenever the Committee deems it appropriate to grant Options, notice shall be given to the Participant stating the number of shares for which Options are granted, the exercise price per share, whether the options are Incentive Stock Options or Nonstatutory Stock Options, and the conditions to which the grant and exercise of the Options are subject. This notice, when duly accepted in writing by the Participant, shall become a stock option agreement between the Bank and the Participant.

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

(c) Subject to subsection (d) below, Options may be exercised in whole or in part at such times as may be specified by the Committee in the Participant's stock option agreement. The Committee may impose such vesting conditions and other requirements as the Committee deems appropriate, and the Committee may include such provisions regarding a Change in Control as the Committee deems appropriate.

(d) The Committee shall establish the term of each Option in the Participant's stock option agreement. The term of an Incentive Stock Option shall not be longer than ten years from the Date of Grant, except that an Incentive Stock Option granted to a 10% Shareholder shall not have a term in excess of five years. No Option may be exercised after the expiration of its term or, except as set forth in the Participant's stock option agreement, after the termination of the Participant's employment. The Committee shall set forth in the Participant's stock option agreement when, and under what circumstances, an Option may be exercised after termination of the Participant's employment or period of service; provided that no Option will qualify for the favorable tax treatment afforded Incentive Stock Options under Code Section 422 if the Option is exercised after (i) three months from the Participant's termination of employment with the Bank for reasons other than Disability or death, or (ii) one year from the Participant's termination of employment on account of Disability or death. The Committee may, in its sole discretion, amend a previously granted Incentive Stock Option to provide for more liberal exercise provisions, provided however that if the Incentive Stock Option as amended no longer meets the requirements of Code Section 422, and, as a result the Option no longer qualifies for favorable federal income tax treatment under Code Section 422, the amendment shall not become effective without the written consent of the Participant.

(e) An Incentive Stock Option, by its terms, shall be exercisable in any calendar year only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the Bank Stock with respect to which Incentive Stock Options are exercisable by the Participant for the first time during the calendar year does not exceed \$100,000 (the "Limitation Amount"). Incentive Stock Options granted under the Plan and all other plans of the Bank and any "parent" or "subsidiary" of the Bank as such terms are defined, respectively, in Sections 424(e) and (f) of the Code, shall be aggregated for purposes of determining whether the Limitation Amount has been exceeded, and Incentive Stock Options may only be granted to employees of the Bank, its parent (if any), and any subsidiaries. The Board may impose such conditions as it deems appropriate on an Incentive Stock Option to ensure that the foregoing requirement is met. If Incentive Stock Options that first become exercisable in a calendar year exceed the Limitation Amount, the excess Options will be treated as Nonstatutory Stock Options to the extent permitted by law.

(f) If a Participant dies and if the Participant's stock option agreement provides that part or all of the Option may be exercised after the Participant's death, then such portion may be

exercised by the personal representative of the Participant's estate during the time period specified in the stock option agreement.

(g) If a Participant's employment or services is terminated by the Bank for Cause, the Participant's Options shall terminate as of the date of the misconduct.

7. Method of Exercise of Options.

(a) Options may be exercised by giving written notice of the exercise to the Bank, stating the number of shares the Participant has elected to purchase under the Option. Such notice shall be effective only if accompanied by the exercise price in full in cash; provided that, if the terms of an Option so permit, the Participant may (i) deliver Bank Stock that the Participant has previously acquired and owned (valued at Fair Market Value on the date of exercise), or (ii) deliver a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Bank, from the sale or loan proceeds with respect to the sale of Bank Stock or a loan secured by Bank Stock, the amount necessary to pay the exercise price and, if required by the Committee, Applicable Withholding Taxes.

(b) The Bank may place on any certificate representing Bank Stock issued upon the exercise of an Option any legend deemed desirable by the Bank's counsel to comply with federal or state securities laws. The Bank may require of the Participant a customary indication of his or her investment intent. A Participant shall not possess shareholder rights with respect to shares acquired upon the exercise of an Option until the Participant has made any required payment, including payment of Applicable Withholding Taxes, and the Bank has issued a certificate for the shares of Bank Stock acquired.

(c) Notwithstanding anything herein to the contrary, Awards shall always be granted and exercised in such a manner as to conform to the provisions of Rule 16b-3.

8. Restricted Stock Awards.

(a) Whenever the Committee deems it appropriate to grant a Restricted Stock Award, notice shall be given to the Participant stating the number of shares of Restricted Stock for which the Award is granted, the Date of Grant, and the terms and conditions to which the Award is subject. Certificates representing the shares shall be issued in the name of the Participant, subject to the restrictions imposed by the Plan and the Committee. A Restricted Stock Award may be made by the Committee in its discretion without cash consideration.

(b) The Committee may place such restrictions on the transferability and vesting of Restricted Stock as the Committee deems appropriate, including restrictions relating to continued employment and financial performance goals. Without limiting the foregoing, the Committee may provide performance or Change in Control acceleration parameters under which all, or a portion, of the Restricted Stock will vest on the Bank's achievement of established performance objectives or upon the occurrence of a Change in Control. Restricted Stock may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered until the restrictions on such shares shall have lapsed or shall have been removed pursuant to subsection (c) below.

