

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

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OF
THE SECURITIES EXCHANGE ACT OF 1934**

July 12, 2017

Date of Report (Date of earliest event reported)

TOWNE BANK

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation)

35095
(FDIC Insurance Cert. No.)

54-1910608
(IRS Employer Identification
No.)

5716 High Street, Portsmouth, Virginia
(Address of principal executive offices)

23703
(Zip Code)

(757) 638-7500
(Registrant's telephone number, including area code)

No Change
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

On July 12, 2017, TowneBank entered into a purchase agreement (the “Purchase Agreement”) with Sandler O’Neill + Partners, L.P., as initial purchaser, with respect to the offer and sale of \$250,000,000 aggregate principal amount of its 4.50% fixed-to-floating rate subordinated notes due 2027 (the “Notes”). The Purchase Agreement contains customary representations, warranties and covenants and includes the terms and conditions for the sale of the Notes, indemnification and contribution obligations and other terms and conditions customary in agreements of this type. The foregoing description is qualified in its entirety by reference to the Purchase Agreement, a copy of which is attached hereto as Exhibit 1.1 and incorporated herein by reference.

The offering of the Notes is expected to close on July 17, 2017, subject to customary closing conditions. TowneBank expects to use the net proceeds from the offering for general corporate purposes, which may include supporting TowneBank’s growth organically or through strategic acquisitions.

ITEM 7.01 REGULATION FD DISCLOSURE.

On July 12, 2017, TowneBank issued a press release announcing the pricing of its previously announced offering of the Notes. In connection with the offering of the Notes, TowneBank distributed a final term sheet and an offering circular, dated July 12, 2017, to certain investors. Copies of the press release, the final term sheet and the offering circular are attached hereto as Exhibits 99.1, 99.2 and 99.3, respectively.

The information furnished by TowneBank pursuant to this item and Item 9.01, including Exhibits 99.1 and 99.2, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any offering circular of TowneBank or any of its filings under the Exchange Act.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(d) *Exhibits.*

The following exhibits are filed herewith:

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
1.1	Purchase Agreement, dated July 12, 2017, between TowneBank and Sandler O’Neill + Partners, L.P.
99.1	Press Release, dated July 12, 2017.
99.2	Final Term Sheet, dated July 12, 2017.
99.3	Offering Circular, dated July 12, 2017.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOWNE BANK
(Registrant)

/s/ Clyde E. McFarland, Jr.

Clyde E. McFarland, Jr.
Senior Executive Vice President &
Chief Financial Officer

Date: July 14, 2017

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
1.1	Purchase Agreement, dated July 12, 2017, between TowneBank and Sandler O'Neill + Partners, L.P.
99.1	Press Release, dated July 12, 2017.
99.2	Final Term Sheet, dated July 12, 2017.
99.3	Offering Circular, dated July 12, 2017.

EXECUTION VERSION**TowneBank****\$250,000,000****4.50% Fixed-to-Floating Rate Subordinated Notes due 2027****Purchase Agreement**

July 12, 2017

Sandler O'Neill & Partners, L.P.
1251 Avenue of the Americas, 6th Floor
New York, New York 10020

Ladies and Gentlemen:

TowneBank, a Virginia banking corporation (the “Company”), confirms its agreement with Sandler O'Neill & Partners, L.P. (the “Representative”), on behalf of the initial purchasers listed on Annex A (together, the “Initial Purchasers”), subject to the terms and conditions stated herein, with respect to the issuance and sale by the Company and the purchase by the Initial Purchasers, acting severally and not jointly, of \$250,000,000 in aggregate principal amount of the Company's 4.50% Fixed-to-Floating Rate Subordinated Notes due 2027 (the “Securities”). If there is only one person, firm or corporation named in Annex A hereto, the term “Initial Purchasers” as used herein shall mean that person, firm or corporation. All obligations of the Initial Purchasers hereunder are several and not joint. Unless otherwise stated, any action under or in respect of this Agreement taken by the Representative will be binding upon all the Initial Purchasers. The Securities are to be issued pursuant to an issuing and paying agency agreement to be dated July 17, 2017 (the “Issuing and Paying Agency Agreement”) between the Company and U.S. Bank National Association, as issuing and paying agent and note registrar (the “Issuing and Paying Agent”).

The Company understands that the Initial Purchasers propose to make an offering of the Securities on the terms and in the manner set forth herein and in the Offering Circular (as defined below) and agrees that the Initial Purchasers may resell, subject to the conditions set forth herein, all or a portion of the Securities to purchasers (the “Subsequent Purchasers”) at any time after the date of this Agreement. The Securities are to be offered and sold through the Initial Purchasers without being registered under the Securities Act of 1933, as amended (the “1933 Act”), in reliance upon exemptions therefrom. Securities issued in book-entry form shall be issued to Cede & Co. as nominee of The Depository Trust Company (“DTC”) pursuant to a blanket issuer letter of representations between the Company and DTC.

The Company has prepared and delivered to the Initial Purchasers copies of a preliminary offering circular dated July 11, 2017 (the “Preliminary Offering Circular”) and has prepared and will deliver to the Initial Purchasers, as soon as practicable, but not later than July 17, 2017, copies of a final offering circular dated July 12, 2017 (the “Final Offering Circular”), each for

use by the Initial Purchasers in connection with its solicitation of purchases of, or offering of, the Securities. “Offering Circular” means, with respect to any date or time referred to in this Agreement, the most recent offering circular (whether the Preliminary Offering Circular or the Final Offering Circular, or any amendment or supplement to either such document), including exhibits thereto, which has been prepared and delivered by the Company to the Initial Purchasers in connection with its solicitation of purchases of, or offering of, the Securities, and includes the periodic and other reports and other documents filed (or, with respect to the Form 8-K dated June 22, 2017, furnished) by the Company with the Federal Deposit Insurance Corporation (the “FDIC”) that are incorporated by reference in the Offering Circular, as set forth therein under the caption “Incorporation of certain documents by reference” (collectively, the “1934 Act Reports”). References herein to the “Offering Circular” shall be deemed to include the 1934 Act Reports unless otherwise specifically provided.

All references in this Agreement to financial statements and schedules and other information which is “contained,” “included” or “stated” in the Offering Circular, the Preliminary Offering Circular, the Final Offering Circular or the General Disclosure Package (as defined herein) (or other references of like import) shall be deemed to mean and include all such financial statements and schedules and other information which is incorporated by reference in the Offering Circular, the Preliminary Offering Circular, the Final Offering Circular or the General Disclosure Package, as the case may be, prior to the execution of this Agreement; and all references in this Agreement to amendments or supplements to the Offering Circular, the Preliminary Offering Circular, the Final Offering Circular or the General Disclosure Package shall be deemed to include the filing of any document under the Securities Exchange Act of 1934, as amended (the “1934 Act”), which is incorporated by reference in the Offering Circular, the Preliminary Offering Circular, the Final Offering Circular or the General Disclosure Package, as the case may be, after the execution of this Agreement.

For the purpose of this Agreement, the term “subsidiary” or “subsidiaries” shall include each direct or indirect subsidiary of the Company listed on Schedule III hereto.

1. Representations and Warranties. (a) The Company represents and warrants to the Representative and the other Initial Purchasers as of the date hereof, as of the Applicable Time referred to in Section 1(a)(i) hereof and as of the Closing Time referred to in Section 2(c) hereof, and agrees with the Representative and the other Initial Purchasers, as follows:

(i) The Offering Circular does not, and at the Closing Time will not, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however*, that this representation, warranty and agreement shall not apply to statements in or omissions from the Offering Circular made in reliance upon and in conformity with the written information furnished to the Company by the Initial Purchasers or by counsel or any other representative of an Initial Purchaser expressly for use in the Offering Circular (or any amendment or supplement thereto), it being understood and agreed that the only such information furnished by an Initial Purchaser consists of the information described in Section 6(b) hereof.

The final term sheet in the form set forth on Schedule I hereto, reflecting the final terms of the Securities (the “Final Term Sheet”); any other Company offering material that is intended for general distribution to prospective investors, as evidenced by its being specified in Schedule II hereto (an “Additional Company Offering Document”) issued at or prior to the Applicable Time (as defined below) and the Preliminary Offering Circular, considered together (collectively, the “General Disclosure Package”), as of the Applicable Time did not, and as of the Closing Time will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. “Applicable Time” means 4:15 p.m. (Eastern Time) on July 12, 2017; *provided, however*, that this representation, warranty and agreement shall not apply to statements in or omissions from the Offering Circular made in reliance upon and in conformity with the written information furnished to the Company by the Initial Purchasers or by counsel or any other representative of an Initial Purchaser expressly for use in the Offering Circular (or any amendment or supplement thereto), it being understood and agreed that the only such information furnished by an Initial Purchaser consists of the information described in Section 6(b) hereof.

Each Additional Company Offering Document, as of its issue date and at all subsequent times through the completion of the public offer and sale of the Securities or until any earlier date that the Company notified or notifies the Initial Purchasers, when taken together with the General Disclosure Package, did not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and, did not, does not and will not include any information that conflicted, conflicts or will conflict in any material respects with the information contained in the Offering Circular, including any document incorporated by reference therein; *provided, however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by any Initial Purchaser expressly for use therein, it being understood and agreed that the only such information furnished by an Initial Purchaser consists of the information described as such in Section 6(b) hereof. If at any time following issuance of an Additional Company Offering Document there occurred or occurs an event or development as a result of which such Additional Company Offering Document conflicted or would conflict with the information then contained in the Offering Circular or as a result of which such Additional Company Offering Document, if republished immediately following such event or development, would include an untrue statement of a material fact or omitted or would omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, (i) the Company has notified or will promptly notify the Initial Purchasers and (ii) the Company has amended or will promptly amend or supplement such Additional Company Offering Document to eliminate or correct such conflict, untrue statement or omission.

(ii) The 1934 Act Reports, at the time they were or hereafter are filed with the FDIC, complied and will comply, in each case, in all material respects with the requirements of the 1934 Act and the rules and regulations of the Securities and Exchange Commission (the “SEC”) thereunder, as applicable to the Company through the rules and regulations of the FDIC (the “1934 Act Regulations”) and, when read together with the other

information in the Offering Circular and the General Disclosure Package, at the date of this Agreement and at the Closing Time, did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated in the 1934 Act Reports or necessary to make the statements therein not misleading.

(iii) The consolidated historical financial statements of the Company, including the related schedules and notes, contained in the 1934 Act Reports (the “Financial Statements”) present fairly the consolidated financial position of the Company and its consolidated subsidiaries as of and at the dates indicated and the consolidated results of their operations, changes in stockholders’ equity and cash flows of the Company and its consolidated subsidiaries for the periods specified. Such Financial Statements, unless otherwise noted therein, have been prepared in conformity with generally accepted accounting principles in the United States (“GAAP”) applied on a consistent basis throughout the periods involved. The selected financial data and the summary financial information included in or incorporated by reference into the Offering Circular and the General Disclosure Package present fairly in all material respects the information therein and have been prepared on a basis consistent with that of the audited consolidated financial statements contained in the 1934 Act Reports. No other financial statements or supporting schedules are required to be included in the Offering Circular. To the extent applicable, all disclosures contained in the Offering Circular regarding “non-GAAP financial measures,” as such term is defined by the rules and regulations of the SEC, comply in all material respects with Regulation G of the 1934 Act, the 1934 Act Regulations, and Item 10(e) of Regulation S-K.

(iv) Dixon Hughes Goodman LLP (the “Accountants”) has audited the consolidated financial statements and supporting schedules of the Company included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated by reference in the Offering Circular and is an independent registered public accounting firm as required by the 1933 Act or the rules and regulations promulgated thereunder (the “1933 Act Regulations”).

(v) The statistical and market-related data contained in the Offering Circular and the General Disclosure Package are based on or derived from sources which the Company believes are reliable and accurate.

(vi) This Agreement has been duly authorized, executed and delivered by the Company and, when duly executed by the Representative, will constitute the valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting enforcement of creditors’ rights generally, by general principles of equity, or by 12 U.S.C. § 1818(b)(6)(D) (regardless of whether enforcement is considered in a proceeding in equity or at law and except as any indemnification or contribution provisions thereof may be limited under applicable securities laws and banking laws).

(vii) Since the date of the most recent consolidated balance sheet contained in the Financial Statements, (A) the Company and its subsidiaries, considered as one

enterprise, have not sustained any material adverse change in the general affairs, management, earnings, business, properties, assets, consolidated financial position, business prospects, consolidated shareholders' equity or consolidated results of operations of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a "Material Adverse Effect"), in each case in this clause (A) other than as set forth or contemplated in the Offering Circular and the General Disclosure Package, (B) there have been no transactions entered into by the Company or any of its subsidiaries which are material with respect to the Company and its subsidiaries considered as one enterprise, otherwise than as set forth or contemplated in the Offering Circular and the General Disclosure Package and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock, otherwise than as set forth or contemplated in the Offering Circular and the General Disclosure Package.

(viii) The Company and its subsidiaries have good and marketable title to all real property and good and marketable title to all personal property that is material to the respective businesses of the Company and its subsidiaries and owned by them, in each case free and clear of all mortgages, pledges, security interests, claims, restrictions, liens, encumbrances and defects except such as are described generally in the Offering Circular and the General Disclosure Package or such as would not have a Material Adverse Effect; and any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries, and neither the Company nor any subsidiary has received any written or oral notice of any material claim of any sort that has been asserted by anyone adverse to the rights of the Company or any subsidiary under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease except as would not result in a Material Adverse Effect.

(ix) The Company is a Virginia banking corporation, and has been duly incorporated and is validly existing as a corporation in good standing under the laws of the Commonwealth of Virginia, with the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Offering Circular and the General Disclosure Package and to enter into and perform its obligations under this Agreement. The Company is duly qualified as a foreign corporation to transact business and is in good standing under the laws of each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure to so qualify or to be in good standing would not reasonably be expected to result in a Material Adverse Effect.

(x) Each of the Company's subsidiaries has been duly incorporated or organized and is validly existing as a corporation or limited liability company in good standing under the laws of the jurisdiction of its incorporation or organization, has corporate or limited liability company power and authority to own, lease and operate its properties and to conduct its business as described in the Offering Circular and the General Disclosure Package and is duly qualified as a foreign entity to transact business and is in good standing in each jurisdiction in

which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except in each case where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect. The activities of the Company's subsidiaries are permitted of subsidiaries of an insured state nonmember bank under applicable law and the rules and regulations of the FDIC set forth in Title 12 of the Code of Federal Regulations. Except as otherwise disclosed in the Offering Circular and the General Disclosure Package, (i) all of the issued and outstanding capital stock or membership interests of each of the Company's wholly-owned subsidiaries has been duly authorized and validly issued, is fully paid and non-assessable (to the extent applicable) and is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity and (ii) all of the shares of capital stock or membership interests owned by the Company in each of the entities identified as not wholly-owned on Schedule III hereto, are owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity. None of the outstanding shares of capital stock or membership interests of any wholly-owned subsidiary was issued in violation of the preemptive rights, rights of first refusal or other similar rights of any securityholder of such subsidiary. There are no outstanding rights, warrants or options to acquire or instruments convertible into or exchangeable for any capital stock or equity securities of any of the wholly-owned subsidiaries. Except as otherwise disclosed in the Offering Circular and the General Disclosure Package, no subsidiary of the Company is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distributions on such subsidiary's capital stock, common securities or other equity interests, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary's property or assets to the Company or any other subsidiary of the Company. The only subsidiaries of the Company are the subsidiaries listed on Schedule III hereto.

(xi) The Company has an authorized capitalization as set forth in the Offering Circular and the General Disclosure Package under the heading "Capitalization," and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and have been issued in compliance with federal and state securities laws. None of the outstanding shares of capital stock were issued in violation of any preemptive rights, rights of first refusal or other similar rights to subscribe for or purchase securities of the Company. The description of the Company's stock option, stock bonus and other stock plans or compensation arrangements and the options or other rights granted thereunder, incorporated by reference in the Offering Circular and the General Disclosure Package, accurately and fairly presents, in all material respects, the information required to be described therein with respect to such plans, arrangements, options and rights.

(xii) Except as described in each of the General Disclosure Package and Offering Circular, there are no outstanding rights (contractual or otherwise), warrants or options to acquire, or instruments convertible into or exchangeable for, or agreements or understandings with respect to the sale or issuance of, any shares of capital stock of or other equity interest in the Company.

(xiii) The Issuing and Paying Agency Agreement has been duly authorized by the Company and, when duly executed and delivered by the Company and the

Issuing and Paying Agent, will constitute a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, except as may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally, by general principles of equity, or by 12 U.S.C. § 1818(b)(6)(D) (regardless of whether enforcement is considered in a proceeding in equity or at law and except as any indemnification or contribution provisions thereof may be limited under applicable securities laws and banking laws). The Issuing and Paying Agency Agreement conforms in all material respects to the description of the Issuing and Paying Agency Agreement contained in the Offering Circular and the General Disclosure Package.

(xiv) The Securities to be issued and sold by the Company to the Initial Purchasers hereunder have been duly and validly authorized and, when delivered to and paid for by the Initial Purchasers, will have been duly executed by the Company in accordance with the provisions of the Issuing and Paying Agency Agreement. The Securities, when authenticated, issued and delivered in the manner provided for in the Issuing and Paying Agency Agreement and delivered against payment of the purchase price for the Securities as provided in this Agreement, will constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their terms, except as may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally, by general principles of equity, or by 12 U.S.C. § 1818(b)(6)(D) (regardless of whether enforcement is considered in a proceeding in equity or at law and except as any indemnification or contribution provisions thereof may be limited under applicable securities and banking laws), and will be entitled to the benefits of the Issuing and Paying Agency Agreement.

(xv) The Securities and the Issuing and Paying Agency Agreement will conform in all material respects to the respective statements relating thereto contained in the Offering Circular and the General Disclosure Package and will be in substantially the respective forms attached hereto as Exhibit A and Exhibit B, respectively.

(xvi) The issue and sale of the Securities by the Company and the compliance by the Company with all of the provisions of this Agreement and the consummation by the Company of the transactions herein contemplated have been duly authorized by all necessary corporate action of the Company and do not and will not, whether with or without the giving of notice or passage of time or both, (A) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default or result in a Repayment Event (as defined below) under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (B) result in any violation of the provisions of the certificate of incorporation, certificate of organization, certificate of formation, articles of incorporation, articles of association, or charter (as applicable), bylaws or other governing documents of the Company or any of its subsidiaries, or (C) subject to compliance by all necessary persons with the applicable provisions of the Change in Bank Control Act of 1978 and Regulation Y promulgated in part thereunder, result in any violation of any statute or any order,

rule or regulation of any federal, state, local or foreign court, arbitrator, regulatory authority or governmental agency or body (each a “Governmental Entity”) having jurisdiction over the Company or any of its subsidiaries or any of their properties, except for, in the case of clauses (A) and (C) those conflicts, breaches, violations, defaults or Repayment Events that would not result in a Material Adverse Effect. No consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Securities, the performance by the Company of its obligations hereunder or the consummation by the Company of the transactions contemplated by this Agreement, except as may be required under the rules and regulations of the NASDAQ Stock Market (“NASDAQ”) and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Securities by the Initial Purchasers. As used herein, a “Repayment Event” means any event or condition, the occurrence or existence of which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder’s behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company or any subsidiary prior to its scheduled maturity.

