



It's good to be home

SUMMER 2010 UPDATE

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LOBBY HOURS: MONDAY – FRIDAY 7AM – 7PM | SATURDAY 9AM - 2PM

A MESSAGE FROM OUR CHAIRMAN



Dear Shareholders and Friends:

As we approach our 5th anniversary of operation in November, it is a good time to reflect on our accomplishments and our challenges. In some areas we have exceeded our plans and expectations and in others we have been challenged by external environmental considerations.

Your Boards of Directors take their responsibilities seriously and recognize that their primary responsibility is to provide independent oversight of executive management and to oversee the business and affairs of your Company. Central to this oversight is balancing the interests of the corporation's diverse constituencies, including shareholders, customers, employees and communities. We have recorded successes with respect to each.

We are constantly mindful of who owns your Company and for whom we work. Based on historical data relating to de novo community banks, when HomeTown Bank was organized, we expected to be further along on earnings and stock price. During the several years preceding our opening, it was not unusual for the stock of new community banks to increase 10% or more per year. While our stock has held up better than most, we are disappointed that it has been negatively affected by the economy in general and the bashing of banks in particular. The recent stock dividend was helpful to our shareholders and was the first of what we hope will be regular recognition of our shareholders' investment. The Company's earnings from operations have increased nicely but as addressed by our CEO in her comments, significant additions have been made to our loan loss reserve to guard against the uncertainty which remains in the economy and its effect on our borrowers.

We have provided our customers and the citizens of the communities we serve with an alternative to the big banks and with a unique level of service even for community banks. Our business plan is based on local decision-making and personalized service that only community banks can provide. No other bank in our market area provides the level of service of HomeTown Bank, especially when it comes to convenient hours of operation for our customers.

Providing our employees with an outstanding working environment and opportunities for advancement, along with service to the community and being a good corporate citizen, are core values of your Company. The 78 employees we have and the expenditures we make for rent, supplies and services are important to the community. We are very proud of our record of community involvement.

Your Company's accomplishments over these five short years are significant and

your Boards are proud of them. The reputation your Bank has established will serve all of our constituencies well in the future. We look forward to the next five years and beyond.

William R. Rakes
Chairman, Board of Directors

A MESSAGE FROM OUR PRESIDENT



Dear Shareholders and Friends:

Due to continued sluggishness in the economy, HomeTown Bankshares Corporation took a proactive stance to bolster its Allowance for Loan Losses in the second quarter of 2010. Accordingly, the Company reported a \$2.7 million net loss after adding \$3.3 million to the Allowance for the quarter ended June 30, 2010. This resulted in a net loss of \$2.4 million for the first six months of 2010. The core metrics of our loan portfolio remain stable, and we continue to compare favorably to our peer banks in non-performing loans and overall losses realized; however, we feel that it is prudent to maintain an elevated Allowance until the economy shows sustained signs of improvement.

While the Company has taken a proactive stance in building the Allowance, we are pleased to report that earnings from core operations, pre-dividend and pre-allowance, set another record in the 2nd quarter of 2010 for the fourth consecutive quarter. Core earnings amounted to \$664,000 for the 2nd quarter of 2010 and \$1.3 million for the first six months of 2010. This compares to core earnings of \$69,000 and \$349,000, respectively, for the same time periods in 2009. In addition, the Net Interest Margin has increased each quarter for the past six quarters from 2.90% in the first quarter of 2009 to 3.23% for the quarter ended June 30, 2010.

In addition to continued growth in core operating earnings, our liquidity continues to increase and HomeTown Bank remains a well-capitalized bank. We feel that our strength in operating performance, increased liquidity, a strong capital position, and an increased allowance for loan losses should position us well for the future as the economy in the region stabilizes and improves.

As we approach our first five years of operation, we are also pleased to note that the Company has grown to approximately \$350 million in total assets with five full service branches in three markets. We are very enthusiastic about the accomplishments we have made at HomeTown Bankshares Corporation since our inception in November, 2005, as we continue to focus on profitability, preserving loan quality

and expanding our retail and commercial banking relationships throughout the markets we serve.