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

(d) A Participant shall hold shares of Restricted Stock subject to the restrictions set forth in the Award agreement and in the Plan. In other respects, the Participant shall have all the rights of a shareholder with respect to the shares of Restricted Stock, including, but not limited to, the right to vote such shares and the right to receive all cash dividends and other distributions paid thereon. Certificates representing Restricted Stock shall bear a legend referring to the restrictions set forth in the Plan and the Participant's Award agreement. If stock dividends are declared on Restricted Stock, such stock dividends or other distributions shall be subject to the same restrictions as the underlying shares of Restricted Stock.

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

10. Nontransferability of Awards.

(a) In general, Awards, by their terms, shall not be transferable by the Participant except by will or by the laws of descent and distribution or except as described below. Options shall be exercisable, during the Participant's lifetime, only by the Participant or by his guardian or legal representative.

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

11. Termination; Modification; Change. If not sooner terminated by the Board, this Plan shall terminate at the close of business on February 26, 2018. No Awards shall be made under the Plan after its termination. The Board may terminate the Plan or may amend the Plan in such respects as it shall deem advisable; provided, that, unless authorized by the Bank's shareholders, no change shall be made that (a) increases the total number of shares of Bank Stock reserved for issuance pursuant to Awards granted under the Plan (except pursuant to Section 12), (b) expands the class of persons eligible to receive Awards, (c) materially increases the benefits accruing to Participants under the Plan, or (d) otherwise requires shareholder approval under the Code, Rule 16b-3, or the rules of a domestic stock exchange on which Bank Stock is traded. Notwithstanding the foregoing, the Board may unilaterally amend the Plan and Awards as it deems appropriate to ensure compliance with Rule 16b-3 and to cause Incentive Stock Options to meet the requirements of the Code and regulations thereunder. Except as provided in the preceding sentence, a termination or amendment of the Plan shall not, without the consent of the Participant, adversely affect a Participant's rights under an Award previously granted to him.



12. Change in Capital Structure.

(a) In the event of a stock dividend, stock split or combination of shares, spin-off, recapitalization or merger in which the Bank is the surviving corporation, or other change in the Bank's capital stock (including, but not limited to, the creation or issuance to shareholders generally of rights, options or warrants for the purchase of common stock or preferred stock of the Bank), the number and kind of shares of stock or securities of the Bank to be issued under the Plan (under outstanding Awards and Awards to be granted in the future), the exercise price of options, and other relevant provisions shall be appropriately adjusted by the Committee, whose determination shall be binding on all persons. If the adjustment would produce fractional shares with respect to any Award, the Committee may adjust appropriately the number of shares covered by the Award so as to eliminate the fractional shares.

(b) In the event the Bank distributes to its shareholders a dividend, or sells or causes to be sold to a person other than the Bank or a subsidiary shares of stock in any corporation (a "Spinoff Company") which, immediately before the distribution or sale, was a majority owned subsidiary of the Bank, the Committee shall have the power, in its sole discretion, to make such adjustments as the Committee deems appropriate. The Committee may make adjustments in the number and kind of shares or other securities to be issued under the Plan (under outstanding Awards and Awards to be granted in the future), the exercise price of Options, and other relevant provisions, and, without limiting the foregoing, may substitute securities of a Spinoff Company for securities of the Bank. The Committee shall make such adjustments as it determines to be appropriate, considering the economic effect of the distribution or sale on the interests of the Bank's shareholders and the Participants in the businesses operated by the Spinoff Company. The Committee's determination shall be binding on all persons. If the adjustment would produce fractional shares with respect to any Award, the Committee may adjust appropriately the number of shares covered by the Award so as to eliminate the fractional shares.

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

(d) To the extent required to avoid a charge to earnings for financial accounting purposes, adjustments made by the Committee pursuant to this Section 12 to outstanding Awards shall be made so that both (i) the aggregate intrinsic value of an Award immediately after the adjustment is not greater than or less than the Award's aggregate intrinsic value before the adjustment and (ii) the ratio of the exercise price per share to the market value per share is not reduced.

13. Change in Control. In the event of a Change in Control, the Committee may take such actions with respect to any Award as the Committee deems appropriate. These actions may include, but shall not be limited to, the following:

(a) At the time the Award is made, provide for the acceleration of the vesting schedule relating to the exercise or realization of the Award so that the Award may be exercised or realized in full on or before a date initially fixed by the Committee;

(b) Provide for the purchase or settlement of any such Award by the Bank for any amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of a Participant's rights had such Award been currently exercisable or payable;

(c) Make adjustments to Awards then outstanding as the Committee deems

appropriate to reflect such Change in Control; provided, however, that such adjustments shall be made so that both (i) the aggregate intrinsic value of an Award immediately after the adjustment is not less than or greater than the Award's aggregate intrinsic value before the Award and (ii) the ratio of the exercise price per share to the market value per share is not reduced; or

(d) Cause any such Award then outstanding to be assumed, or new rights substituted therefore, by the acquiring or surviving corporation in such Change in Control.