(xvii) Neither the Company nor any of its subsidiaries is (A) in violation of its certificate of incorporation, certificate of organization, certificate of formation, articles of incorporation, articles of association or charter (as applicable), or its bylaws or other governing documents or (B) in breach, violation or default (with or without notice or lapse of time or both) of any obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound or to which any of the property or assets of the Company or any subsidiary is subject except in each case for such breaches, violations or defaults that would not result in a Material Adverse Effect.

(xviii) Except as disclosed in the Offering Circular and the General Disclosure Package, the Company and its subsidiaries have conducted and are conducting their respective businesses in compliance in all material respects with all federal, state, local and foreign statutes, laws, rules, regulations, decisions, directives and orders applicable to them (including, without limitation, all regulations and orders of, or agreements with, the FDIC and the Bureau of Financial Institutions of the State Corporation Commission of the Commonwealth of Virginia (the “BFI”), the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act, the Home Mortgage Disclosure Act, all other applicable fair lending laws or other laws relating to discrimination and the Bank Secrecy Act and Title III of the USA Patriot Act), and neither the Company nor any of its subsidiaries has received any written or oral communication from any Governmental Entity asserting that the Company or any of its subsidiaries is not in material compliance with any statute, law, rule, regulation, decision, directive or order.

(xix) There are no legal or governmental actions or suits, investigations, inquiries or proceedings before or by any court or Government Entity, now pending or, to the knowledge of the Company, threatened or contemplated, to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, would be

reasonably expected to result, individually or in the aggregate, in a Material Adverse Effect; all pending legal or governmental proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject which are not described in the Offering Circular, including ordinary routine litigation incidental to their respective businesses, are not reasonably expected to result, individually or in the aggregate, in a Material Adverse Effect.

(xx) Each of the Company and its subsidiaries (A) possesses all permits, licenses, approvals, consents and other authorizations (collectively, “Governmental Licenses”) of any Governmental Entity necessary to permit the Company or such subsidiary to conduct the business now operated by the Company or such subsidiary, (B) has made all filings, applications and registrations with, any Governmental Entity necessary to permit the Company or such subsidiary to conduct the business now operated by the Company or such subsidiary, and (C) is in compliance with the terms and conditions of all such Governmental Licenses, except where the failure to so possess, file, apply, register or comply would not, individually or in the aggregate, have a Material Adverse Effect. All of the Governmental Licenses currently held by the Company or any of its subsidiaries are valid and in full force and effect, except where the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not, individually or in the aggregate, have a Material Adverse Effect, and neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses.

(xxi) Except as disclosed in the Offering Circular and the General Disclosure Package or except as would not, individually or in the aggregate, result in a Material Adverse Effect, (A) neither the Company nor any of its subsidiaries is in violation of any federal, state or local statute, law, rule, regulation, ordinance, or code or any applicable judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products, asbestos-containing materials or mold (collectively, “Hazardous Materials”) or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, “Environmental Laws”), (B) each of the Company and its subsidiaries has all permits, authorizations and approvals required to be held by it under any applicable Environmental Laws and is in compliance in all material respects with the requirements of each such permit, authorization and approval held by it, (C) there are no pending or, to the knowledge of the Company, threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company or any of its subsidiaries, and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or Governmental Entity, against or affecting the Company or any of its subsidiaries relating to Hazardous Materials or any Environmental Laws.

(xxii) The Company and each of its subsidiaries own or possess adequate rights to use or can acquire on reasonable terms ownership or rights to use all patents, patent applications, patent rights, licenses, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights and know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures and excluding generally commercially available “off the shelf” software programs licensed pursuant to shrink wrap or “click and accept” licenses) and licenses (collectively, “Intellectual Property”) necessary for the conduct of their respective businesses, except in each case where the failure to own or possess such rights would not, individually or in the aggregate, result in a Material Adverse Effect, and have not received any notice of any claim of infringement or conflict with, any such rights of others or any facts or circumstances that would render any Intellectual Property invalid or inadequate to protect the interest of the Company or any of its subsidiaries therein, except in each case where such infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, individually or in the aggregate, would not result in a Material Adverse Effect.

(xxiii) No relationship, direct or indirect, exists between or among the Company or any of its subsidiaries, on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company or any of the subsidiaries, on the other, that is required by the 1933 Act, the 1933 Act Regulations, the 1934 Act or the 1934 Act Regulations to be described in the Offering Circular, assuming such provisions were applicable to the Offering Circular, or any documents incorporated therein by reference and that is not so described.

(xxiv) The Company is not, and after giving effect to the offering and sale of the Securities, and after receipt of payment for the Securities and the application of the net proceeds as described in each of the Offering Circular and the General Disclosure Package, will not be required to register as an “investment company,” as such term is defined in the Investment Company Act of 1940, as amended (the “Investment Company Act”).

(xxv) The Company is in compliance in all material respects with the provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC thereunder made applicable by the FDIC to the Company and as to which compliance is currently required by the Company.

(xxvi) None of the Company, any of its subsidiaries, or any affiliate of the Company or any of its subsidiaries, has taken or will take, directly or indirectly, any action designed to or that would be reasonably expected to cause or result in stabilization or manipulation of the price of the Securities.

(xxvii) None of the Company, its subsidiaries and, to the knowledge of the Company, their respective directors, officers, employees and agents and other persons, in each case, acting on behalf of the Company or any of its subsidiaries has (A) used any corporate funds of the Company or any of its subsidiaries to make any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity, (B) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds of the Company or any of its subsidiaries, (C) violated or is in violation of any

provision of the Foreign Corrupt Practices Act of 1977, and the Company has instituted and maintains policies and procedures designed to ensure compliance therewith, or (D) made any bribe, illegal rebate, payoff, influence payment, kickback or other unlawful payment.

(xxviii) The Company and its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization, (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets, (C) access to assets is permitted only in accordance with management's general or specific authorization, and (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company and each of its subsidiaries maintain a system of internal control over financial reporting (as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the 1934 Act), that complies with the requirements of the 1934 Act, as applicable to them; the Company's internal control over financial reporting is effective; and since the end of the Company's most recent audited fiscal year, there has been (X) no material weakness in the Company's internal control over financial reporting (whether or not remediated) of which the Company is aware and (Y) no change in the Company's internal control over financial reporting that has materially affected adversely, or is reasonably likely to materially affect adversely, the Company's internal control over financial reporting. The Company is not aware of (1) any significant deficiency in the design or operation of internal controls which would reasonably be expected to materially adversely affect the Company's ability to record, process, summarize and report financial data or any material weakness in internal controls or (2) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.

(xxix) The Company maintains "disclosure controls and procedures" (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the 1934 Act) that (A) comply with the requirements of the 1934 Act that are applicable to the Company and (B) as of March 31, 2017, are effective in all material respects to perform the functions for which they were established.

(xxx) None of the Company and any of its subsidiaries is in violation of any order or directive from the FDIC, the BFI or any regulatory authority to make any material change in the method of conducting its respective businesses. Except as disclosed in the Offering Circular and the General Disclosure Package, neither the Company nor any of its subsidiaries is subject or is party to, or has received any notice or advice that any of them may become subject or party to, any investigation with respect to, any corrective, suspension or cease-and-desist order, agreement, consent agreement, memorandum of understanding or other regulatory enforcement action, proceeding or order with or by, or is a party to any commitment letter, or is subject to any directive by, or has been a recipient of any supervisory letter from any Regulatory Agency (as defined below) that, in each case, currently relates to or materially restricts in any respect the conduct of their business or that in any manner relates to capital adequacy, credit policies or management, nor at the request or direction of any Regulatory Agency has the Company or any of its subsidiaries adopted any board resolution that is reasonably likely to have a Material Adverse Effect (each, a "Regulatory Agreement"), nor has the Company or any of its

subsidiaries been advised by any Regulatory Agency that such Regulatory Agency is considering issuing or requesting any such Regulatory Agreement or any such Regulatory Agreement is pending or, to the knowledge of the Company, threatened. Except as disclosed in the Offering Circular and the General Disclosure Package, the Company and its subsidiaries are each in substantial compliance with any Regulatory Agreements, and there is no unresolved violation, criticism or exception by any Regulatory Agency with respect to any report or statement relating to any examinations of the Company or any of its subsidiaries which, in the reasonable judgment of the Company, currently results in or is expected to result in a Material Adverse Effect. As used herein, the term “Regulatory Agency” means any Governmental Entity having supervisory or regulatory authority with respect to the Company or any of its subsidiaries, including, but not limited to, any federal or state agency charged with the supervision or regulation of depository institutions or holding companies of depository institutions, or engaged in the insurance of depository institution deposits.

(xxxix) Each “employee benefit plan” (as defined under the Employee Retirement Income Security Act of 1974, as amended, and the regulations and published interpretations thereunder (collectively, “ERISA”)) established or maintained by the Company, its subsidiaries or their “ERISA Affiliates” (as defined below) is in compliance with ERISA, except where the failure to be in compliance with ERISA would not result in a Material Adverse Effect. “ERISA Affiliate” means, with respect to the Company or a subsidiary, any member of any group of organizations described in Section 414(b), (c), (m) or (o) of the Internal Revenue Code of 1986, as amended, and the regulations and published interpretations thereunder (the “Code”) of which the Company or such subsidiary is a member. No “reportable event” (as defined under ERISA) has occurred or is reasonably expected to occur with respect to any “employee benefit plan” established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates. The fair market value of the assets of each ERISA Affiliate defined benefit pension plan exceeds the present value of such plan’s “benefit liabilities” (as defined in Section 4001(a)(16) of ERISA), and no ERISA Affiliate defined benefit pension plan has an “accumulated funding deficiency” (as defined in Section 302 of ERISA). None of the Company, its subsidiaries nor any of their ERISA Affiliates has incurred or reasonably expects to incur any liability under (A) Title IV of ERISA with respect to termination of, or withdrawal from, any “employee benefit plan” or (B) Sections 412, 4971 or 4975 of the Code. Each “employee benefit plan” established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates that is intended to be qualified under Section 401(a) of the Code has received a favorable determination or opinion letter from the Internal Revenue Service regarding its qualification under such section and, to the knowledge of the Company, its subsidiaries and its ERISA affiliates, nothing has occurred whether by action or failure to act, which would cause the loss of such qualification.

(xxxix) The Company and its subsidiaries, taken as a whole, are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as the Company reasonably believes are prudent and customary in the business in which the Company and its subsidiaries are engaged. Neither the Company nor any of its subsidiaries has any reason to believe that it will not be able to obtain insurance coverage from insurers similar to their current insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect. To the knowledge of the Company, neither the

Company nor any subsidiary has been denied any insurance coverage which it has sought or for which it has applied in any instance in which such insurance coverage was offered by the carrier from which the Company or such subsidiary sought such coverage or to which it applied for such coverage.

(xxxiii) Except as disclosed in the Offering Circular and the General Disclosure Package, there are no contracts, agreements or understandings between the Company and any person that would give rise to a valid claim against the Company, or the Initial Purchasers, for a brokerage commission, finder's fee or other like payment in connection with the sale of the Securities.

(xxxiv) The Company and its subsidiaries have (i) filed all necessary federal, state and foreign income and franchise tax returns that they are required to have filed or have properly requested extensions of the deadline for the filing therefor and all such tax returns as filed are true, complete and correct in all material respects and (ii) have paid all taxes required to be paid by any of them, other than such taxes as may be paid at a later date without any penalty or fine and except for any such tax, assessment, fine or penalty that is currently being contested in good faith by appropriate actions and except for such taxes, assessments, fines or penalties, the nonpayment or late payment of which would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect.

(xxxv) No labor dispute with the employees of the Company or any subsidiary exists or, to the knowledge of the Company, is imminent, which, in any case, would reasonably be expected to result in a Material Adverse Effect.

(xxxvi) Except as disclosed in the Offering Circular and the General Disclosure Package, the operations of the Company and its subsidiaries are and have been conducted at all times in compliance in all material respects with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, money laundering statutes applicable to the Company and its subsidiaries, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened.

(xxxvii) The Company has not distributed and, prior to the later to occur of (i) the Closing Time and (ii) completion of the distribution of the Securities, will not distribute any documents or information in connection with the offering and sale of the Securities other than the Offering Circular, the General Disclosure Package or such other materials, if any, approved by the Initial Purchasers.

(xxxviii) No forward-looking statement (within the meaning of Section 27A of the 1933 Act and Section 21E of the 1934 Act) contained in the Offering Circular, the General Disclosure Package and any Additional Company Offering Document has

been made or reaffirmed without a reasonable basis or has been disclosed other than in good faith.

(xxxix) Neither the Company nor any of its subsidiaries has participated in any reportable transaction, as defined in Treasury Regulation Section 1.6011-4(b)(1).

(xl) Except as disclosed in the Offering Circular and the General Disclosure Package, each of the Company and its subsidiaries has good and indefeasible title to all securities held by it (except securities sold under repurchase agreements, pledged to secure deposits or derivative contracts or held in any fiduciary or agency capacity) free and clear of any lien, claim, charge, option, encumbrance, mortgage, pledge or security interest or other restriction of any kind, except to the extent such securities are pledged in the ordinary course of business consistent with prudent business practices to secure obligations of the Company or any of its subsidiaries and except for such defects in title or liens, claims, charges, options, encumbrances, mortgages, pledges or security interests or other restrictions of any kind that would not, individually or in the aggregate, result in a Material Adverse Effect. Such securities are valued on the books of the Company and its subsidiaries in accordance with GAAP.

(xli) Any and all material swaps, caps, floors, futures, forward contracts, option agreements (other than employee stock options and restricted stock units) and other derivative financial instruments, contracts or arrangements, whether entered into for the account of the Company or one of its subsidiaries or for the account of a customer of the Company or one of its subsidiaries, were entered into in the ordinary course of business and in accordance with prudent business practice and applicable laws, rules, regulations and policies of all applicable regulatory agencies and with counterparties believed to be financially responsible at the time of execution of such instruments, contracts or arrangements. The Company and each of its subsidiaries have duly performed all of their respective obligations thereunder to the extent that such obligations to perform have accrued, and there are no breaches, violations or defaults or allegations or assertions of such by any party thereunder, except for such breaches, violations, defaults, allegations or assertions that, individually or in the aggregate, would not result in a Material Adverse Effect.

(xlii) Neither the Company nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is (a) currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (“OFAC”); or (b) located, organized or resident in a country or territory that is the subject of such sanctions (including, without limitation, Burma/Myanmar, Cuba, Iran, North Korea, Sudan and Syria). The Company will not, directly or indirectly, use the proceeds of the offering contemplated hereby, or lend, contribute or otherwise make available such proceeds to any of its subsidiaries, any joint venture partner of the Company or any of its subsidiaries or any other person or entity, for the purpose of financing the activities of any person in, or engage in dealings or transactions with any person, or in any country, or territory, subject to any U.S. sanctions administered by OFAC.

(xliii) Except as described in the Offering Circular or the General Disclosure Package, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), or any other relationships with unconsolidated entities or other persons to which the Company or any of its subsidiaries is a party, that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(xliv) To the knowledge of the Company, after due inquiry, there are no affiliations with any FINRA member firm among the Company's officers, directors, or principal shareholders, except as set forth in the Offering Circular and the General Disclosure Package, or as otherwise disclosed in writing to the Representative.

(xlv) Other than the Securities, except as described in the Offering Circular and the General Disclosure Package, the Company has no debt securities to which a rating is accorded by any "nationally recognized statistical rating organization", as defined in Section 3(a)(62) of the 1934 Act.

(xlvii) The deposit accounts in the Company are insured up to the applicable limits by the FDIC and no proceeding for the termination or revocation of such insurance is pending or, to the knowledge of the Company, threatened against the Company.

(b) Any certificate signed by an officer of the Company and delivered to the Representative or to counsel for the Initial Purchasers in connection with the offering of Securities shall be deemed to be a representation and warranty by the Company to the Initial Purchasers as to the matters set forth therein as of the date of such certificate.

2. Sale and Delivery of Initial Purchasers; Closing

(a) Subject to the terms and conditions herein set forth, the Company agrees to issue and sell to the Initial Purchasers, and the each Initial Purchaser agrees to purchase from the Company, at the price equal to 99.0% of the aggregate principal amount of, the Securities as listed on Annex A.

(b) Upon the authorization by the Initial Purchasers of the release of the Securities, the Initial Purchasers propose to offer the Securities for sale upon the terms and conditions set forth in the Offering Circular.

(c) The Securities to be purchased by each Initial Purchaser hereunder, in definitive form, and in such authorized denominations and registered in such names as such Initial Purchaser may request upon at least forty-eight hours prior notice to the Company shall be delivered by or on behalf of the Company to such Initial Purchaser, through the facilities of DTC, for the account of such Initial Purchaser, against payment by or on behalf of such Initial Purchaser of the purchase price therefor by wire transfer of Federal (same day) funds to the account specified by the Company to the Initial Purchasers at least forty-eight hours in advance. The time and date of such delivery and payment shall be 10:00 A.M. (Eastern time) on July 17, 2017 (such time and date of payment and delivery being herein called the "Closing Time").

(d) The documents to be delivered at the Closing Time by or on behalf of the parties hereto, including the cross receipt for the Securities, will be delivered at the offices of Troutman Sanders LLP, Troutman Sanders Building, 1001 Haxall Point, Richmond, Virginia 23219, or at such other place as shall be agreed upon by the Representative and the Company, at 10:00 A.M. (Eastern time) on July 17, 2017 or such other time and date as the Representative and the Company may agree upon in writing.

3. Covenants of the Company. The Company further covenants and agrees with the Representative and the other Initial Purchasers as follows:

(a) The Company, as promptly as possible, will furnish to the Representative, without charge, such number of copies of the Preliminary Offering Circular, the Final Offering Circular and any amendments and supplements thereto as the Representative may reasonably request.

(b) The Company will advise the Representative promptly of any proposal to amend or supplement the Offering Circular and will not effect such amendment or supplement without the consent of the Representative, which consent shall not be unreasonably withheld. Neither the consent of the Representative, nor the Representative's delivery of any such amendment or supplement, shall constitute a waiver of any of the conditions set forth in Section 5 hereof.