Susan K. Still

President & CEO, HomeTown Bankshares Corporation

August 2010

Balance Sheet

HomeTown Bankshares Corporation

Holding company of HomeTown Bank

Assets	Unaudited 6/30/2010	Unaudited 6/30/2009
	000's Omitted	000's Omitted
Cash and due from banks	\$7,581	\$13,589
Fed funds sold & repos	12,530	10,540
Investments	53,057	12,532
Loans, net of unearned income	266,347	240,529
Less: Allowance for loan losses	-4,964	-2,419
Premises & Equipment	8,952	8,383
Other real estate owned	647	507
Other Assets	3,272	1,493
Total Assets	<u>\$347,422</u>	<u>\$285,154</u>
 Liabilities		
Non-Interest Bearing Deposits	\$19,665	\$15,284
Interest Bearing Demand Deposits	266,483	230,606
Total Deposits	<u>286,148</u>	<u>245,890</u>
Borrowings	27,550	13,406
Other Liabilities	1,474	1,668
	<u>\$315,172</u>	<u>\$260,964</u>
 Equity		
Preferred Stock	10,053	0
Common Stock	16,167	14,697
Capital Surplus	15,412	17,060
Retained Deficit	-10,130	-7,661
Accumulated other comprehensive income (loss)	748	94
Total Equity	<u>32,250</u>	<u>24,190</u>
Total Liabilities & Equity	<u>\$347,422</u>	<u>\$285,154</u>

Income Statement

HomeTown Bankshares Corporation

Holding company of HomeTown Bank

Consolidated Earnings

Second Quarter Earnings:

Three Months Ended June 30

	Unaudited QTD 6/30/2010	Unaudited QTD 6/30/2009
	000's Omitted	000's Omitted
Total Interest Income	\$4,079	\$3,305
Total Interest Expense	1,395	1,477
Net Interest Income	2,684	1,828
Provision for loan losses	3,334	118
Net Int. Inc. After Prov. for Loan Losses	(650)	1,710
Non Interest Income	205	161
Non Interest Expense	2,225	1,920
Net Income Before Taxes	(2,670)	(49)
Income Taxes	0	0
Net Income (Loss)	\$(2,670)	(49)
Net Dividends Accumulated on Preferred Stock	150	0
Net Income Available to Shareholders	\$(2,820)	\$(49)
<i>Income(loss) per share, basic and diluted</i>	\$(0.87)	\$(.02)
<i>Weighted average shares outstanding</i>	3,241,547	3,233,340

Year-To-Date Earnings:

Six Months Ended June 30

	YTD 6/30/2010	YTD 6/30/2009
	000's Omitted	000's Omitted
Total Interest Income	\$7,969	\$6,359
Total Interest Expense	2,818	2,881
Net Interest Income	5,151	3,478
Provision for loan losses	3,687	204
Net Int. Inc. After Prov. for Loan Losses	1,464	3,274
Non Interest Income	462	481
Non Interest Expense	4,341	3,610
Net Income Before Taxes	(2,415)	145
Income Taxes	0	0
Net Income (Loss)	\$(2,415)	145
Net Dividends Accumulated on Preferred Stock	300	0
Net Income Available to Shareholders	\$(2,715)	\$145
<i>Income(loss) per share, basic and diluted</i>	\$(0.84)	\$0.04
<i>Weighted average shares outstanding</i>	3,238,872	3,233,340

TURN OVER A NEW LEAF – INTRODUCING HOMETOWN'S NEW FINANCE CENTER

Enhanced Online Banking & Money Management Tools to Simplify your Financial Life

Industry research confirms the message we have heard directly from you, our customer: "Provide me with a simple tool to view account balances and transactions, pay bills, analyze spending and net worth, create a budget and view my entire financial life in one, secure site." In summary, simplify your daily financial chores.

We are pleased to announce that HomeTown Bank will be launching a series of enhancements over the next few months that will meet all of those requirements and more. HomeTown Bank's new Online Financial Management (OFM) Center will allow customers to connect to accounts at all of their financial institutions – checking, savings, retirement, mortgage, credit card, investments and more – allowing customers to track each account conveniently from HomeTown's secure web portal. Real balances, real time.

