BAY BANKS
of Virginia

Dear Fellow Bay Banks Shareholder:

We hope that all of you are safe and healthy as we move forward together through this unprecedented time of a national pandemic.

Before reflecting on 2019, we'd like to share with you how our Company is responding to the coronavirus situation.

Since early March of 2020, a team has been executing our pre-set pandemic plan. Every decision and action is based on the health and safety of our employees and customers, while understanding that banking is an essential business and we must serve our customers and communities.

From the onset of the coronavirus, we proactively addressed the needs of our commercial and individual borrowers modifying loans, as needed, granting our borrowers a short-term deferral of loan payments. As of the date of this letter, modification activity has slowed.

We are active in the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. Pursuant to the PPP, we closed 405 loans for $45.3 million in the first appropriation of government funding, which was fully absorbed within fourteen days of being made available. As of the date of this letter, we are active in the second government appropriation. Through the PPP, the federal government partnered with banks to put over $600 billion in small businesses to support payrolls and other basic operating costs. As a community bank, Virginia Commonwealth Bank was well positioned to assist the targeted small businesses. We quickly formed a team that worked countless hours to respond to an overwhelming need and we thank them.

We've received an astonishing amount of positive feedback from customers we've helped. We could not be more proud of our response to our customers' needs at a time many of our customers have temporarily lost revenues they've worked years to build.

We made the decision early on to allow accessibility to our branch lobbies by appointment, while all our drive-through access points were open, as well as access to banking services using readily-available technology. After the governor of Virginia issued a 'stay-at-home' order, we temporarily closed four of our branches and reduced hours in certain other branches. We salute our branch employees that daily interface with the public during this complicated situation. The majority of our non-branch employees are effectively working remotely, proving the sustainability of the infrastructure investments we've made.

Bay Banks of Virginia concluded the decade well positioned to enter 2020 with strength, momentum and confidence in our strategic direction.

2019 was a year of great improvement with increasing profitability in each sequential quarter. For the year ended December 31, 2019, the Company reported net income of $7.1 million, or $0.54 per diluted share, compared to $3.9 million, or $0.30 per diluted share, for the year ended December 31, 2018. Our annualized return on average assets ("ROAA") improved to 0.71% for the fourth quarter of 2019 compared to an annualized ROAA of 0.30% for the fourth quarter of 2018. Although a significant improvement, we still have work to do to achieve acceptable returns and reach our profitability goals. The implications of the coronavirus will likely change our short-term goals.

We began the year with a focus on balance sheet management and low-cost deposit growth. Our results reflected an intentional slowing of loan growth as we exercised a disciplined approach of investing our liquidity in higher yielding loans. Our overall loan portfolio showed minimal growth in 2019; however, net growth in our markets was nearly $79 million in 2019. Our portfolio of loans acquired in our 2017 merger and subsequent purchases of consumer portfolios have declined from $290 million since the merger date to approximately $123 million at year-end 2019. We sold more originated residential mortgages into the secondary market based on our strategy for more favorable yields. Secondary market sales are also an important source of fee income and allow us to avoid higher incremental funding costs.

Deposit costs in our markets were beginning to stabilize in 2019, and as a result, we took actions to lower the cost of this funding source. Deposit costs were lowered in the last half of 2019, which we expected would support tightening margins in the following quarters. We experienced some success in growing noninterest-bearing accounts in 2019, though this growth was not at the pace we would like, and we continue to remain focused on low-cost deposit generation.

Our advancements in technology and mobile applications have been substantial as trends in customers' behavior and lobby transactions are declining year over year. Our priority is to offer more extensive digital and mobile capabilities to meet our customers' banking preferences. We believe our mobile banking experience competes with banks significantly larger than us with far greater resources to invest. As a component of the Bank achieving the optimal combination of branches and mobile banking technologies, we consolidated a Tri-Cities branch with another in the first quarter of 2019 and announced in November 2019 that we would consolidate one branch in the Richmond area into a branch within close proximity. This consolidation was completed in early 2020. These actions will allow us to operate more efficiently, while continuing to provide our customers with the quality service they expect.

Our Company is operating in two of Virginia's strongest markets--Richmond and Hampton Roads; these markets are expected to perform well during most market conditions. Since the 2017 merger, we have achieved the objectives of the merger and re-positioned our Company to these vibrant markets. As of 2019, nearly 60% of our deposits and an even larger portion of our commercial loans were in the Richmond MSA.

In October 2019, the placement of $25 million subordinated notes provides us with adequate capital to continue our growth strategy and the ability to weather the negative market conditions we will likely face due to the impacts of the coronavirus.

Douglas F. Jenkins, Jr., Chief Banking Officer, retired in January 2020; we thank Doug for his 14 years of hard work and dedication and wish him all the best. This led us to the hiring in January 2020 of Michael H. Troutman, a successful banking industry leader of more than 18 years, to the position of the Bank's first Chief Revenue Officer. Michael is responsible for developing and managing revenue generation strategy and execution across all products and regions of the Company.

VCB Financial Group, the Company's wealth management and trust and estate administration subsidiary, achieved record levels of assets under management in 2019 for both trust and wealth management. This business grows slowly, and we believe it is complementary to our extensive commercial and retail banking services.

We have a strong year behind us and many challenges ahead. Even though we have significant headwinds, we believe we have an excellent banking team and are positively positioned for a successful future. Our Company went into the pandemic safe, strong, well-capitalized and led by a strong board of directors and management team.

We would like to express our gratitude to you and everyone involved that has made our Company successful. As bankers and shareholders, we certainly welcome your deposits and your referrals of friends, neighbors and business associates.

Thank you, as always, for your investment and continued support. We hope you will join us for our Annual Shareholders' Meeting on Monday, June 15 at 10:00 a.m. The meeting will be held at the Company's headquarters located at 1801 Bayberry Ct., Suite 101, Richmond, Virginia.

Best regards,

Randal R. Greene

C. Frank Scott, III
Chairman of the Board

Randal R. Greene
President & Chief Executive Officer

vcb Virginia Commonwealth Bank

vcb Financial Group
TRUST AND WEALTH MANAGEMENT