(c) Before issuing, making, authorizing or approving any written communications regarding the Securities or the Offering Circular, the Company will furnish to the Representative a copy of such communication for review and will make such changes as the Representative may reasonably request.

(d) Promptly from time to time, the Company will, with the cooperation of the Representative and counsel for the Initial Purchasers, take such action as the Initial Purchasers may reasonably request to qualify the Securities for offering and sale under the securities laws of such states and other jurisdictions as the Initial Purchasers may reasonably request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Securities, provided that in connection therewith the Company shall not be required to (i) qualify as a foreign corporation, (ii) take any action that would subject itself to general service of process in any jurisdiction, or (iii) subject itself to taxation in any jurisdiction if it is not otherwise so subject. In each state or other jurisdiction in which the Securities have been so qualified, the Company will file such statements and reports as may be required by the laws of such state or other jurisdiction to continue such qualification in effect until the completion of the distribution of the Securities. The Company will also supply the Initial Purchasers with such information as is necessary for the determination of the legality of the Securities for investment under the laws of such jurisdiction as the Initial Purchasers may reasonably request.

(e) Prior to the completion of the placement of the Securities by the Representative, the Company will immediately notify the Representative, and confirm such notice in writing, of (i) any filing made by the Company or its subsidiaries of information

relating to the offering of the Securities with any securities exchange or any other regulatory body in the United States, and (ii) any material information, event or circumstance which shall occur as a result of which, in the reasonable opinion of the Company, its counsel, the Representative or counsel to the Initial Purchasers, the Final Offering Circular would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances then existing, and, in the case of paragraph (e)(ii) above, the Company will forthwith amend or supplement the Final Offering Circular by preparing and furnishing to the Representative an amendment or amendments of, or a supplement or supplements to, the Final Offering Circular (in form and substance satisfactory in the reasonable opinion of counsel for the Representative) so that, as so amended or supplemented, the Final Offering Circular will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time it is delivered to a Subsequent Purchaser, not misleading.

(f) If at any time following issuance of an Additional Company Offering Document there occurred or occurs an event or development as a result of which such Additional Company Offering Document conflicted or would conflict with the information contained in the Offering Circular or included or would include an untrue statement of a material fact or omitted or would omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances prevailing at that subsequent time, not misleading, the Company has promptly notified or will promptly notify the Initial Purchasers and has promptly amended or will promptly amend or supplement, at its own expense, such Additional Company Offering Document to eliminate or correct such conflict, untrue statement or omission.

(g) During a period of three years from the date of the Offering Circular, the Company will furnish to the holders of the Securities as soon as practicable after the end of each fiscal year an annual report (including balance sheets and statements of income, shareholders' equity and cash flows of the Company and its consolidated subsidiaries certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the date of the Offering Circular), consolidated summary financial information of the Company and its subsidiaries for such quarter in reasonable detail; provided that if the Company files an annual report on Form 10-K or quarterly report on Form 10-Q by means of FDIC Securities Exchange Act Filing System, the Company shall be deemed to have furnished such reports or information to such holders in compliance with the requirements of this section.

(h) During a period of three years from the date of the Offering Circular, the Company will furnish to the Initial Purchasers copies of all reports or other communications (financial or other) furnished to holders of the Securities, and to deliver to the Initial Purchasers (i) as soon as they are available, copies of any reports and financial statements furnished to or filed with the FDIC pursuant to the 1934 Act or any national securities exchange on which any class of securities of the Company is listed and (ii) subject to an appropriate confidentiality agreement, such additional information concerning the business and financial condition of the Company as the Initial Purchasers may from time to time reasonably request (such financial statements to be on a consolidated basis to the extent the accounts of the Company and its subsidiaries are consolidated in reports furnished to its shareholders generally or to the

FDIC); *provided* that if the Company files any such reports or other communications of the type contemplated by clauses (i) or (ii) above with the FDIC and such report or materials are or will become available on FDIC Securities Exchange Act Filing System, the Company shall be deemed to have furnished such report or other communications to the Initial Purchasers in compliance with the requirements of this section.

(j) The Company will use the net proceeds received by it from the sale of the Securities pursuant to this Agreement in the manner specified in the Offering Circular and the General Disclosure Package under the caption “Use of Proceeds.”

(k) Until completion of the distribution of the Securities, the Company will file all documents required to be filed with the FDIC pursuant to the 1934 Act within the time periods required by the 1934 Act and the 1934 Act Regulations.

(l) During the period beginning on the date hereof and continuing to and including the Closing Time and the latest additional time of purchase, if any, of the Securities, the Company will not, and will not permit any subsidiary to, without the prior written consent of the Representative, directly or indirectly, issue, sell, offer or contract to sell, grant any option for the sale of, or otherwise transfer or dispose of, any debt securities or nonconvertible preferred stock of the Company or any of its subsidiaries.

(n) The Company will not take, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of any securities of the Company, whether to facilitate the sale or resale of the Securities or otherwise, and the Company will, and shall use its commercially reasonable efforts to cause each of its affiliates to, comply with all applicable provisions of Regulation M with respect to any securities of the Company. If the limitations of Rule 102 of Regulation M (“*Rule 102*”) do not apply with respect to the Securities or any other reference security pursuant to any exception set forth in Section (d) of Rule 102, then promptly upon notice from the Representative (or, if later, at the time stated in the notice), the Company will, and shall use its commercially reasonable efforts to cause each of its affiliates to, comply with Rule 102 as though such exception were not available, but the other provisions of Rule 102 (as interpreted by the Securities and Exchange Commission) did apply.

(o) The Company will prepare the Final Term Sheet in form and substance satisfactory to the Representative.

(p) The Company shall use its reasonable best efforts to permit the Securities to be eligible for clearance, settlement and trading in book-entry-only form through the facilities of DTC.

4. Payment of Expenses. The Company covenants and agrees with the Representative and the other Initial Purchasers that the Company will pay or cause to be paid the following, whether or not the transactions contemplated herein are completed: (i) the reasonable out-of-pocket expenses incurred by the Initial Purchasers in connection with their engagement, including without limitation, outside legal fees and expenses, marketing, syndication and travel

expenses, up to an aggregate amount of \$175,000 without the Company's prior approval and, with respect to expenses in excess of \$175,000, with the Company's prior approval, which shall not be unreasonably withheld; (ii) the cost of obtaining all securities and bank regulatory approvals, including the filing fees incident thereto; (iii) all fees and disbursements of the Company's counsel and accountants in connection with the offering of the Securities and all other expenses in connection with the preparation, printing and filing of the Offering Circular and amendments and supplements thereto and the mailing and delivering of copies thereof to the Initial Purchasers; (iv) all expenses in connection with the qualification of the Securities for offering and sale under state securities as provided in Section 3(d) hereof, including the fees and disbursements of counsel for the Company in connection with such qualification and in connection with the Blue Sky survey; (v) the cost of printing or reproducing this Agreement, the Blue Sky survey, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Securities; (vi) the fees and expenses of the Issuing and Paying Agent, including fees and disbursements of counsel for the Issuing and Paying Agent in connection with the Issuing and Paying Agency Agreement and the Securities; (vii) the cost and charges of any transfer agent or registrar; (viii) the costs and expenses of the Company relating to investor presentations or any "road show" undertaken in connection with the marketing of the Securities, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations, travel and lodging expenses of the Initial Purchasers and officers of the Company and any such consultants, and the cost of aircraft and other transportation chartered in connection with the road show with the consent of the Company; (ix) any fees payable in connection with the rating of the Securities; (x) the fees and expenses incurred in connection with having the Securities eligible for clearance, settlement and trading through the facilities of DTC; and (xi) all other costs and expenses incident to the performance of the Company's obligations hereunder which are not otherwise specifically provided for in this Section 4.

5. Conditions of the Initial Purchasers' Obligations. The obligations of the Initial Purchasers hereunder to purchase and pay for the Securities as provided herein at the Closing Time shall be subject to the condition that all representations and warranties and other statements of the Company herein are, at and as of such Closing Time, true and correct, the condition that the Company shall have performed all of its obligations hereunder theretofore to be performed, and the following additional conditions:

(a) At the Closing Time, the Representative shall have received the opinion, dated as of the Closing Time, of Williams Mullen, counsel for the Company, in form and substance reasonably satisfactory to counsel for the Initial Purchasers. Such counsel may state that, insofar as either such opinion involves factual matters, they have relied, to the extent they deem proper, upon certificates of officers of the Company and its subsidiaries and certificates of public officials.

(b) At the Closing Time, the Representative shall have received the opinion, dated as of the Closing Time, of Troutman Sanders LLP, counsel for the Initial Purchasers. The opinion shall address the matters as the Representative may reasonably request. Such counsel may state that, insofar as such opinion involves factual matters, they have relied, to the extent

they deem proper, upon certificates of officers of the Company and its subsidiaries and certificates of public officials.

(c) On the date of this Agreement and at the Closing Time, Dixon Hughes Goodman LLP shall have furnished to the Representative a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to the Representative, containing statements and information of the type ordinarily included in accountants “comfort letters” to underwriters with respect to the financial statements of the Company and certain financial information contained in the Offering Circular and the General Disclosure Package, provided that the letter delivered as of the Closing Time shall use a “cut-off” date no more than three business days prior to the Closing Time.

(d) (i) No event or condition of a type described in Section 1(vii) hereof shall have occurred or shall exist, otherwise than as set forth or contemplated in the Offering Circular and the General Disclosure Package, and (ii) since the respective dates as of which information is given in the Offering Circular and the General Disclosure Package there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change in or affecting the general affairs, management, financial position, capital adequacy for regulatory purposes, shareholders’ equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Offering Circular and the General Disclosure Package, or their business affairs, business prospects or regulatory affairs, the effect of which, in any such case described in clause (i) or (ii), is in the reasonable judgment of the Representative so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities being delivered at the Closing Time on the terms and in the manner contemplated in the Offering Circular.

(e) On or after the date hereof there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange or on NASDAQ; (ii) a suspension or material limitation in trading in the Company’s securities on NASDAQ; (iii) a general moratorium on commercial banking activities declared by either federal or New York authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war; or (v) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions in the United States or elsewhere, including, without limitation, as a result of terrorist activities occurring after the date hereof, if the effect of any such event specified in clause (iv) or (v), in the reasonable judgment of the Representative makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities being delivered at the Closing Time on the terms and in the manner contemplated in the Offering Circular.

(f) The Representative shall have received a certificate of the Chief Executive Officer of the Company and of the Chief Financial Officer of the Company, dated as of the Closing Time, to the effect that (i) no Material Adverse Effect has occurred; (ii) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though made at and as of the Closing Time, and (iii) the Company has complied with all

agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Closing Time.

(g) Since the execution of this Agreement, there shall not have been any decrease in or withdrawal of the rating of any securities of the Company or any of its subsidiaries by any “nationally recognized statistical rating organization” (as defined for purposes of Section 3(a)(62) of the 1934 Act) of which the Company has notice or any notice given of any intended or potential decrease in or withdrawal of any such rating or of a possible change in any such rating that does not indicate the direction of the possible change.

(h) Prior to the Closing Time, the Securities shall be eligible for clearance, settlement and trading through the facilities of DTC.

(i) If any condition specified in this Section 5 shall not have been satisfied when and as required to be satisfied or shall not have been waived by such time, this Agreement may be terminated by the Initial Purchasers by notice to the Company at any time on or prior to the Closing Time. If the sale of any of the Securities provided for herein is not consummated because any condition set forth in this Section 5 is not satisfied or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof, the Company will reimburse the Initial Purchasers upon demand for all documented out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by the Initial Purchasers in connection with the proposed offering of those of the Securities as to which such sale is not consummated; *provided* that any such out-of-pocket expenses incurred by the Initial Purchasers shall be deemed to be expenses incurred by the Initial Purchasers under clause (i) of Section 4 hereof for purposes of the proviso to such clause (i). In addition, such termination shall be subject to Section 4 hereof, and Sections 1, 6, 7 and 8 hereof shall survive any such termination and remain in full force and effect.

6. Indemnification. (a) The Company will indemnify and hold harmless each Initial Purchaser, and its partners, directors, officers, employees and agents and each affiliate of an Initial Purchaser within the meaning of Rule 405, and each person, if any, who controls any Initial Purchaser within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any losses, claims, damages or liabilities, joint or several, to which an Initial Purchaser may become subject, under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Offering Circular, the General Disclosure Package, any Additional Company Offering Document, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and will reimburse any Initial Purchaser for any legal or other actual out-of-pocket expenses reasonably incurred by such Initial Purchaser in connection with investigating or defending any such action or claim as such expenses are incurred; *provided, however*, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Offering Circular, the General Disclosure Package, any Additional Company Offering Document, or any amendment

or supplement thereto in reliance upon and in conformity with written information furnished to the Company by any Initial Purchaser expressly for use therein. The Company and the Initial Purchasers hereby acknowledge and agree that the only information that any Initial Purchaser has furnished to the Company consists solely of the information described as such in subsection (b) below. Notwithstanding the foregoing, the indemnification provided for by the Company in this paragraph shall not be applicable or effective to the extent that (a) a Governmental Entity having jurisdiction over the Company by written communication addressed to the Company or its board of directors, including in connection with any examination of the Company, informs the Company or its board of directors that such Governmental Entity has deemed such indemnification to violate Sections 23A or 23B of the Federal Reserve Act, as amended, or another law, rule, regulation or policy applicable to the Company, (b) a Governmental Entity notifies the Company that such indemnification would result in an adverse impact on the Company's examination ratings, (c) such indemnification would give rise to civil money penalties or other sanctions, or (d) the Company determines, upon the written advice of counsel, that payment of any indemnification hereunder by the Company would violate any law, rule, regulation or policy applicable to the Company. The Company agrees to notify the Representative immediately upon receipt of such written advisement or notice. The Initial Purchasers agree to cooperate with the Company in implementing any modification required by the foregoing.

(b) Each Initial Purchaser shall, severally and not jointly, indemnify and hold harmless the Company, its officers, directors and each person, if any, who controls the Company, within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any losses, claims, damages or liabilities to which the Company may become subject, under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Offering Circular, the General Disclosure Package, any Additional Company Offering Document, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Offering Circular, the General Disclosure Package, any Additional Company Offering Document, or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished to the Company by any Initial Purchaser expressly for use therein (provided, however, that the Company and the Initial Purchasers hereby acknowledge and agree that the only such information that any Initial Purchaser has furnished to the Company consists solely of the first paragraph and the second sentence of the second paragraph under the heading "Price Stabilization, Short Positions and Penalty Bids" in each case appearing in the Offering Circular in the section entitled "PLAN OF DISTRIBUTION") and will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the

indemnifying party in writing of the commencement thereof, but the omission so to notify the indemnifying party shall not relieve it from any liability that it may have to any indemnified party otherwise than under such subsection, unless the indemnifying party has been prejudiced thereby. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party which consent shall not be unreasonably withheld, conditioned or delayed, be counsel to the indemnifying party), provided, however, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that a conflict may arise between the positions of the indemnifying party and the indemnified party in conducting the defense of any such action or that there may be legal defenses available to its and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume the legal defenses of such indemnified party or parties (but not to control the defense of such action as to the indemnifying party) and to otherwise participate in the defense of such action on behalf of such indemnified party or parties, and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the fees and expenses of more than one separate counsel (together with, to the extent necessary in the circumstances, one separate local counsel in the jurisdiction in which such action is pending) to represent all indemnified parties, approved by the indemnifying party) or (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party within a reasonable time after notice of commencement of the action, in each of which cases the fees and expenses of one counsel for the indemnified party or parties (in addition to local counsel) shall be at the expense of the indemnifying party. The indemnifying party under this Section 6 shall not be liable for any settlement or compromise of or agreed judgment in any proceedings effected or agreed to without its prior express written consent, but if any such proceeding is settled or compromised, or an agreed judgment is entered into, with such consent or if there be a final judgment (other than an agreed judgment) rendered in favor of for the plaintiff, the indemnifying party agrees to indemnify the indemnified party against any loss, claim, damage, liability or expense by reason of such settlement, compromise, agreed judgment or other judgment. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section 6 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Initial Purchasers on the other from the offering of the Securities. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company, on the one hand, and the Initial Purchasers, on the other, in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Initial Purchasers, on the other, shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Initial Purchasers, in each case as set forth in the table on the cover page of the Final Offering Circular. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, on the one hand, or the Initial Purchasers, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Initial Purchasers agree that it would not be just and equitable if contributions pursuant to this subsection (d) were determined by *pro rata* allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Initial Purchaser shall be required to contribute any amount in excess of the amount by which the total price at which the Securities purchased by it and distributed to the public were offered to the public exceeds the amount of any damages which such Initial Purchaser has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 6, each officer and employee of an Initial Purchaser and each person, if any, who controls any Initial Purchaser within the meaning of the 1933 Act and the 1934 Act shall have the same rights to contribution as the Initial Purchaser, and each director of the Company and each person, if any, who controls the Company with the meaning of the 1933 Act and the 1934 Act shall have the same rights to contribution as the Company. Notwithstanding the foregoing, the contribution obligation of the Company in this paragraph shall not apply and shall not be effective to the extent that (a) a Governmental Entity having jurisdiction over the Company by written communication addressed to the Company or its board of directors, including in connection with any examination of the Company, informs the Company or its board of directors that such Governmental Entity has deemed such contribution

to violate Sections 23A or 23B of the Federal Reserve Act, as amended, or another law, rule, regulation or policy applicable to the Company, (b) a Governmental Entity notifies the Company that any contribution would result in an adverse impact on the Company's examination ratings, (c) such contribution would give rise to civil money penalties or other sanctions, or (d) the Company determines, upon the written advice of counsel, that any contribution made by the Company hereunder would violate any law, rule, regulation or policy applicable to the Company.

(e) The obligations of the Company under this Section 6 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls (within the meaning of the 1933 Act) any Initial Purchaser, or any of the respective partners, directors, officers and employees of the Initial Purchaser or any such controlling person. The obligations of the Initial Purchasers under this Section 6 shall be in addition to any liability which any Initial Purchaser may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls (within the meaning of the 1933 Act) the Company or any of the directors and officers of the Company or any such controlling person.

(f) The remedies provided for in this Section 6 are not exclusive and shall not limit any rights or remedies which may otherwise be available to an indemnified party at law or in equity.

7. Survival of Representations and Warranties. The respective indemnities, agreements, representations, warranties and other statements of the Company and the Initial Purchasers, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of an Initial Purchaser or any controlling person of any Initial Purchaser, or the Company, or any officer or director or controlling person of the Company, and shall survive delivery of and payment for the Securities.

8. Termination of Agreement. If this Agreement is terminated pursuant to Section 5(i) hereof, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof and provided further that Sections 1, 6, 7 and 8 hereof shall survive such termination and remain in full force and effect.