The site uses the most advanced technology available for Internet security and data encryption – the same level as that used by the largest banks in the nation. With the launch of HomeTown's OFM Center, we will be truly on the same playing field as the mega banks with one major difference: exceptional customer service provided by experienced, local and caring employees in each of our five offices in Roanoke, the New River Valley and Smith Mountain Lake.

In addition to the new OFM Center, we will also implement several new services to make your financial life a bit easier:

- 24 Hour Telephone Banking
- Bank-to-Bank Transfers
- Mobile Banking
- E-Statements

We truly appreciate your feedback and suggestions over the past five years as we have searched for the best-of-the-best in banking products for you, our customers.

GETTING SMART ABOUT CREDIT – OCTOBER 2010

Each Fall bankers across the country participate in the American Bankers Association's (ABA) "Get Smart About Credit" program to teach young adults how to handle and use credit responsibly. The ABA sponsored program connects local bankers with students and young adults to help them to develop a stronger understanding of credit and how to use it responsibly.

HomeTown Bank employees will be heading into the classrooms during the month of October to educate students on how to budget, set goals, the do's and don'ts of credit and how to use credit cards responsibly. With recent economic challenges, we feel that educating America's youth is now more important than ever. Studies show that financially sound adults reached their financial goals by learning to set goals and manage money at an early age. It's never too soon to start saving and learning good financial habits that will last a lifetime!

SAVE THE DATE – HOMETOWN BANK TO HOST COMMUNITY SHRED DAY & HONOR 9/11

HomeTown Bank has engaged Kodiak Shredding, an on-site shredding and recycling company, to hold a Free Community Shred Day. Kodiak is a member of the National Association of Information Destruction (NAID) and is AAA Certified. Also, in honor of those that lost their lives nine years ago, HomeTown Bank employees will be reaching out to the community as our neighbors on this important day. We hope that you will join us and enjoy a hot dog and lemonade.

The event will be held on Saturday, September 11th from 10 a.m. to 1 p.m. at our Colonial Avenue office, 4225 Colonial Avenue across from North Cross School. HomeTown Bank employees will be on-site to hand out tips for consumers to protect themselves against identity theft. Please share this date with your friends, family and neighbors and encourage them to gather the documents they want to dispose of safely.

Our goal is to demonstrate the importance of destroying old information that is no longer needed, so that it does not wind up in the wrong hands. Shredding is the best way to dispose of credit card and financial statements, old tax forms, pre-approved credit card offers, bills, checks, documents with personal identification numbers and expired passports. Staples, paper clips, hanging folders and rubber bands are fine. Three-ring binders must be removed!

We look forward to seeing you on the 11th.

HOMETOWN MARKETING NEWS

HomeTown Bank has a commitment to its shareholders, customers, and the communities that it serves. In November 2010, we will celebrate our fifth year as the community bank of choice in the Roanoke Valley. Our Bank has been recognized for great customer service and continued support of charitable and worthy causes in our market areas. The upcoming United Way campaign will be our fifth year as a Pacesetter Organization with 100% employee participation.

In April, we participated in the ABA's "Teach Children to Save" program and sent staff members to area schools to teach students the importance of financial literacy and saving money. In July, we were a presenting sponsor for The Fink's Diamond Dash. With over 200 couples coming through our Downtown Roanoke lobby, we provided cake, punch, and a clue to help one lucky couple win a diamond ring. In August, we helped support the 2010 Runway for Recovery Fashion Show, to benefit Bethany Hall, Inc.. Upcoming, we shall sponsor a series at The Jefferson Center, The Junior League's "Stocked Market", and other non-profit events and programs. If you would like electronic updates on a more frequent basis, please forward your e-mail to drakes@hometownbankva.com.

Look up "HomeTown Bank Va" on:



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In the future, if you would like to receive this newsletter electronically, please contact Linda Caskie at lcaskie@hometownbankva.com





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