14. Administration of the Plan.

(a) The Plan shall be administered by the Committee; however, the Board reserves the right to approve selected Awards. To the extent required by Rule 16b-3, all Awards shall be made by members of the Committee who are "Non-Employee Directors" as that term is defined in Rule 16b-3, or by the Board. Awards that are intended to be performance-based for purposes of Code Section 162(m) shall be made by the Committee, or subcommittee of the Committee, comprised solely of two or more "outside directors" as that term is defined for purposes of Code Section 162(m).

(b) The Committee shall have the authority to impose such limitations or conditions upon an Award as the Committee deems appropriate to achieve the objectives of the Award and the Plan. Without limiting the foregoing and in addition to the powers set forth elsewhere in the Plan, subject to the Board's reservation of the right to approve selected Awards pursuant to subsection (a) above, the Committee shall have the power and complete discretion to determine (i) which eligible persons shall receive an Award and the nature of the Award, (ii) the number of shares of Bank Stock to be covered by each Award, (iii) whether Options shall be Incentive Stock Options or Nonstatutory Stock Options, (iv) the Fair Market Value of Bank Stock, (v) the time or times when an Award shall be granted, (vi) whether an Award shall become vested over a period of time, according to a performance-based vesting schedule or otherwise, and when it shall be fully vested, (vii) the terms and conditions under which restrictions imposed upon an Award shall lapse, (viii) whether a Change in Control exists, (ix) factors relevant to the lapse of restrictions on Options or Restricted Stock, (x) when Options may be exercised, (xi) whether to approve a Participant's election with respect to Applicable Withholding Taxes, (xii) conditions relating to the length of time before disposition of Bank Stock received in connection with an Award is permitted, (xiii) notice provisions relating to the sale of Bank Stock acquired under the Plan, and (xiv) any additional requirements relating to Awards that the Committee deems appropriate. Notwithstanding the foregoing, no "tandem stock options" (where two stock options are issued together and the exercise of one option affects the right to exercise the other option) may be issued in connection with Incentive Stock Options.

(c) The Committee shall have the power to amend the terms of previously granted Awards so long as the terms as amended are consistent with the terms of the Plan and, where applicable, consistent with the qualification of an Option as an Incentive Stock Option. The consent of the Participant must be obtained with respect to any amendment that would adversely affect the Participant's rights under the Award, except that such consent shall not be required if such amendment is for the purpose of complying with Rule 16b-3 or any requirement of the Code applicable to the Award.

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

(e) A majority of the members of the Committee shall constitute a quorum, and all actions of the Committee shall be taken by a majority of the members present. Any action may be taken by a written instrument signed by all of the members, and any action so taken shall be fully effective as if it had been taken at a meeting.

15. Notice. All notices and other communications required or permitted to be given under this Plan shall be in writing and shall be deemed to have been duly given if delivered personally, electronically, or mailed first class, postage prepaid, as follows: (a) if to the Bank - at its principal business address to the attention of the Secretary; (b) if to any Participant - at the last address of the Participant known to the sender at the time the notice or other communication is sent.

16. Interpretation and Governing Law. The terms of this Plan and Awards granted pursuant to the Plan shall be governed, construed and administered in accordance with the laws of the Commonwealth of Virginia. The Plan and Awards are subject to all present and future applicable provisions of the Code and, to the extent applicable, they are subject to all present and future rulings of the Securities and Exchange Commission with respect to Rule 16b-3. If any provision of the Plan or an Award conflicts with any such Code provision or ruling, the Committee shall cause the Plan to be amended, and shall modify the Award, so as to comply, or if for any reason amendments cannot be made, that provision of the Plan or the Award shall be void and of no effect.

17. Forfeiture by Order of Regulatory Agency. If the Bank's capital falls below the minimum requirements contained in 12 C.F.R. Part 325 or below a higher requirement as determined by the Bank's primary bank regulatory agency, such agency may direct the Bank to require the Participant to exercise or forfeit some or all of his Awards granted hereunder. All Awards granted under this Plan are subject to the terms of any such directive.

18. Code Section 409A Compliance. To the extent applicable, this Plan is intended to comply with Code Section 409A, and the Committee shall interpret and administer the Plan in accordance therewith. In addition, any provision, including, without limitation, any definition, in this Plan document that is determined to violate the requirements of Code Section 409A shall be void and without effect and any provision, including, without limitation, any definition, that is required to appear in this Plan document under Code Section 409A that is not expressly set forth shall be deemed to be set forth herein, and the Plan shall be administered in all respects as if such provisions were expressly set forth. In addition, the timing of certain payment of Awards provided for under this Plan shall be revised as necessary for compliance with Code Section 409A.