9. Notices. All statements, requests, notices and agreements hereunder shall be in writing, and if to the Initial Purchasers shall be delivered or sent by mail or facsimile transmission to the Representative at:

Sandler O'Neill & Partners, L.P.
1251 Avenue of the Americas, 6th Floor
New York, New York 10020
Attention: General Counsel

with a copy to:

Troutman Sanders LLP

Troutman Sanders Building
1001 Haxall Point
Richmond, Virginia 23219
Attention: Jacob A. Lutz, Esq.
Facsimile No.: (804) 698-6014

and if to the Company shall be delivered or sent by mail or facsimile to:

TowneBank
6001 Harbour View Boulevard
Suffolk, Virginia 23435
Attention: Chief Legal Officer
Facsimile No.: (757) 484-4591

with a copy to:

Williams Mullen
Williams Mullen Center
200 South 10th Street
Suite 1600
Richmond, Virginia 23219
Attention: Scott H. Richter, Esq.
Facsimile No.: (804) 420-6507

Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

10. Parties. This Agreement shall be binding upon, and inure solely to the benefit of, the Initial Purchasers, the Company and, to the extent provided in Sections 6 and 7 hereof, the officers and directors of the Company and each person who controls the Company or any Initial Purchaser, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Securities from any Initial Purchaser shall be deemed a successor or assign by reason merely of such purchase.

11. Time. Time shall be of the essence of this Agreement. As used herein, the term “business day” shall mean any day when the FDIC’s office in Washington, D.C. is open for business.

12. No Advisory or Fiduciary Relationship. The Company acknowledges and agrees that (i) the purchase and sale of the Securities pursuant to this Agreement, including the determination of the public offering price of the Securities and any related discounts and commissions, is an arm’s-length commercial transaction between the Company, on the one hand, and the Initial Purchasers, on the other hand, and the Company is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated by this Agreement, (ii) in connection with the offering contemplated hereby and the process leading to such transaction each Initial Purchaser is and has been acting solely as

principal and is not the agent or fiduciary of the Company, its subsidiaries or the Company's shareholders, creditors, employees or any other third party, (iii) no Initial Purchaser has assumed nor will it assume an advisory or fiduciary responsibility in favor of the Company or its subsidiaries with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Initial Purchaser has advised or is currently advising the Company or its subsidiaries on any other matters) and no Initial Purchaser has any obligation to the Company or its subsidiaries with respect to the offering contemplated hereby except the obligations expressly set forth in this Agreement, (iv) each Initial Purchaser and its respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company or its subsidiaries and no Initial Purchaser has any obligation to disclose such interests and transactions to the Company by virtue of any fiduciary, advisory or agency relationship, (v) the Company and its subsidiaries waive, to the fullest extent permitted by law, any claims the Company may have against any Initial Purchaser for breach of fiduciary duty or alleged breach of fiduciary duty and agree that no Initial Purchaser shall have any liability (whether direct or indirect) to the Company or its subsidiaries in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including shareholders, employees or creditors of the Company, and (vi) no Initial Purchaser has provided any legal, accounting, regulatory or tax advice with respect to the offering contemplated hereby and the Company Bank consulted its own legal, accounting, regulatory and tax advisors to the extent they deemed appropriate.

13. GOVERNING LAW; CONSENT TO JURISDICTION. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES OF SAID STATE OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

THE COMPANY, ON BEHALF OF ITSELF AND ITS SUBSIDIARIES, HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE FEDERAL AND NEW YORK STATE COURTS LOCATED IN THE CITY OF NEW YORK IN CONNECTION WITH ANY SUIT, ACTION OR PROCEEDING RELATED TO THIS AGREEMENT OR ANY OF THE MATTERS CONTEMPLATED HEREBY, IRREVOCABLY WAIVES ANY DEFENSE OF LACK OF PERSONAL JURISDICTION AND IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT. THE COMPANY, ON BEHALF OF ITSELF AND ITS SUBSIDIARIES, IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

14. Counterparts. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument. Any facsimile or

electronically transmitted copies hereof or signatures hereon shall, for all purposes, be deemed originals.

15. Amendment; Waiver. No amendment or waiver of any provision of this Agreement, nor any consent or approval to any departure therefrom, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

16. Partial Enforceability. The invalidity or unenforceability of any Section, paragraph or provision of this Agreement shall not affect the validity or enforceability of any other Section, paragraph or provision hereof. If any Section, paragraph or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.


17. Entire Agreement. This Agreement supersedes all prior agreements and understandings (whether written or oral) between the Company and the Initial Purchasers, or any of them, with respect to the subject matter hereof.

[Signatures on Next Page]

If the foregoing is in accordance with your understanding, please sign and return to us a counterpart hereof, and upon the acceptance hereof by you, this letter and such acceptance hereof shall constitute a binding agreement among the Initial Purchasers and the Company.

Very truly yours,

TOWNEBANK

By: 
Name: G. Robert Aston, Jr.
Title: Chairman and Chief Executive Officer

Accepted as of the date hereof:

SANDLER O'NEILL & PARTNERS, L.P.

For Itself and as Representative of the Other
Initial Purchasers named in Annex A hereto

By: Sandler O'Neill & Partners Corp.,
the sole general partner

By: _____
Name:
Title: An Officer of the Corporation

Signature Page to Underwriting Agreement

If the foregoing is in accordance with your understanding, please sign and return to us a counterpart hereof, and upon the acceptance hereof by you, this letter and such acceptance hereof shall constitute a binding agreement among the Initial Purchasers and the Company.

Very truly yours,

TOWNEBANK

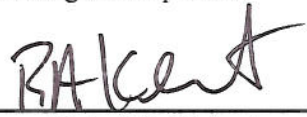
By: _____
Name:
Title:

Accented as of the date hereof:

SANDLER O'NEILL & PARTNERS, L.P.

For Itself and as Representative of the Other
Initial Purchasers named in Annex A hereto

By: Sandler O'Neill & Partners Corp.,
the sole general partner

By:  _____
Name: Robert A. Kleinert
Title: An Officer of the Corporation

Signature Page to Underwriting Agreement

Annex A

<u>Initial Purchasers</u>	<u>Principal Amount of Securities to be Purchased</u>
Sandler O'Neill & Partners, L.P.	\$250,000,000
Total	\$250,000,000

Pricing Term Sheet**TowneBank**
Term Sheet

\$250,000,000

4.50% Fixed-to-Floating Rate Subordinated Notes due 2027

This Pricing Term Sheet dated July 12, 2017, to the Preliminary Offering Circular dated July 11, 2017, of TowneBank (the “Bank”) supplements, and is qualified in its entirety by, the Preliminary Offering Circular and supersedes the information in the Preliminary Offering Circular to the extent it is inconsistent with the information in the Preliminary Offering Circular. Capitalized terms used in this Pricing Term Sheet, but not defined herein, have the meanings given to them in the Preliminary Offering Circular.

Issuer:	TowneBank
Securities Offered:	4.50% Fixed-to-Floating Rate Subordinated Notes due 2027 (the “Subordinated Notes”)
Security Type:	§3(a)(2) exempt securities
Aggregate Principal Amount:	\$250,000,000
Rating:	Kroll Bond Rating Agency: BBB+ A securities rating is not a recommendation to buy, sell or hold the Subordinated Notes. Any rating may be subject to revision or withdrawal at any time and should be evaluated independently of any other rating. No report of any rating agency is being incorporated herein by reference.
Trade Date:	July 12, 2017
Settlement Date:	July 17, 2017 (T+3)
Maturity:	July 30, 2027
Reference Benchmark:	UST 2.375% due May 15, 2027
Reference Benchmark Yield:	2.323%

Spread to Benchmark	217.7 basis points
Yield to Investors:	4.50%
Price to Public:	100%
Interest Rate:	From and including the original issuance date to, but excluding, July 30, 2022, a fixed rate per annum of 4.50%. From and including July 30, 2022, through maturity or earlier redemption, a floating rate per annum equal to three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero) plus 2.550%.
Interest Payment Dates:	Interest on the Subordinated Notes will be payable semi-annually in arrears on January 30 and July 30 of each year, beginning on January 30, 2018 and ending on July 30, 2022, and thereafter will be payable quarterly in arrears on January 30, April 30, July 30 and October 30 of each year, beginning on October 30, 2022, through maturity or earlier redemption of the Subordinated Notes. If any interest payment date falls on a day that is not a business day, interest will be paid on the next succeeding business day (and without any interest or other payment in respect of any such delay).
Day Count Convention:	30/360 to but excluding July 30, 2022, and, thereafter, a 360-day year and the number of days actually elapsed.
Optional Redemption:	The Bank may, at its option, beginning with the Interest Payment Date of July 30, 2022 and on any scheduled Interest Payment Date thereafter, redeem the Subordinated Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Subordinated Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption. Any partial redemption will be made pro rata

among all of the holders.

Special Event Redemption:

The Subordinated Notes are redeemable by the Bank, in whole but not in part, at any time, including prior to July 30, 2022, if: (i) a change or prospective change in law occurs that could prevent the Bank from deducting interest payable on the Subordinated Notes for U.S. Federal income tax purposes, (ii) a subsequent event occurs that could preclude the Subordinated Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) the Bank is required to register as an investment company under the Investment Company Act of 1940, as amended, in each case, at a redemption price equal to the 100% of the principal amount of the Subordinated Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the date of redemption.

Denominations:

\$1,000 x \$1,000

Ranking:

The Subordinated Notes will be unsecured, subordinated obligations of the Bank and will: (i) rank junior in right of payment to all of its existing and future senior indebtedness, whether secured or unsecured, including claims of depositors and general creditors; (ii) rank equally in right of payment with any unsecured, subordinated indebtedness that it incurs in the future that rank equally with the Subordinated Notes; (iii) rank senior in right of payment to any indebtedness the terms of which provide that such indebtedness ranks junior to the Subordinated Notes; and (iv) be structurally subordinated to all existing and future indebtedness and liabilities of the Bank's existing and future subsidiaries. The Subordinated Notes will not contain any limitation on the amount of debt, deposits or other obligations, secured and unsecured, ranking senior or equal in priority to the indebtedness evidenced by the subordinated notes that the Bank may incur hereafter. The Subordinated Notes are not savings

accounts or deposits of any bank and are not insured by the FDIC or any other agency.

CUSIP/ISIN:

89214P BD0 / US89214PBD06

Use of Proceeds:

The Bank intends to use the net proceeds of the offering for general corporate purposes, which may include supporting the Bank's growth organically or through strategic acquisitions.

Sole Book-Running Manager:

Sandler O'Neill + Partners, L.P.

Other information (including financial information) presented in the Preliminary Offering Circular is deemed to have changed to the extent effected by the changes described in this Pricing Term Sheet.

This material is strictly confidential and has been prepared solely for use in connection with the proposed offering of the Subordinated Notes described in the Preliminary Offering Circular. This material is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the securities. This material does not purport to be a complete description of the securities or the offering. Before you invest, you should read the Preliminary Offering Circular, including the documents incorporated by reference therein, for more complete information about the Bank and the offering.

The Subordinated Notes have not been, and are not required to be, registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws, and are being offered and sold in reliance upon an exemption from registration under Section 3(a)(2) of the Securities Act. This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor will there be any offer or sale of any securities in any state or other jurisdiction in which such offer, solicitation or sale would be unlawful.

Additional Company Offering Documents

- Investor Presentation, dated July 11, 2017, of the Company
- Press Release, dated July 11, 2017, of the Company regarding public announcement of the offering of the Securities

Schedule III**List of Subsidiaries**

<u>Subsidiary</u>	<u>State of Incorporation or Organization</u>
TowneBank Investment Corporation	Virginia
Towne Investments, LLC	Virginia
TowneBank Woodview Investment Co., LLC	Virginia
TowneBank Woodview Investment Co. II, LLC	Virginia
TowneBank Heritage Forest, LLC	Virginia
TowneBank Cromwell House Affordable Housing, LLC	Virginia
TowneBank Pavilion Place Affordable Housing, LLC	Virginia
TowneBank Westbury Cottages Affordable Housing, LLC	Virginia
TB Affordable Housing Equity Fund XX, LLC	Virginia
TB Affordable Housing Equity Fund XXI, LLC	Virginia
TowneBank Catalina Crossing Affordable Housing, LLC	Virginia
Hamilton Place Towne I, LLC	Virginia
Hamilton Place Towne II, LLC	Virginia
TowneBank VCDC Fund 18, LLC	Virginia
TowneBank VCDC Fund 19, LLC	Virginia
Towne Financial Services Group, LLC	Virginia
GSH Residential Real Estate Corporation	Virginia
Towne Oak Island RE, LLC	Virginia
Towne Vacations Oak Island, LLC, t/a Oak Island Accommodations*	Virginia
Towne Vacations, LLC, t/a Beach Properties of Hilton Head	Virginia
Towne Vacations Deep Creek, LLC, t/a Raily Mountain Lakes Vacations	Virginia
GSH NC Realty, LLC	Virginia
Towne Realty LLC, t/a Berkshire Hathaway HomeServices Towne Realty*	Virginia
Lawyers Escrow & Title Agency, LLC*	Virginia
Eastern Title Company, Inc.*	Virginia
PTR Referral, LLC*	Virginia
Virginia Home Title and Settlements, LLC*	Virginia
Towne Insurance Agency, LLC	Virginia
The Frieden Agency LLC, t/a Towne Benefits Benefit Design Group, LLC	Virginia
Beneflex Management, LLC	Virginia
Towne Insurance Agency of North Carolina, LLC	North Carolina
Out of Towne, LLC, t/a Red Sky Travel Insurance*	Virginia
TowneBank Commercial Mortgage, LLC	Virginia
Towne Hall, LLC	Virginia

<u>Subsidiary</u>	<u>State of Incorporation or Organization</u>
Towne 1031 Exchange, LLC	Virginia
Towne Security, LLC	Virginia
Towne Mortgage, LLC*	Virginia
NewTowne Mortgage, LLC*	Virginia
SimonTowne Mortgage, LLC*	Virginia
Towne Center Mortgage, LLC*	Virginia
Advance Financial Group, LLC*	Virginia
Towne First Mortgage, LLC*	Virginia
Franklin Service Corporation	Virginia
Homesale Mortgage, LLC	Virginia
Reality Holdings, LLC	Virginia
Reality I, LLC	Virginia
Reality X, LLC	Virginia
Southeastern Virginia Investment Properties, LLC	Virginia
Southeastern Virginia Coastal Properties I, LLC	Virginia
Southeastern Virginia Properties, LLC	Virginia
Southeastern Virginia Properties at Uncles Neck, LLC	Virginia
Towne Mortgage of the Carolinas, LLC*	North Carolina
Northeastern North Carolina Properties, LLC	North Carolina
Northeastern North Carolina Properties at Bermuda Bay, LLC	Virginia
Northeastern North Carolina Properties at Hamilton Cay, LLC	Virginia
Northeastern North Carolina Properties Corolla Soundside, LLC	North Carolina
Northeastern North Carolina Properties Oceanside Villas, LLC	North Carolina
Virginia Hotel Properties, LLC	Virginia
Virginia Properties Apartment and Land, LLC	Virginia
CPF Partners, LLC	Virginia
TBNCT, LLC	Virginia
TBVAT, LLC	Virginia
West Suffolk Properties, LLC	Virginia
TB Travel Services, LLC	Virginia
TB Acquisition, LLC	Virginia
Monarch Investment LLC	Virginia
Coastal Home Mortgage LLC*	Virginia
Real Estate Security Agency, LLC*	Virginia

* Not wholly-owned, directly or indirectly, by the Company.

Form of Securities

TOWNEBANK

4.50% FIXED-TO-FLOATING RATE SUBORDINATED NOTES DUE 2027

CUSIP No. 89214P BD0
ISIN No. US89214PBD06

THIS SECURITY IS A GLOBAL SECURITY AND IS REGISTERED IN THE NAME OF CEDE & CO., THE NOMINEE OF THE DEPOSITORY TRUST COMPANY (THE “*DEPOSITORY*”). UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN CERTIFICATED FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY.

UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TO TOWNEBANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS SECURITY IS *NOT* A SAVINGS ACCOUNT OR DEPOSIT AND IT IS *NOT* INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY OR INSTRUMENTALITY.

THIS SECURITY IS SUBORDINATED ON LIQUIDATION, AS TO PRINCIPAL (AND PREMIUM, IF ANY), AND INTEREST, TO ALL CLAIMS AGAINST TOWNEBANK THAT HAVE THE SAME PRIORITY AS SAVINGS ACCOUNTS, DEPOSITS OR A HIGHER PRIORITY, IS NOT SECURED BY THE ASSETS OF TOWNEBANK OR BY THE ASSETS OF ANY OF ITS AFFILIATES, AND IS INELIGIBLE AS COLLATERAL TO SECURE A LOAN BY TOWNEBANK.

TOWNEBANK HAS NOT ENTERED INTO AN INDENTURE IN CONNECTION WITH THE ISSUANCE OF THIS SECURITY. THIS SECURITY IS ISSUABLE IN A MINIMUM

DENOMINATION OF \$1,000 AND INTEGRAL MULTIPLES OF \$1,000 IN EXCESS OF \$1,000 AND MAY NOT BE EXCHANGED FOR SECURITIES OF TOWNEBANK WITH A DENOMINATION SMALLER THAN \$1,000. EACH OWNER OF A BENEFICIAL INTEREST IN THE SECURITIES IS REQUIRED TO HOLD SUCH BENEFICIAL INTEREST IN A PRINCIPAL AMOUNT OF \$1,000 OR AN INTEGRAL MULTIPLE OF \$1,000 IN EXCESS THEREOF AT ALL TIMES.

THIS SECURITY HAS NOT BEEN, AND IS NOT REQUIRED TO BE, REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND WAS OFFERED PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY SECTION 3(a)(2) OF THE SECURITIES ACT OF 1933. THIS SECURITY HAS NOT BEEN APPROVED OR DISAPPROVED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION.

RETIREMENT PLAN REPRESENTATIONS:

THE HOLDER OF THIS SECURITY, OR ANY INTEREST THEREIN, BY ITS ACCEPTANCE HEREOF OR THEREOF AGREES, REPRESENTS AND WARRANTS THAT (I) THE HOLDER IS NOT AN EMPLOYEE BENEFIT PLAN, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER PLAN OR ARRANGEMENT SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“*ERISA*”), SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “*CODE*”), OR ANY SIMILAR FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS APPLICABLE TO RETIREMENT PLANS (“*SIMILAR LAWS*”) (EACH, A “*PLAN*”), AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” BY REASON OF ANY PLAN’S INVESTMENT IN THE ENTITY, OR A TRUSTEE OR OTHER PERSON ACTING ON BEHALF OF SUCH A PLAN OR ENTITY (“*FIDUCIARY*”), OR (ii) NEITHER THE ACQUISITION NOR HOLDING OF THIS SECURITY WILL RESULT IN (a) A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH FULL EXEMPTIVE RELIEF IS NOT AVAILABLE UNDER AN APPLICABLE STATUTORY OR ADMINISTRATIVE EXEMPTION OR (b) A VIOLATION OF ANY SIMILAR LAWS.

ANY FIDUCIARY WHO IS CONSIDERING THE ACQUISITION OF ANY OF THE SECURITIES SHOULD CONSULT WITH HIS OR HER LEGAL COUNSEL PRIOR TO ACQUIRING SUCH SECURITIES.

TOWNEBANK

4.50% FIXED-TO-FLOATING RATE SUBORDINATED NOTES DUE 2027

No. R-1

CUSIP No. 89214P BD0
ISIN No. US89214PBD06

INITIAL PRINCIPAL AMOUNT:	\$250,000,000
ISSUE DATE:	July 17, 2017
MATURITY DATE:	July 30, 2027
INTEREST PAYMENT DATE(S):	January 30 and July 30 of each year, beginning on January 30, 2018 and ending on July 30, 2022; January 30, April 30, July 30 and October 30 of each year, beginning on October 30, 2022
REGULAR RECORD DATE(S):	January 15 and July 15 of each year, beginning on January 15, 2018 and ending on July 15, 2022; January 15, April 15, July 15 and October 15 of each year, beginning on October 15, 2022

TowneBank, a Virginia banking corporation (herein called the “Bank”), for value received, hereby promises to pay or deliver, as the case may be, to CEDE & CO., or registered assigns, the principal sum of Two Hundred Fifty Million (\$250,000,000) United States dollars on the maturity date shown above (the “Maturity Date”) and to pay interest thereon from and including the Issue Date specified above (the “Issue Date”) or from and including the most recent Interest Payment Date to which interest on this Security (as defined on the reverse hereof) or any predecessor Security has been paid or duly provided for, as applicable, to but excluding, the succeeding Interest Payment Date, on the Interest Payment Dates specified above in each year (each, an “Interest Payment Date”) and on the Maturity Date, at a fixed rate per annum equal to 4.50% from the Issue Date to, but excluding, July 30, 2022 and at a floating rate per annum equal to three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero) plus 2.550%, until the principal hereof is paid or duly made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will be paid to the person in whose name this Security (or any predecessor Security) is registered (the “Holder”) at the close of business on the applicable regular record date specified above preceding such Interest Payment Date (the “Regular Record Date”); *provided, however*, that interest payable at the Maturity Date of this

Security will be payable to the person to whom principal shall be payable. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the person in whose name this Security (or any predecessor Security) is registered at the close of business on a special record date for the payment of such defaulted interest (the “Special Record Date”) to be fixed by the Bank, notice of which shall be given to the Holder not less than 10 calendar days prior to such Special Record Date.

Interest shall accrue from and including July 17, 2017 or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, and shall be paid semi-annually in arrears on January 30 and July 30 of each year, beginning on January 30, 2018, and ending on July 30, 2022, and thereafter will be payable quarterly in arrears on January 30, April 30, July 30 and October 30 of each year, beginning on October 30, 2022, through the Maturity Date or earlier redemption of this Security. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months from and including the Issue Date to, but excluding, July 30, 2022, and thereafter a 360-day year and the number of days actually elapsed.

Three-month LIBOR shall be determined on the second Business Day before each Interest Period (each such date, an “interest determination date”). The interest rate on the Securities bearing interest at the floating rate shall reset on the first day of each Interest Period (each such date a “reset date”). “Interest Period” shall be the period from and including the immediately preceding Interest Payment Date to, but excluding, the succeeding Interest Payment Date.

Three-month LIBOR will be determined as follows:

(i) With respect to each interest determination date (a “LIBOR interest determination date”), three-month LIBOR will be the London Interbank Offered Rate (expressed as a percentage per annum) for deposits in U.S. dollars having an index maturity of three months that appears on the display on Reuters, or any successor service, on page “LIBOR01”, or any page that may replace that page on that service, as of 11:00 a.m., London time, on such LIBOR interest determination date. If no such rate so appears, three-month LIBOR on such LIBOR interest determination date will be determined in accordance with provision described in clause (ii) below.

(ii) If such screen does not include such a rate or is unavailable on a determination date, the Issuing and Paying Agent will request the principal London office of each of four major banks in the London interbank market, as selected by the Issuing and Paying Agent, to provide such bank’s offered quotation (expressed as a percentage per annum), as of approximately 11:00a.m., London time, on such LIBOR interest determination date, to prime banks in the London interbank market for three-month deposits in U.S. dollars in a principal amount of not less than \$1,000,000 for a single transaction in the relevant market at the relevant time. If at least two such offered quotations are so provided, the three-month LIBOR for the Interest Period will be the arithmetic mean of such quotations; provided, however, that if the banks so selected by

the Issuing and Paying Agent are not quoting as mentioned in this sentence, three-month LIBOR determined as of such LIBOR interest determination date shall be three-month LIBOR in effect on such LIBOR interest determination date or, in the case of the Interest Period commencing on the first reset date, 1.95%. All percentages used in or resulting from any calculation of three-month LIBOR will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% rounded up to 0.00001%.

Notwithstanding the foregoing, in the event three-month LIBOR for any Interest Period as determined in accordance with this paragraph is less than zero, three-month LIBOR for such Interest Period shall be deemed to be zero.

If an Interest Payment Date is not a Business Day (as defined below), the Bank will pay interest on the next day that is a Business Day, with the same force and effect as if made on the Interest Payment Date, and without any interest or other payment with respect to the delay. If the Maturity Date falls on a day that is not a Business Day, the payment of principal and interest, if any, will be made on the next succeeding Business Day and no interest shall accrue for the period from and after such Maturity Date.

“Business Day” means any day that is not a Saturday or Sunday and that is not a day on which banking institutions in the City of New York, New York or Portsmouth, Virginia are generally authorized or obligated by law or executive order to close.

Payment of interest on this Security may be subject to prior approval by the Federal Deposit Insurance Corporation (“FDIC”), the Bureau of Financial Institutions of the State Corporation Commission of the Commonwealth of Virginia (the “BFI”) or other applicable regulator of the Bank if the Bank is undercapitalized or has been so required by the FDIC, the BFI or other applicable regulatory authority.

THE SECURITY MAY NOT BE REPAID PRIOR TO MATURITY, EITHER PURSUANT TO ACCELERATION IN AN EVENT OF DEFAULT, REPURCHASE BY THE BANK OR OTHERWISE, WITHOUT PRIOR APPROVAL OF THE FDIC.

Payment of principal of (and premium, if any) and interest on, this Security will be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. The Bank will at all times appoint and maintain an issuing and paying agent (the “Issuing and Paying Agent”) authorized by the Bank to pay the principal of and interest on, this Security on behalf of the Bank and having an office or agency (the “Issuing and Paying Agent Office”) in the United States of America (the “Place of Payment”), where this Security may be presented or surrendered for payment and where notices, designations or requests in respect of payments with respect to this Security may be served. The Bank has initially appointed U.S. Bank National Association as such Issuing and Paying Agent pursuant to the Issuing and Paying Agency Agreement, dated as of July 17, 2017 (the “Issuing and Paying Agency Agreement”), between the Bank and the Issuing and Paying Agent, with the Issuing and Paying Agent Office currently located at 111 Filmore Avenue East, St. Paul, Minnesota, Attention: Global Corporate Trust Services.

Payment of the principal of (and premium, if any) and interest on, this Security due at maturity will be made in immediately available funds upon presentation and surrender of this Security to the Issuing and Paying Agent at the Issuing and Paying Agent Office in the Place of Payment; provided that this Security is presented to the Issuing and Paying Agent in time for the Issuing and Paying Agent to make such payment in accordance with its normal procedures. Payments of interest on this Security (other than at maturity) will be made by wire transfer to such account as has been appropriately designated to the Issuing and Paying Agent by the person entitled to such payments.

Subject to required approvals, the Bank may, without the consent of the Holder of this Security, create and issue additional notes ranking equally with this Security and otherwise the same in all respects (except for the issue date, issue price and first Interest Payment Date). Such additional notes shall be consolidated and form a single series (including the same CUSIP number) with the previously outstanding Securities, provided that any such additional notes are fungible with the previously outstanding Securities for U.S. federal income tax purposes.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set for that this place.

(Remainder of page intentionally left blank)

Unless the certificate of authentication hereon has been executed by the Issuing and Paying Agent by the manual signature of an authorized signatory, this Security shall not be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Bank has caused this instrument to be duly executed by manual or facsimile signature.

TOWNEBANK

By: _____
Name:
Title:

Dated: July 17, 2017

ISSUING AND PAYING AGENT'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities referred to in the within-mentioned Issuing and Paying Agency Agreement.

U.S. BANK NATIONAL ASSOCIATION,
as Issuing and Paying Agent

By: _____
Authorized Signatory

REVERSE OF SECURITY

This Security is one of a duly authorized issue of 4.50% Fixed-to-Floating Rate Subordinated Notes due 2027 of the Bank (the “Securities”) issued under the Issuing and Paying Agency Agreement.

Subordination

The Bank’s indebtedness evidenced by this Security, including its obligations to pay principal and interest, is unsecured and subordinate and junior in right of payment to the Bank’s Senior Indebtedness (as defined below). In the event of any insolvency, receivership, conservatorship, reorganization, liquidation or similar proceedings of the Bank, all such Senior Indebtedness shall be entitled to be paid in full before any payment shall be made on account of the principal of (or premium, if any) or interest on, this Security. In the event of any such proceeding, after payment in full of all sums owing with respect to such Senior Indebtedness, the Holder of this Security, together with holders of any obligations of the Bank ranking equally with this Security, shall be entitled to be paid from the remaining assets of the Bank the unpaid principal of (and premium, if any) and interest on, this Security or such other obligations before any payment or other distribution, whether in cash, property, or otherwise, shall be made on account of any capital stock or any obligations of the Bank ranking junior to this Security.

“Senior Indebtedness” includes all savings accounts, deposits, borrowed money (secured and unsecured), obligations of, or guaranteed by, the Bank arising from off-balance sheet guarantees and direct-credit substitutes (including any letters of credit, bankers’ acceptance or similar agreement), any capitalized lease obligation, any deferred obligation for payment of the purchase price of any property or assets, and obligations associated with derivative products such as interest rate and foreign-exchange contracts, commodity contracts and similar arrangements and obligations to the Bank’s general creditors (as defined and required by the FDIC under its final Basel III capital rules for subordinated debt to qualify as tier 2 capital). “Senior Indebtedness” excludes any indebtedness that: (a) expressly states that it is junior to, or ranks equally in right of payment with, this Security; or (b) is identified as junior to, or equal in right of payment with, this Security.

Nothing herein shall impair the obligation of the Bank, which is absolute and unconditional, to pay the principal of (and premium, if any) and interest on this Security in accordance with its terms.

Notwithstanding any other provisions contained in this Security, the FDIC or any receiver or conservator of the Bank appointed by the FDIC, as part of any transaction or plan of reorganization or liquidation may transfer or direct the transfer of the obligations represented by this Security to any bank selected by such entity that expressly assumes the obligation of the due and punctual payment of the unpaid principal (and premium, if any) and interest on this Security and the due and punctual performance of all covenants and conditions contained in this Security.

Any “depository institution,” as that term is defined in Section 3(c)(1) of the Federal Deposit Insurance Act, which holds a Security (or beneficial interest therein) shall be deemed to

have agreed by acquiring such Security (or beneficial interest) to waive any rights to offset all or any portion of the indebtedness represented by such Security (or interest) against any indebtedness or other obligations of such institution to the Bank.

Event of Default; Waiver

An “Event of Default” with respect to this Security shall occur if the Bank is subject to any receivership, conservatorship, insolvency, liquidation or similar proceeding. A “Payment Failure” in respect to this Security shall occur if the Bank fails to pay interest on this Security for 30 days after the payment is due, or if the Bank fails to pay the principal of (or premium, if any, on) this Security when due. The Bank will promptly notify, and provide copies of such notice to, the Issuing and Paying Agent, upon the occurrence of any Payment Failure or Event of Default. The Issuing and Paying Agent will promptly send copies of such notice to the Holders of the Securities through the Depository Trust Company, as depository (the “Depository”).

If an Event of Default shall occur and be continuing, the Holder of this Security may declare the principal of this Security, together with any unpaid accrued interest thereon, to be immediately due and payable by written notice to the Bank. Upon such declaration and notice, such principal amount and accrued interest shall become immediately due and payable; provided, however, that, to the extent then required under or pursuant to applicable capital or other regulations (as described on the face of this Security), this Security may not be repaid prior to maturity without the prior approval of the FDIC. The Bank will apply to the FDIC for prior approval of repayment promptly after receiving notice of acceleration.

Any Payment Failure or Event of Default with respect to this Security may be waived by the Holder hereof.

The Bank waives demand, presentment for prepayment, notice of nonpayment, notice of protest and all other notices to the extent it may lawfully do so.

This Security is intended to be treated as Tier 2 capital (or its then equivalent if the Bank is subject to such capital requirement) for purposes of capital adequacy rules of the FDIC (or any successor regulatory authority) as then in effect and applicable to the Bank. **Neither the failure to pay principal of or interest on this Security nor a failure to perform any other obligation of the Bank under the Issuing and Paying Agency Agreement or the Security constitutes an “Event of Default” with respect to the Security, and no right of acceleration exists in any such case.**

Optional Repayment and Redemption

The Securities shall not be subject to repayment at the option of the Holders, in whole or in part, prior to maturity. The Securities shall not be subject to any sinking fund.

The Securities are redeemable by the Bank, in whole or in part, on any Interest Payment Date on or after July 30, 2022.

The Securities are also redeemable by the Bank, in whole but not in part, at any time upon the occurrence of one of the following:

- (i) a “tax event,” which means the receipt by the Bank of an opinion of independent tax counsel to the effect that, as a result of (a) an amendment to or change (including any announced prospective amendment or change) in any law or treaty, or any regulation thereunder, of the United States or any of its political subdivisions or taxing authorities, (b) a judicial decision, administrative action, official administrative pronouncement, ruling, regulatory procedure, regulation, notice or announcement, including any notice or announcement of intent to adopt or promulgate any ruling, regulatory procedure or regulation, (c) an amendment to or change in any official position with respect to, or any interpretation of, an administrative or judicial action or a law or regulation of the United States that differs from the previously generally accepted position or interpretation, or (d) a threatened challenge asserted in writing in connection with an audit of the Bank’s federal income tax returns or positions or a similar audit of any of the Bank’s subsidiaries or a publicly known threatened challenge asserted in writing against any other taxpayer that has raised capital through the issuance of securities that are substantially similar to the Securities, in each case, occurring or becoming publicly known on or after the date of the issuance of the Securities, there is more than an insubstantial risk that the interest payable on the Securities is not, or within 90 days of receipt of such opinion of tax counsel, will not be, deductible by the Bank, in whole or in part, for U.S. federal income tax purposes;
- (ii) a “capital event,” which means the good faith determination by the Bank that, as a result of (a) any amendment to or change (including any announced prospective amendment or change) in the laws or any regulations thereunder of the United States or any rules, guidelines or policies of an applicable regulatory authority for the Bank or (b) any final official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which pronouncement or decision is made, adopted, approved or effective on or after the Issue Date, the Securities do not constitute, or within 90 days of such determination will not constitute, Tier 2 capital (or its then equivalent if the Bank is subject to such capital requirement) for purposes of capital adequacy rules of the FDIC (or any successor regulatory authority), as then in effect and applicable to the Bank; or
- (iii) an “investment company event,” which means the Bank becoming required to register as an investment company pursuant to the Investment Company Act of 1940, as amended.

Any redemption of the Securities will be at a redemption price equal to the principal amount of the Securities redeemed, plus accrued and unpaid interest on such Securities to, but excluding, the date of redemption. Any partial redemption will be made pro rata among all of the holders of the Securities. Any redemption of the Securities would require prior approval of the FDIC.

The Bank will give irrevocable notice of its intention to redeem the Securities not more than 60 nor less than 30 days prior to the date fixed for redemption.

From and after any redemption date, if monies for the redemption of Securities will have been made available for redemption on the redemption date, the Securities will cease to bear interest, if applicable, and the only right of the holders of the Securities shall be to receive payment of the principal amount and, if appropriate, all unpaid interest accrued to the redemption date.

Consolidation, Merger and Sale of Assets

The Bank shall not consolidate with or merge into any other entity or convey, transfer or lease its assets substantially as an entirety to any entity, unless the successor expressly assumes the Bank's obligations on the Securities.

Miscellaneous

Beneficial interests represented by this Security are exchangeable for definitive Securities in registered form, of like tenor and of an equal aggregate principal amount, only if (i) the Depositary notifies the Bank in writing that it is unwilling or unable to act as a depositary or the Depositary ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, and a successor depositary is not appointed by the Bank within 90 days, (ii) the Bank, at its option, notifies the Issuing and Paying Agent in writing that it elects to cause the issuance of Securities in definitive form or (iii) any event shall have occurred and be continuing that, after notice or lapse of time or both, would constitute an Event of Default with respect to the Securities. In such circumstances, upon surrender by the Depositary or a successor depositary of the Global Security, Securities in definitive form will be issued to each person that the Depositary or a successor depositary identifies as the beneficial owner of the related Securities. Any Security representing such beneficial interests that is exchangeable pursuant to this paragraph shall be exchangeable in whole for definitive Securities in registered form, of like tenor and of an equal aggregate principal amount, in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. Such definitive Securities shall be registered in the name or names of such person or persons as the Depositary shall instruct the Security Registrar (as defined below).

In case any Security shall at any time become mutilated, destroyed, lost or stolen and such Security or evidence satisfactory to the Bank of the loss, theft or destruction thereof (together with indemnity satisfactory to the Issuing and Paying Agent and the Bank and such other documents or proof as may be required by the Issuing and Paying Agent and the Bank) shall be delivered to the Issuing and Paying Agent and the Bank, a new Security of like tenor will be issued by the Bank in exchange for the Security so mutilated, or in lieu of the Security so destroyed or lost or stolen. All expenses and reasonable charges associated with procuring the indemnity referred to above and with the preparation, authentication and delivery of a new Security shall be borne by the Holder of the Security so mutilated, destroyed, lost or stolen. If any Security which has matured or is about to mature shall become mutilated, destroyed, lost or stolen, the Bank may, instead of issuing a substitute Security, pay or authorize the payment of

the same (without surrender thereof except in the case of a mutilated Security) upon compliance by the Holder thereof with the provisions of this paragraph.

The Bank shall cause to be kept at the office of the Security Registrar designated below a register (the register maintained in such office or any other office or agency of the Bank in the Place of Payment herein referred to as the “Security Register”) in such form as the Security Registrar may determine, in which, subject to reasonable regulations as it may prescribe, the Security Registrar shall provide for the registration of the Securities and of transfers of the Securities. The Bank has initially appointed the Issuing and Paying Agent as “Security Registrar,” pursuant to the Issuing and Paying Agency Agreement, for the purposes of registering the Securities and transfers of the Securities as herein provided.

The transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Bank in the Place of Payment, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Bank and the Issuing and Paying Agent duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

No service charge shall be made for any such registration of transfer or exchange, but the Bank may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Issuing and Paying Agent shall record any transfer of this Security that the Bank has approved, it being understood that such approval shall be based solely on matters relating to compliance with federal and state securities laws. Prior to due presentment of this Security for registration of transfer, the Bank, the Issuing and Paying Agent and any agent of the Bank or the Issuing and Paying Agent may treat the person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security is overdue, and neither the Bank, the Issuing and Paying Agent nor any such agent shall be affected by notice to the contrary.

No recourse shall be had for the payment of principal or interest on this Security, for any claim based hereon, or otherwise in respect hereof, against any shareholder, employee, agent, officer or director, as such, past, present or future, of the Bank or any successor corporation. No provision of this Security shall alter or impair the obligation of the Bank, which is absolute and unconditional, to pay the principal of and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

Any money that the Bank pays to the Issuing and Paying Agent for the purpose of making payments on this Security and that remains unclaimed two years after the payments were due will, at the Bank’s request, be returned to it. After that time, the Holder can only look to the Bank for payment on this Security.

All notices under this Security shall be in writing and in the case of the Bank, addressed to the Bank at:

TowneBank
6001 Harbour View Boulevard
Suffolk, Virginia 23435
Attention: Chief Legal Officer
Facsimile No.: (757) 484-4591

or, in the case of the Issuing and Paying Agent at:

U.S. Bank National Association
James Center Two
1021 East Cary Street, Suite 1850
Richmond, Virginia 23219
Attention: Global Corporate Trust Services

or to such other address of the Issuing and Paying Agent as the Issuing and Paying Agent may notify the holders of the Securities. All notices to the Holder of this Security will be given to the address of the Holder as it appears in the Security Register.

This Security shall be governed by and construed in accordance with the laws of the State of New York and, where applicable, the federal laws of the United States of America.

ASSIGNMENT FORM

To assign this Security, fill in the form below: (I) / (we) assign and transfer this Security to:

(Print or type assignee's name, address and zip code)

(Insert assignee's social security or tax I.D. No.)

and irrevocably appoint _____ agent to transfer this Subordinated Note on the books of the Company. The agent may substitute another to act for him.

Date: _____

Your signature: _____
(Sign exactly as your name appears on the face of this Security)

Tax Identification No: _____

Signature Guarantee: _____
(Signatures must be guaranteed by an eligible guarantor institution (banks, stockbroker's, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program), pursuant to Rule 17Ad-15 under the Securities Exchange Act of 1934.

31699776

Form of Issuing and Paying Agency Agreement

ISSUING AND PAYING
AGENCY AGREEMENT

between

TOWNEBANK,
as Issuer,

and

U.S. BANK NATIONAL ASSOCIATION,
as Issuing and Paying Agent and Note Registrar

July 17, 2017

THIS ISSUING AND PAYING AGENCY AGREEMENT, made and dated as of July 17, 2017 (this “Agreement”), between TowneBank, a Virginia chartered commercial bank, as Issuer (the “Issuer”) and U.S. Bank National Association, as the Issuing and Paying Agent and Note Registrar (hereinafter sometimes called, in each such capacity, the “Agent”).

WHEREAS, Issuer proposes initially to issue \$250,000,000 aggregate principal amount of its 4.50% Fixed-to-Floating Rate Subordinated Notes due 2027 in the form attached hereto as Exhibit A (the “Bank Notes”) in transactions that are exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”) pursuant to Section 3(a)(2) of the Securities Act, pursuant to the offering circular, dated July 12, 2017 (the “Offering Circular”).

NOW, THEREFORE, in consideration of the covenants and agreements made herein, the parties hereto agree as follows:

Section 1. Definitions. The words and terms used herein unless otherwise defined herein shall have the respective meanings assigned to such terms in the Bank Notes.

Section 2. Appointment and Acceptance. The Issuer hereby appoints U.S. Bank National Association as Issuing and Paying Agent and Note Registrar with respect to the Bank Notes, upon the terms and conditions set forth herein, and U.S. Bank National Association hereby accepts such appointment and agrees to perform all of the duties of Issuing and Paying Agent and Note Registrar in accordance with the terms of the Bank Notes and this Agreement.

Section 3. Form of Note Certificates. The Issuer shall deliver to the Agent completed Bank Notes executed by manual or facsimile signature of an officer of the Issuer duly authorized to execute the Bank Notes together with an order requesting the Agent to authenticate such Bank Notes (an “Authentication Order”). Such Bank Notes will be in such form as the Issuer shall deliver to the Agent.

Any Bank Note bearing the manual or facsimile signature of a person who is duly authorized to execute such Bank Note on the date such signature is affixed shall bind the Issuer after the completion thereof by the Agent notwithstanding that such person shall have ceased to hold his or her office on the date such Bank Note is authenticated and delivered by the Agent.

Unless the Issuer notifies the Agent to the contrary, all Bank Notes will be represented by one note certificate, hereinafter called the "Global Note." The Global Note shall be registered in the name of a nominee of The Depository Trust Company ("DTC"), as Depositary. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants.

Section 4. Certificate of Authorized Representatives of the Issuer. The Issuer shall furnish the Agent with a certificate of the Issuer certifying the incumbency and specimen signatures of representatives of the Issuer authorized to instruct the Agent regarding the completion and delivery of the Bank Notes (each, an "Authorized Representative"). The Agent shall have no responsibility to the Issuer to determine whether a signature of an Authorized Representative is genuine if such signature resembles the specimen signature of such Authorized Representative on such certificate.

Section 5. Duties of Issuing Agent: Completion, Authentication and Delivery.

(a) The Global Note shall be issued and delivered in accordance with the Blanket Letter of Representations from the Issuer to DTC. All instructions regarding the completion and delivery of the Global Note shall be given by an Authorized Representative by facsimile or other means acceptable to the Agent. All Authentication Orders with respect to the completed Global Note delivered for authentication to the Agent shall be in writing and shall be executed by an Authorized Representative. Upon receipt of instructions as described above, the Agent shall:

(1) manually authenticate the Global Note by any one of the officers or employees of the Agent duly authorized and designated by it for such purpose; and

(2) deliver the Global Note to DTC or hold the Global Note as custodian for DTC.

(b) The Agent shall incur no liability in acting hereunder upon any instructions or Authentication Order contemplated hereby which the Agent believed in good faith to have been given by an Authorized Representative.

(c) Each instruction or Authentication Order given to the Agent in accordance with this Section 5 shall constitute a representation and warranty to the Agent by the Issuer that the issuance and delivery of the Bank Note or Notes to which the instruction or Authentication Order relates have been duly and validly authorized by the Issuer, that such Bank Note or Notes when completed, authenticated and delivered pursuant hereto, will constitute the legal, valid and binding obligations of the Issuer, and that the Agent's appointment to act for the Issuer hereunder has been duly authorized by all necessary corporate action of the Issuer.

Section 6. Duties of Note Registrar: Registration, Registration of Transfer and Exchange. The Agent, in its capacity as Note Registrar, shall, so long as any of the Bank Notes remain outstanding, subject without limitation to Section 3 above, maintain all records as may be customary or provided to it and shall:

(a) Keep at its Paying Agent Office in St. Paul, Minnesota (the “Paying Agent Office”), a register (the “Note Register”) in such form as the Agent may determine, in which, subject to reasonable regulations as it may prescribe, it shall provide for the registration of Bank Notes and of transfers of Bank Notes;

(b) Maintain records showing for each outstanding Bank Note the principal amount and other terms thereof; all subsequent transfers and changes of ownership thereof; and the name, address and tax identification number of the registered holder of such Bank Note (each, a “Holder”);

(c) Record any transfer of Bank Notes the Issuer has approved, it being understood that such approval shall be based solely on matters relating to compliance with federal and state securities laws;

(d) Prepare all such lists of Holders as may be required by the Issuer or any person needing such information and so authorized in writing by the Issuer; and

(e) During regular office hours and upon reasonable prior written notice, make the Note Register available to the Issuer or the Issuer’s duly appointed employee or agent; provided that the Agent shall have no responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests, and it shall be fully protected in acting or refraining from acting on any such information provided by DTC.

The Issuer, the Agent and any agent of the Issuer or the Agent may treat the person in whose name a Bank Note is registered (which in the case of a Global Note, shall be DTC or its nominee) as the absolute owner and holder of such Bank Note for all purposes whatsoever, and none of the Issuer, the Agent and any agent of any of them shall be affected by notice to the contrary. Any reference herein and in any Bank Note to the term “holder” of a Bank Note or “registered holder” shall be to the person in whose name a Bank Note is registered in the register maintained for such purposes pursuant to Section 6 hereof. Neither any members of, or participants in, DTC (“Agent Members”) nor any other persons on whose behalf Agent Members may act shall have any rights under this Agreement with respect to any Global Note registered in the name of DTC or any nominee thereof, or under any such Global Note. Notwithstanding the foregoing, nothing herein shall prevent the Issuer, the Agent or any agent of the Issuer or the Agent from giving effect to any written certification, proxy or other authorization furnished by DTC or such nominee, as the case may be, or impair, as between DTC, its Agent Members and any other person on whose behalf an Agent Member may act, the operation of customary practices of such persons governing the exercise of the rights of a holder of any Global Note. Neither the Agent nor the Issuer shall have any responsibility for any actions taken or not taken by DTC.

Upon surrender for registration of transfer of any Bank Note at the Paying Agent Office, the Issuer shall execute, and the Agent shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bank Notes of authorized denominations (which in no case may be less than \$1,000 and integral multiples of \$1,000 in excess thereof) and of a like tenor and aggregate principal amount; provided that, unless and until it is exchanged in whole or in part for individual Bank Notes represented thereby, the Global Note may not be transferred except as a whole by DTC to a nominee of DTC, or by a nominee of DTC to DTC or another nominee of DTC, or by DTC or any such nominee to a successor depositary or a nominee of such successor depositary.

If (i) DTC notifies the Issuer in writing that it is unwilling or unable to act as Depositary or DTC ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, and a successor depositary is not appointed by the Issuer within 90 days, (ii) the Issuer, at its option, notifies the Agent in writing that it elects to cause the issuance of Bank Notes in definitive form or (iii) any event shall have happened and be continuing that, after notice or lapse of time or both, would constitute an Event of Default with respect to the Bank Notes, then, upon surrender by DTC or a successor depositary of the Global Notes, the Agent shall authenticate and deliver Bank Notes, upon receipt of instructions from the Issuer, of like tenor and terms in definitive form in an aggregate principal amount equal to the principal amount of the Global Note outstanding in exchange for such Global Note, to each person that DTC or a successor depositary identifies as the beneficial owner of the related Bank Notes.

Upon the exchange of the Global Note for Bank Notes in definitive form upon the occurrence of any of the events described above, the Global Note shall be cancelled by the Agent. Bank Notes issued in exchange for the Global Note shall be registered in such names and in such authorized denominations, and delivered to such addresses, as DTC, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Agent in writing. The Agent shall deliver such Bank Notes to the persons in whose names such Bank Notes are registered or to DTC, in fully registered form without coupons in denominations of \$1,000 or any amount in excess thereof that is an integral multiple of \$1,000.

In case any Bank Note shall at any time become mutilated, destroyed, lost or stolen and such Bank Note or evidence satisfactory to the Issuer of the loss, theft or destruction thereof (together with indemnity satisfactory to the Agent and the Issuer, payment of the reasonable expenses and charges of the Agent in connection therewith, evidence of the ownership of such Bank Note, an appropriate bond of indemnity in form, substance and amount satisfactory to the Agent, and such other documents or proof as may be required by the Agent and the Issuer) shall be delivered to the Agent and the Issuer, the Agent shall authenticate and deliver, upon receipt of instructions from the Issuer, a new Bank Note of like tenor in exchange for the Bank Note so mutilated, or in lieu of the Bank Note so destroyed or lost or stolen. If the mutilated, destroyed, lost or stolen Bank Note has already matured or been called for redemption in accordance with its terms, it shall not be necessary to issue a new Bank Note prior to payment, provided that the owner shall first provide the Agent with a bond of indemnity as set forth above.

Section 7. Duties of Paying Agent: Payment of Bank Notes.

(a) Payment of principal (and premium, if any) and interest on the Bank Notes shall be made by the Agent in the manner and on the dates specified in the Bank Notes from funds deposited by the Issuer with the Agent for such payments as provided in Section 10. The Agent shall have no obligation to use its own funds for any such payment of principal, premium, if any, or interest on the Bank Notes. Payments due at the maturity or redemption of a Bank Note shall be made only upon presentation and surrender of such Bank Note. Any money that the Issuer pays to the Agent for the purpose of making payments on the Bank Notes and that remains unclaimed two years after the payments were due will, at the Issuer's written request, be returned to it. After that time any Holders of such Bank Notes can only look to the Issuer for payment on such Bank Notes.

(b) The Issuer may appoint a calculation agent (the "Calculation Agent"), which Calculation Agent will determine the interest rate for each Interest Period (as defined in the Bank Note) that the Bank Notes shall accrue interest at a floating rate in accordance with the terms of the Bank Notes. The Calculation Agent shall determine the interest rate in accordance with the terms of the Bank Notes and absent manifest error, such interest determination shall be binding and conclusive on the holders of the Bank Notes and the Issuer. On the second Business Day before each Interest Period (as defined in the Bank Note), the Calculation Agent will determine and notify the Issuer of the interest rate for each applicable Interest Period; provided, however, the Agent shall have no responsibility to determine or calculate any premium due on the Bank Notes or a make-whole amount due and owing on the Bank Notes, if any. On the date hereof and unless and until the Issuer appoints a new Calculation Agent, the Agent shall serve as Calculation Agent, subject to terms and conditions mutually acceptable to the Issuer and the Agent. If at any time the Agent is not acting as the Calculation Agent with respect to the Bank Notes, the Agent will give any appointed Calculation Agent, which may include the Issuer, written notice of each Interest Payment Date with respect to such Note at least ten Business Days prior to such Interest Payment Date.

Section 8. Optional Redemption. In the event the Issuer elects to redeem any Bank Notes in whole or in part, the Issuer shall give written notice to the Agent of the principal amount of such Bank Notes to be so redeemed in accordance with the terms set forth in the Bank Notes. In any such written notice, (a) if certificated notes are to be redeemed, the Issuer shall identify such notes by specifying the interest rate or formula pursuant to which interest is calculated on such notes, the Interest Payment Dates, the stated maturity date and redemption terms or (b) if book-entry notes are to be redeemed, the Issuer shall identify such notes by specifying the CUSIP number assigned to the Global Note or notes representing such notes. The Agent shall cause any such notice of redemption to be forwarded to the Holders of the Bank Notes to be redeemed in accordance with the terms set forth in the Bank Notes in the name and at the expense of the Issuer. Whenever less than all of the Bank Notes of like tenor and terms are to be redeemed, (a) if such Bank Notes are Global Notes held by the Agent as custodian for the Depositary or its nominee, the Agent shall reduce the principal amount of one or more Global Notes, by the amount of such redemption, by means of an appropriate adjustment on the records of the Agent, subject to the rules and procedures of the Depositary, or (b) in the case of all other Bank Notes, the Agent shall select the Bank Notes to be so redeemed ratably among Holders. Any Bank Note which is to be redeemed in part only pursuant to clause (b) of the preceding sentence shall be surrendered to the Paying Agent Office, and the Issuer shall execute, and upon receipt of instructions from an Authorized Representative of the Issuer, the Agent shall

authenticate and deliver to the Holder of such Bank Note, without service charge, a new Bank Note of like tenor and terms, of any authorized denomination as requested by such Holder, in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of such Bank Note so surrendered.

Section 9. Proceeds of Sale of Bank Notes. Proceeds received in payment for Bank Notes are to be in immediately available funds and shall be immediately credited to an account established hereunder and designated in writing by the Issuer to the Agent and maintained by the Issuer. Subject to the availability of funds, upon receipt of instructions from an Authorized Representative of the Issuer, proceeds from the sale of Bank Notes may, prior to the time such proceeds are received, be used in payment of the principal of (and premium, if any) and interest on, other Bank Notes of the Issuer presented for payment on the Maturity Date or any earlier date on which the principal thereof is due and payable, or be transferred for credit to the account of the Issuer at another bank.

Section 10. Deposit of Funds. Simultaneously with the execution and delivery of this Agreement, the Agent shall establish the following accounts: (i) Note Proceeds Account for the proceeds from the sale of the Bank Notes; (ii) Principal Account; (iii) Interest Account; (iii) Premium Account; and (iv) Redemption Account. If and when additional Bank Notes are issued, additional accounts may be established. During the term of this Agreement, the Agent shall have no obligation to invest or reinvest any monies deposited or received hereunder. While the Bank Notes are represented by Global Notes registered to DTC, the Issuer shall deposit with the Agent by 10:30 a.m., New York time (i) on the business day prior to each Interest Payment Date (as such term is defined in such Bank Note) of a Bank Note an amount in immediately available funds sufficient to pay the interest due on such date and (ii) on the business day prior to the Maturity Date (as such term is defined in such Bank Note) or earlier redemption date an amount in immediately available funds sufficient to pay the principal of such Bank Note (the premium due thereon, if any) and the interest accrued thereon to, but excluding, such Maturity Date or redemption date, as the case may be. Payments for Bank Notes not held as a Global Note shall be made to the Agent at least two business days prior to the relevant payment date. The Agent shall clearly identify in its books and records funds relating to the Bank Notes. Notwithstanding any provision elsewhere contained herein, payments by the Agent shall be made only out of amounts deposited with the Agent with respect to such payment. In the event the amount deposited with respect to a payment date is less than the sum of the aggregate amounts needed to make the payments due on such payment date, the Agent shall immediately notify the Issuer, and shall effect no payments with respect to such payment date until such discrepancy has been resolved. Until paid as hereinafter provided, the Agent shall hold such amounts in trust for the benefit of the holders of the Bank Notes.

Section 11. Fees and Expenses of the Agent. The Issuer shall pay such fees and expenses of the Agent for the performance of its duties as Issuing and Paying Agent and Note Registrar hereunder as may be mutually agreed upon from time to time in writing and the Issuer agrees promptly to pay such compensation and to reimburse the Agent for the reasonable out-of-pocket documented expenses (including reasonable counsel fees and expenses) incurred by it in connection with or arising out of its services hereunder, except any such expense, disbursement or advance as may be attributable to its negligence or willful misconduct, and the Agent shall provide the Issuer reasonable notice of any expenditure not in the ordinary course of business.

Upon the issuance of any additional Bank Notes, the Issuer agrees to pay to the Agent its fees, costs and expenses, including those of its counsel, and any additional increase to the Agent's annual administration fee to be agreed upon between the Issuer and the Agent.

Section 12. Conditions. The Agent accepts its obligations herein set forth upon the terms and conditions hereof, including the following, to all of which the Issuer agrees:

(a) Agency. The Agent shall not be liable for any costs, expenses, damages, liabilities or claims hereunder except to the extent directly arising out of the Agent's negligence or willful misconduct, as finally determined by a court of competent jurisdiction. In acting under this Agreement and in connection with the Bank Notes, the Agent is acting solely as agent of the Issuer and does not assume any responsibility for the correctness of the recitals in the Bank Notes (except for the correctness of the statement in its certificate of authentication thereon) or any obligation or relationship of agency or trust, for or with any of the owners or holders of the Bank Notes. Nothing herein this Agreement shall create a fiduciary relationship between the Agent, any holders of Bank Notes or any other party.

(b) Advice of Counsel. The Agent may consult with independent counsel satisfactory to it, and the advice or opinion of such counsel shall be full and complete authorization in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) Reliance. The Agent may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond debenture, note, other evidence of indebtedness or other paper or document delivered to it or believed by it to be genuine and to have been signed or presented by the proper party or parties. The Agent shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document.

(d) Interest in Notes, etc. The Agent, in its individual or any other capacity, may become the owner or pledgee of the Bank Notes and may otherwise deal with the Issuer with the same rights as it would have if it were not the Agent.

(e) Non-Liability for Interest. The Agent shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Issuer.

(f) Certifications. Whenever in the administration of this Agreement the Agent shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Agent (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate delivered to the Agent and signed by the President, the Chief Executive Officer, the Chief Financial Officer, an Executive Vice President, the Treasurer, the Corporate Secretary, an Assistant Secretary or any Attorney-in-Fact of the Issuer.

(g) No Implied Obligations. The duties and obligations of the Agent with respect to matters governed by this Agreement shall be determined solely by the express

provisions hereof, and the Agent shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Agreement and the Bank Notes, as applicable, and no implied covenants or obligations shall be read into this Agreement or the Bank Notes against the Agent. No provision of this Agreement shall require the Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(h) Enforceability of Rights. The rights, privileges, protections, immunities and benefits given to the Agent, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Agent in each of its capacities hereunder, and to each agent, custodian and other person employed to act hereunder.

(i) Agents. The Agent may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Agent shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

(j) Occurrences Beyond Reasonable Control. In no event shall the Agent be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services (it being understood that the Agent shall maintain a business continuity plan and otherwise use reasonable efforts which are consistent with accepted practices in the banking industry to avoid and mitigate the effects of such occurrences and to resume performance as soon as practicable under the circumstances).

(k) Damages. In no event shall the Agent be responsible or liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) even if the Agent has been advised of the likelihood of such loss or damage and regardless of the form of action. The Agent may seek adjudication, including by way of interpleader, at the Issuer's expense, of any adverse claim or controversy hereunder in a court of competent jurisdiction.

(l) Disclaimer. The recitals contained herein and in the Bank Notes, except the Agent's certificates of authentication, shall be taken as the statements of the Issuer, and the Agent (or any person authorized by the Agent to act on behalf of the Agent to authenticate the Bank Notes (an "Authenticating Agent")) assumes no responsibility for their correctness. The Agent makes no representations as to the validity or sufficiency of this Agreement or of the Bank Notes. The Agent or any Authenticating Agent shall not be accountable for the use or application by the Issuer of the Bank Notes or the proceeds thereof.

(m) Judicial Orders. If at any time the Agent is served with any judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process

which in any way affects this Agreement or the Bank Notes (each, an “Order” and including, but not limited to, orders of attachment or garnishment or other forms of levies or injunctions or stays relating to the transfer of funds), the Agent shall use reasonable efforts to provide the Issuer with written notice of Agent’s receipt of service as promptly as practicable under the circumstances (unless prohibited by applicable law or such Order), so that Issuer may, at its option, decide whether to seek a modification of any such Order. The Agent agrees that it will reasonably cooperate in all reasonable respects with Issuer’s efforts to obtain such modification. The Agent is authorized to comply with any such Order (regardless of whether Issuer successfully obtains a modification of the Order should it seek to do so) in any manner as the Agent or its legal counsel of its own choosing deems appropriate; provided, however, that Agent shall delay compliance with an Order until any proceedings instituted by Issuer seeking modification of the Order have been resolved or until (based on the advice of Agent’s legal counsel) further delay in complying with the Order would expose Agent to penalties or sanctions for its failure to comply or would adversely affect the Agent’s ability to comply. If the Agent complies with any Order in accordance with the provisions of this paragraph, the Agent shall not be liable to any of the parties hereto or to any other person or entity even though such Order may be subsequently modified or vacated or otherwise determined to have been without legal force or effect.

(n) Taxes. In order to comply with applicable tax laws (inclusive of rules, regulations and interpretations promulgated by competent authorities) related to this Agreement and Bank Notes in effect from time to time (“Applicable Law”) that a foreign financial institution, issuer, trustee, paying agent or other party is or has agreed to be subject to, the Issuer agrees (i) to provide to the Agent sufficient information about the parties and/or transactions (including any modification to the terms of such transactions) so the Agent can determine whether it has tax related obligations under Applicable Law and (ii) that the Agent shall be entitled to make any withholding or deduction from payments to the extent necessary to comply with Applicable Law for which the Agent shall not have any liability. The terms of this section shall survive the termination of this Agreement.

(o) Calculations. Except as otherwise provided herein, the Agent shall not be responsible for and accepts no liability with respect to determining, calculating or confirming any date, value or amount related to the Bank Notes. It shall be the responsibility of the Issuer to notify the Agent in writing of same in timely fashion to the extent the Issuer has such information and to the extent the Agent is required to have such information to perform the duties and obligations of the Agent set forth herein or in the Bank Notes.

Section 13. Indemnification.

(a) Notwithstanding any satisfaction or discharge of any Bank Notes, the Issuer shall indemnify the Agent and its directors, officers, agents and employees (each an “Indemnified Person”) against any and all loss, liability, costs, damages, claims, actions, expenses or demands which it may incur or sustain or which may be made against it in connection with its appointment or the exercise of its powers and duties hereunder as well as the reasonable and documented costs, including the expenses and fees of counsel in defending any claim, action or demand (regardless of whether such claim, action or demand is brought by the Issuer), except such as may result from the Agent’s willful misconduct or negligence. The Agent

shall incur no liability and shall also be indemnified and held harmless by the Issuer for, or in respect of, any actions taken or suffered to be taken in good faith by the Agent in accordance herewith and in reliance upon the written (i) opinion or advice of counsel or (ii) instructions that are believed, in good faith, to be duly authorized by the Issuer.

(b) Each Indemnified Party shall give prompt notice to the Issuer of any action commenced against it in respect of which indemnity may be sought hereunder. The Issuer shall have no liability for indemnity hereunder with respect to an action commenced against an Indemnified Party where such Indemnified Party failed to give notice to the Issuer of such action; provided, however, failure so to notify the Issuer shall not relieve the Issuer from any liability which it may otherwise have on account of this indemnity agreement. The Issuer shall be entitled to assume the defense of any such action; provided, however, that the Indemnified Party shall have the right prior to the employing of any counsel by the Issuer in connection with its assumption of such defense to consent to any such counsel, which consent shall not be unreasonably withheld; provided, further that if any Indemnified Party is advised in an opinion of counsel that there may be legal defenses available to such Indemnified Party which are adverse to or in conflict with those available to the Issuer, the Issuer shall not have the right to assume the defense of such action, but shall be responsible for the reasonable fees and expenses of counsel retained by the Indemnified Party in accordance with the terms hereof. The Issuer may participate at its own expense in the defense of such action. In no event shall the Issuer be liable for the fees and expenses of more than one counsel (in addition to any local counsel) for all Indemnified Parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. Notwithstanding anything herein to the contrary, the Issuer shall not be liable for any settlement of any action without its consent, which consent shall not be unreasonably withheld.

Section 14. Resignation or Removal of the Agent.

(a) Except as provided below, the Agent may at any time resign as Note Registrar, as Issuing Agent or as Paying Agent by giving written notice to the Issuer of its intention to resign from any or all such offices, specifying the date on which its desired resignation shall become effective; provided that such notice shall be given not less than 45 days prior to the said effective date unless the Issuer otherwise agrees in writing. Except as provided below, the Agent may be removed from any or all of the offices to which it is hereby appointed by the Issuer delivering to the Agent an instrument in writing signed by the Issuer specifying such removal and the date when it shall become effective (such effective date being at least 20 days after said filing).

(b) If at any time the Agent shall resign or be removed from any or all of the offices to which it is hereby appointed, then a successor Note Registrar, Issuing Agent or Paying Agent, as the case may be, shall be appointed by the Issuer by an instrument in writing delivered to the successor Note Registrar, Issuing Agent or Paying Agent, as the case may be. Upon the appointment as aforesaid of a successor Note Registrar, Issuing Agent or Paying Agent, as the case may be, and acceptance by the latter of such appointment, the former Note Registrar, Issuing Agent or Paying Agent, as the case may be, shall cease to hold such office.

(c) Any successor Note Registrar, Issuing Agent or Paying Agent appointed hereunder shall execute and deliver to its predecessor and the Issuer an instrument accepting such appointment hereunder, and thereupon such successor Note Registrar, Issuing Agent or Paying Agent, without any further act, deed or conveyance, shall become vested with all the authority, rights, powers, immunities, duties and obligations of such predecessor with like effect as if originally named as the Note Registrar, Issuing Agent or Paying Agent hereunder, and such predecessor shall thereupon become obligated to transfer and deliver, and such successor shall be entitled to receive, copies of any relevant records maintained by such predecessor Note Registrar, Issuing Agent or Paying Agent.

(d) Any corporation into which the Agent may be merged or converted or any corporation with which the Agent may be consolidated or any corporation resulting from any merger, conversion or consolidation to which the Agent shall be a party shall, to the extent permitted by applicable law, be the successor Note Registrar, Issuing Agent or Paying Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto. Notice of any such merger, conversion or consolidation shall forthwith be given to the Issuer.

(e) The provisions of Sections 11 and 13 hereof shall survive any resignation or removal hereunder and the termination of this Agreement with respect to matters occurring prior to any such resignation or removal and the termination of this Agreement.

Section 15. Payment Failure and Event of Default Notification. The Issuer will promptly notify the Agent upon the occurrence of a Payment Failure or an Event of Default or of the curing of a Payment Failure or an Event of Default, and the Issuer will provide copies of any such notice of the occurrence of a Payment Failure or an Event of Default or the curing of a Payment Failure or an Event of Default to the Agent, whereupon the Agent will promptly mail by first-class mail, postage prepaid, or otherwise provide through the facilities of DTC, copies of such notice to the Holders of the Bank Notes in the Note Register at their respective addresses appearing in the Agent's records. The Agent shall have no obligation to act as a fiduciary to the Holders of the Bank Notes (or any other party) and shall have no duty to enforce this Agreement or the Bank Notes against the Issuer.

Section 16. Notices. All notices, instructions and communications between the parties hereto in connection with this Agreement shall be delivered in person, sent by letter, facsimile or other method acceptable to the recipient, in the case of the Issuer, to it at 6001 Harbour View Boulevard, Suffolk, Virginia 23435, Attention: Chief Legal Officer, and in the case of the Agent, to it at James Center II, 1021 East Cary Street, Suite 1850, Richmond, Virginia 23219, Attention: Global Corporate Trust Services.

The Agent shall have the right to rely upon and comply with instructions and directions sent by e-mail, facsimile and other similar unsecured electronic methods by persons believed by the Agent to be authorized to give instructions and directions on behalf of the Issuer. The Agent shall not have any duty or obligation to verify or confirm that the person who sent such instructions or directions is, in fact, a person authorized to give instructions or directions on behalf of the Issuer; and the Agent shall not have any liability for any losses, liabilities, costs or expenses incurred or sustained by the Issuer as a result of such reliance upon or compliance with

such instructions or directions. The Issuer agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Agent, including without limitation the risk of the Agent acting on unauthorized instructions, and the risk of interception and misuse by third-parties.

Section 17. Successors and Assigns. The rights, duties and obligations of the Issuer and the Agent hereunder shall inure, without further act, to their respective successors and assigns.

Section 18. Amendments. This Agreement may be amended only by an instrument in writing signed by the Issuer and the Agent.

Section 19. Counterparts. This Agreement may be executed in one or more counterparts and, if executed in one or more counterparts, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

Section 20. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 21. Severability. In ease any provision in this Agreement or in the Bank Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 22. Waiver of Jury Trial. EACH OF THE AGENT AND THE ISSUER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE BANK NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 23. Jurisdiction. Each of the Agent and the Issuer submits to the jurisdiction of the courts of the State of New York over any suit, action or proceeding with respect to this Agreement or the transactions contemplated hereby. Each of the parties waives any objection that it may have to the venue of any suit, action or proceeding with respect to this Agreement or the transactions contemplated hereby in any court of the State of New York or that such suit, action or proceeding brought in a court of the State of New York was brought in an inconvenient court and agrees not to plead or claim the same.

Section 24. USA Patriot Act. The parties hereto acknowledge that, in accordance with Section 326 of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (as amended, modified or supplemented from time to time, the "USA Patriot Act"), the Agent, like all financial institutions, is required to obtain, verify, and record information that identified each person or legal entity that opens an account. The parties to this Agreement agree that they will provide the Agent with such information as the Agent may request in order for the Agent to satisfy the requirements of the USA Patriot Act.

Section 25. No Subordination. The obligations of the Issuer under Sections 11 and 13 to compensate and indemnify the Agent and to pay or reimburse the Agent for expenses, disbursements and advances shall not be subject to the subordination provisions of the Bank Notes.

Section 26. Documents to be Filed with the Agent. The Issuer shall file with the Agent: (a) a copy of the opinion of counsel of the Issuer provided in connection with the issuance of the Bank Notes and (b) such other documents as the Agent may request, including, if applicable, a specimen Bank Note and a copy of the Offering Circular and authorizing documents.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed
as of the day and year first above written.

TOWNEBANK,
as Issuer

By: _____
Name: _____
Title: _____

U.S. BANK NATIONAL ASSOCIATION,
as Issuing and Paying Agent and Note Registrar

By: _____
Name: _____
Title: _____

EXHIBIT A

FORM OF BANK NOTE



News Release

For more information contact:

G. Robert Aston, Jr., TowneBank Chairman and CEO, (757) 638-6780

William B. Littreal, TowneBank Chief Investor Relations Officer and CSO, (757) 638-6813

FOR IMMEDIATE RELEASE

TOWNEBANK ANNOUNCES PRICING OF \$250 MILLION OF 4.50% SUBORDINATED NOTES

Suffolk, VA, July 12, 2017 – (GLOBE NEWSWIRE) – TowneBank (NASDAQ: TOWN) today announced the pricing of \$250 million of its fixed-to-floating rate subordinated notes due 2027 (the “Notes”). The Notes will initially bear interest at a fixed rate of 4.50% per annum, payable semi-annually in arrears, commencing on July 17, 2017, to, but excluding, July 30, 2022, and, thereafter, payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined for the applicable quarterly period, plus 2.550%. The Notes will mature on July 30, 2027. The Notes will be issued at a price of 100% of the principal amount thereof.

TowneBank expects to use the net proceeds from the offering for general corporate purposes, which may include supporting its growth organically or through strategic acquisitions.

Sandler O’Neill + Partners, L.P. acted as sole book-running manager for the Notes offering.

The offering will be made only by means of an offering circular. Copies of the final offering circular may be obtained from Sandler O’Neill + Partners, L.P. at syndicate@sandleroneill.com or (866) 805-4128.

This press release is for informational purposes only and shall not constitute an offer to sell or a solicitation of an offer to buy the securities, nor shall there be any sale of the securities in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction. The securities are neither insured nor approved by the Federal Deposit Insurance Corporation (the “FDIC”).

About TowneBank

As one of the top community banks in Virginia and North Carolina, TowneBank operates 37 banking offices serving Chesapeake, Chesterfield County, Glen Allen, Hampton, James City County, Mechanicsville, Newport News, Norfolk, Portsmouth, Richmond, Suffolk, Virginia Beach, Williamsburg, and York County in Virginia, along with Moyock, Grandy, Camden County, Southern Shores, Corolla and Nags Head in North Carolina. Towne also offers a full range of

financial services through its controlled divisions and subsidiaries that include Towne Investment Group, Towne Insurance Agency, Towne Benefits, TowneBank Mortgage, TowneBank Commercial Mortgage, Berkshire Hathaway HomeServices Towne Realty, Towne1031 Exchange, LLC, and Beach Properties of Hilton Head. Local decision-making is a hallmark of its hometown banking strategy that is delivered through the leadership of each group's President and Board of Directors. With total assets of \$8.2 billion as of March 31, 2017, TowneBank is one of the largest banks headquartered in Virginia.

On April 27, 2017, TowneBank announced the signing of a definitive agreement to acquire Paragon Commercial Corporation and its wholly-owned bank subsidiary, Paragon Commercial Bank. Founded in Raleigh, North Carolina in 1999, Paragon Commercial Bank provides banking services through highly responsive professionals, an extensive courier service, online and mobile technologies, free worldwide ATM access and a select number of strategically placed offices in Raleigh, Cary and Charlotte, North Carolina. Pending customary regulatory and shareholder approvals, the merger is scheduled to close in January 2018. Based on financial data as of March 31, 2017, the combined company would have total assets of \$9.7 billion, gross loans of \$7.1 billion and total deposits of \$7.5 billion.

Forward-Looking Statements

Certain statements contained in this release constitute forward-looking statements within the meaning of U.S. federal securities laws. These forward-looking statements speak only as of the date of this release, are based on current expectations, and involve a number of assumptions. These include statements regarding TowneBank's future economic performance, financial condition, prospects, growth, strategies and expectations, and objectives of management, and are generally identified by the use of words such as "believe," "expect," "intend," "anticipate," "estimate," or "project" or similar expressions. TowneBank intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of these safe harbor provisions. You should not place undue reliance on forward-looking statements, which are subject to assumptions that are subject to change. TowneBank's ability to predict results, or the actual effect of future plans or strategies, is inherently uncertain. These forward-looking statements are subject to a number of factors and uncertainties that could cause actual results to differ from those indicated or implied in the forward-looking statements and such differences may be material. Factors which could have a material effect on the operations and future prospects of TowneBank include but are not limited to: changes in interest rates, general economic and business conditions; legislative/regulatory changes; the monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System; the quality and composition of TowneBank's loan and securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in TowneBank's market area; implementation of new technologies and the ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; changes in accounting principles, policies and guidelines; TowneBank's ability to complete and successfully integrate the business of Paragon Commercial Bank in the expected timeframe, if at all, and to achieve expected revenue synergies and cost savings from the merger; and other risk factors detailed from time to time in filings made by TowneBank with the FDIC. Any forward-looking statements are qualified in their entirety by reference to the factors discussed in the section titled "Risk Factors" in TowneBank's

final offering circular relating to this offering, including the documents incorporated by reference therein, and other risks described in documents subsequently filed by TowneBank with the FDIC from time to time. TowneBank undertakes no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.###

For more information contact:

G. Robert Aston, Jr., TowneBank Chairman and CEO, (757) 638-6780

William B. Littreal, TowneBank Chief Investor Relations Officer and CSO, (757) 638-6813



Source: TowneBank

TowneBank
Term Sheet

\$250,000,000

4.50% Fixed-to-Floating Rate Subordinated Notes due 2027

This Pricing Term Sheet dated July 12, 2017, to the Preliminary Offering Circular dated July 11, 2017, of TowneBank (the “Bank”) supplements, and is qualified in its entirety by, the Preliminary Offering Circular and supersedes the information in the Preliminary Offering Circular to the extent it is inconsistent with the information in the Preliminary Offering Circular. Capitalized terms used in this Pricing Term Sheet, but not defined herein, have the meanings given to them in the Preliminary Offering Circular.

Issuer:	TowneBank
Securities Offered:	4.50% Fixed-to-Floating Rate Subordinated Notes due 2027 (the “Subordinated Notes”)
Security Type:	§3(a)(2) exempt securities
Aggregate Principal Amount:	\$250,000,000
Rating:	Kroll Bond Rating Agency: BBB+
	A securities rating is not a recommendation to buy, sell or hold the Subordinated Notes. Any rating may be subject to revision or withdrawal at any time and should be evaluated independently of any other rating. No report of any rating agency is being incorporated herein by reference.
Trade Date:	July 12, 2017
Settlement Date:	July 17, 2017 (T+3)
Maturity:	July 30, 2027
Reference Benchmark:	UST 2.375% due May 15, 2027
Reference Benchmark Yield:	2.323%
Spread to Benchmark	217.7 basis points
Yield to Investors:	4.50%
Price to Public:	100%

Interest Rate:	From and including the original issuance date to, but excluding, July 30, 2022, a fixed rate per annum of 4.50%. From and including July 30, 2022, through maturity or earlier redemption, a floating rate per annum equal to three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero) plus 2.550%.
Interest Payment Dates:	Interest on the Subordinated Notes will be payable semi-annually in arrears on January 30 and July 30 of each year, beginning on January 30, 2018 and ending on July 30, 2022, and thereafter will be payable quarterly in arrears on January 30, April 30, July 30 and October 30 of each year, beginning on October 30, 2022, through maturity or earlier redemption of the Subordinated Notes. If any interest payment date falls on a day that is not a business day, interest will be paid on the next succeeding business day (and without any interest or other payment in respect of any such delay).
Day Count Convention:	30/360 to but excluding July 30, 2022, and, thereafter, a 360-day year and the number of days actually elapsed.
Optional Redemption:	The Bank may, at its option, beginning with the Interest Payment Date of July 30, 2022 and on any scheduled Interest Payment Date thereafter, redeem the Subordinated Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Subordinated Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption. Any partial redemption will be made pro rata among all of the holders.
Special Event Redemption:	The Subordinated Notes are redeemable by the Bank, in whole but not in part, at any time, including prior to July 30, 2022, if: (i) a change or prospective change in law occurs that could prevent the Bank from deducting interest payable on the Subordinated Notes for U.S. Federal income tax purposes, (ii) a subsequent event occurs that could preclude the Subordinated Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) the Bank is required to register as an investment company under the Investment Company Act of 1940, as amended, in each case, at a redemption price equal to the 100% of the principal amount of the Subordinated Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the date of redemption.
Denominations:	\$1,000 x \$1,000

Ranking:

The Subordinated Notes will be unsecured, subordinated obligations of the Bank and will: (i) rank junior in right of payment to all of its existing and future senior indebtedness, whether secured or unsecured, including claims of depositors and general creditors; (ii) rank equally in right of payment with any unsecured, subordinated indebtedness that it incurs in the future that rank equally with the Subordinated Notes; (iii) rank senior in right of payment to any indebtedness the terms of which provide that such indebtedness ranks junior to the Subordinated Notes; and (iv) be structurally subordinated to all existing and future indebtedness and liabilities of the Bank's existing and future subsidiaries.

The Subordinated Notes will not contain any limitation on the amount of debt, deposits or other obligations, secured and unsecured, ranking senior or equal in priority to the indebtedness evidenced by the subordinated notes that the Bank may incur hereafter.

The Subordinated Notes are not savings accounts or deposits of any bank and are not insured by the FDIC or any other agency.

CUSIP/ISIN:

89214P BD0 / US89214PBD06

Use of Proceeds:

The Bank intends to use the net proceeds of the offering for general corporate purposes, which may include supporting the Bank's growth organically or through strategic acquisitions.

Sole Book-Running Manager:

Sandler O'Neill + Partners, L.P.

Other information (including financial information) presented in the Preliminary Offering Circular is deemed to have changed to the extent effected by the changes described in this Pricing Term Sheet.

This material is strictly confidential and has been prepared solely for use in connection with the proposed offering of the Subordinated Notes described in the Preliminary Offering Circular. This material is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the securities. This material does not purport to be a complete description of the securities or the offering. Before you invest, you should read the Preliminary Offering Circular, including the documents incorporated by reference therein, for more complete information about the Bank and the offering.

The Subordinated Notes have not been, and are not required to be, registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws, and are being offered and sold in reliance upon an exemption from registration under Section 3(a)(2) of the Securities Act. This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor will there be any offer or sale of any securities in any state or other jurisdiction in which such offer, solicitation or sale would be unlawful.

OFFERING CIRCULAR

\$250,000,000
TOWNE BANK
4.50% Fixed-to-Floating Rate Subordinated Notes due 2027

TowneBank is offering \$250,000,000 aggregate principal amount of its 4.50% fixed-to-floating rate subordinated notes due 2027 (the “subordinated notes”). The subordinated notes will mature on July 30, 2027, if not previously redeemed.

The subordinated notes will bear interest at a fixed rate per annum of 4.50%, payable semi-annually in arrears on January 30 and July 30 of each year, beginning on January 30, 2018, to, but excluding, July 30, 2022. From and including July 30, 2022, the subordinated notes will bear interest at a floating rate per annum equal to three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero) plus 2.550% payable quarterly in arrears on January 30, April 30, July 30 and October 30 of each year, beginning on October 30, 2022, through maturity or earlier redemption of the subordinated notes.

The subordinated notes are redeemable by us, in whole or in part, beginning with the interest payment date of July 30, 2022 and on any scheduled interest payment date thereafter, or in whole but not in part, at any time upon the occurrence of a tax event, capital event or investment company event, in each case at 100% of the principal amount of the subordinated notes to be redeemed, plus accrued and unpaid interest on such subordinated notes to, but excluding, the redemption date. Any redemption of the subordinated notes will be subject to obtaining the prior written approval of the Federal Deposit Insurance Corporation (the “FDIC”).

The subordinated notes are not subject to repayment at the option of the holders and there is no sinking fund for the subordinated notes.

The subordinated notes will be our unsecured, subordinated obligations and will be subordinated in right of payment to all of our existing and future senior indebtedness, whether secured or unsecured, including claims of depositors and general creditors. The subordinated notes will be structurally subordinated to all existing and future indebtedness and liabilities of our subsidiaries and will rank equally in right of payment with any unsecured, subordinated indebtedness that we incur in the future that rank equally with the subordinated notes. For a more detailed description of the subordinated notes, see “Description of Subordinated Notes.”

Currently, there is no public trading market for the subordinated notes. We do not intend to list the subordinated notes on any securities exchange or to have the subordinated notes quoted on a quotation system.

	<u>Price to public (1)</u>	<u>Discounts</u>	<u>Proceeds to us (before expenses)</u>
Per Subordinated Note	100.0%	1.0%	99.0%
Total	\$250,000,000	\$2,500,000	\$247,500,000

(1) Plus accrued interest, if any, from the original issue date.

Investing in the subordinated notes involves risks. See “Risk Factors” beginning on page 12 to read about the risks that you should consider before investing in the subordinated notes.

THE SUBORDINATED NOTES ARE NOT SAVING ACCOUNTS OR DEPOSITS OF ANY BANK, ARE NOT INSURED OR GUARANTEED BY THE FDIC OR ANY OTHER GOVERNMENTAL AGENCY OR INSTRUMENTALITY AND ARE SUBJECT TO INVESTMENT RISKS, INCLUDING THE POSSIBLE LOSS OF THE ENTIRE AMOUNT YOU INVEST. THE SUBORDINATED NOTES ARE OBLIGATIONS OF TOWNEBANK ONLY AND ARE NOT OBLIGATIONS OF, AND ARE NOT GUARANTEED BY, ANY OF OUR SUBSIDIARIES OR AFFILIATES. THE SUBORDINATED NOTES ARE SUBORDINATED IN RIGHT OF PAYMENT TO OUR EXISTING AND FUTURE SENIOR INDEBTEDNESS, INCLUDING THE CLAIMS OF DEPOSITORS AND GENERAL CREDITORS, AS MORE FULLY DESCRIBED IN THIS OFFERING CIRCULAR.

NONE OF THE SECURITIES AND EXCHANGE COMMISSION (THE “SEC”), ANY STATE SECURITIES COMMISSION, THE FDIC, OR ANY OTHER FEDERAL OR STATE REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SUBORDINATED NOTES OR DETERMINED THAT THIS OFFERING CIRCULAR IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE SUBORDINATED NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. THE SUBORDINATED NOTES ARE BEING OFFERED AND SOLD PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY SECTION 3(a)(2) OF THE SECURITIES ACT.

The initial purchaser expects to deliver the subordinated notes to purchasers in book-entry form only through the facilities of The Depository Trust Company (“DTC”) for the accounts of its participants against payment in New York, New York, on or about July 17, 2017.

SANDLER O’NEILL + PARTNERS, L.P.

The date of this offering circular is July 12, 2017

TABLE OF CONTENTS

	<u>Page</u>
ABOUT THIS OFFERING CIRCULAR	ii
MARKET DATA	ii
OFFERING CIRCULAR SUMMARY	1
RISK FACTORS	12
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	17
USE OF PROCEEDS	19
CAPITALIZATION	20
CAPITAL RATIOS	21
RATIOS OF EARNINGS TO FIXED CHARGES	22
DESCRIPTION OF SUBORDINATED NOTES	23
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS	31
CERTAIN ERISA CONSIDERATIONS	36
PLAN OF DISTRIBUTION	38
NOTICE TO INVESTORS	38
LEGAL MATTERS	39
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	39
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE	40
WHERE YOU CAN FIND MORE INFORMATION	41

ABOUT THIS OFFERING CIRCULAR

You should rely only on the information contained in this offering circular and any supplement or addendum, including any documents incorporated by reference herein or therein, that may be provided to you. Neither we nor the initial purchaser has authorized anyone to provide you with additional or different information. The initial purchaser is offering to sell, and seeking offers to buy, the subordinated notes only in jurisdictions where such offers and sales are permitted. The information in this offering circular and any supplement or addendum, including any documents incorporated by reference herein or therein, is accurate only as of the dates thereof, regardless of the time of delivery of this offering circular or any such supplement or addendum or the time of any sale of the subordinated notes. Our financial condition, business and prospects may have changed since any such date.

The dollar amounts in this offering circular are presented rounded to the nearest thousand.

MARKET DATA

Market data used in, or incorporated by reference into, this offering circular has been obtained from independent industry sources and publications, as well as from research reports prepared for other purposes. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. We have not independently verified the data obtained from these sources. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties regarding the other forward-looking statements in this offering circular.

OFFERING CIRCULAR SUMMARY

This summary highlights selected information contained or incorporated by reference in this offering circular. Because this is a summary, it may not contain all of the information that is important to you when deciding whether to invest in the subordinated notes. Therefore, you should carefully read this entire offering circular before investing, including the information under “Risk factors” and “Cautionary note regarding forward-looking statements” and our financial statements and related notes and other information incorporated by reference in this offering circular. Unless we state otherwise or the context otherwise requires, references in this offering circular to “we,” “our,” “us” and “Company” refer to TowneBank and its consolidated subsidiaries.

Overview

TowneBank began operations as a Virginia chartered bank in April 1999. We offer retail and commercial banking services to customers located in Richmond, Virginia, the Greater Hampton Roads region in southeastern Virginia, and northeastern North Carolina. We place special emphasis on serving the financial needs of individuals and small and medium-size businesses. We offer a diversified range of financial services through our banking and non-banking subsidiaries.

Our foundation was built on providing banking services and, since inception, we have expanded to provide our members with complete residential real estate services, mortgage, personal and commercial insurance services, title-related services for both residential and commercial transactions, employee benefit services, and investment services.

We have established banking offices in Chesapeake, Chesterfield County, Hampton, Hanover County, Henrico County, James City County, Newport News, Norfolk, Portsmouth, Richmond, Suffolk, Virginia Beach, Williamsburg, and York County in Virginia, along with Camden County, Corolla, Grandy, Moyock, Nags Head, and Southern Shores in North Carolina. These locations are centrally located in core areas of each community, providing convenient access to both individual and business members.

On April 27, 2017, we announced the signing of a definitive agreement and plan of reorganization, dated April 26, 2017 (the “Paragon merger agreement”), pursuant to which we agreed to acquire Paragon Commercial Corporation (“Paragon”) and its wholly-owned bank subsidiary, Paragon Commercial Bank, a Raleigh, North Carolina-based bank with three banking offices servicing Raleigh, Cary, and Charlotte, North Carolina. The proposed acquisition of Paragon and Paragon Commercial Bank will expand our community banking franchise into two of the fastest growing metropolitan areas in the United States, Charlotte and Raleigh, North Carolina, adding to our current presence in the Virginia Beach-Norfolk-Newport News, VA-NC (“Hampton Roads”) Metropolitan Statistical Area (“MSA”), the Richmond, Virginia (“Richmond”) MSA and northeastern North Carolina.

The proposed acquisition of Paragon and Paragon Commercial Bank is expected to close in January 2018, subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of Paragon’s shareholders. At March 31, 2017, Paragon had total assets of \$1.55 billion, gross loans of \$1.23 billion, and total deposits of \$1.26 billion.

Under the terms of the Paragon merger agreement, Paragon shareholders will receive 1.725 shares of the Company’s common stock for each share of Paragon common stock held immediately prior to the effective date of the merger. As a result of the merger, unexercised Paragon stock options, whether or not vested, will be converted into replacement option awards of TowneBank on the same terms and conditions applicable to Paragon stock options, as adjusted based on the 1.725 exchange ratio. Similarly, restricted stock awards will be converted into replacement restricted stock awards of TowneBank on the same terms and conditions applicable to the Paragon restricted stock awards, adjusted based on the 1.725 exchange ratio, unless vested at the time of the merger in accordance with the related award agreement and converted into shares of TowneBank common stock.

Our common stock is listed on the NASDAQ Global Select Market under the symbol “TOWN.”

Operating Philosophy

Our operating philosophy emphasizes the making of marketing and member decisions at the local level (within centrally mandated and monitored control standards) with administrative and operational decisions at the central Company level. In order to accomplish this, we have established a “TowneBanking Group” (“Banking Group”) for each of our targeted markets.

We maintain a “hometown” banking image by providing each Banking Group with its own president, commercial loan officers, and local board of directors who are active and visible in their respective communities. It is the responsibility of each local board to direct our overall development in their respective markets. The separate Banking Groups, with local decision-making authority, allow us to more effectively identify and respond to the financial needs of our members.

Our board of directors believes that the separate Banking Groups strategy facilitates member service by ensuring that senior management is actively involved in each community and is available on a day-to-day basis to respond to the needs of the members in each community. From a member perspective, each Banking Group is marketed as a separate bank headquartered in its respective community.

Our strategic plan places increased emphasis on developing and generating noninterest, or fee, income. Such development involves looking for opportunities to grow that income source, including acquisitions of non-bank financial service providers. Noninterest income includes income generated by our subsidiaries and divisions, as well as service charges on deposit accounts and gains on securities available for sale.

Services

We provide our members with high-quality, responsive, and technologically advanced services. Members have easy access to our decision-makers and enjoy continuity in service relationships, allowing a fast response to meet their needs.

Banking and Other Financial Services. The foundation of our banking services is built on being a reliable and consistent source of credit with loans that are priced based upon the overall banking relationship. Our capitalization provides lending capacity to meet the credit needs of our targeted market segment. Further, we have various loan participation agreements with other financial institutions should the need arise to meet the additional credit needs of our members.

Through our Banking segment, we offer a full range of deposit products, including checking accounts, negotiable order of withdrawal accounts, savings accounts, and various types of time deposit services, which range from daily money market accounts to long-term certificates of deposit. The transaction accounts and certificates of deposit are tailored by market area at rates competitive to those offered in the area. In addition, we offer retirement account services, such as individual retirement accounts. All deposit accounts are insured by the Deposit Insurance Fund of the FDIC up to the maximum amount allowed by law and are solicited from individuals, businesses, associations and organizations, and governmental authorities.

We also offer a full range of short- to medium-term personal and commercial loans. Personal loans include secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. Commercial loans include secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and equipment and machinery purchases. Additionally, we originate fixed- and floating-rate mortgage loans, as well as real estate construction and acquisition loans. We also broker larger commercial loans that are not intended to remain in our portfolio.

Other services offered include safe deposit boxes, cash management services, travelers’ checks, direct deposit of payroll and Social Security checks, and automatic drafts for various accounts. In addition, services to facilitate access to banking information, such as Internet banking, mobile banking, and on-call banking, are offered. We also offer the ability to serve as a qualified intermediary assisting investors with tax-deferred exchanges under Section 1031 of the Internal Revenue Code. We provide all necessary documentation to accomplish tax deferral while the investors’ proceeds are safely held in accounts established at TowneBank awaiting reinvestment as required by Internal Revenue Service regulations.

We offer other financial services, such as financial, retirement, and estate planning. We also offer assistance on a variety of investment options, including alternative investments, annuities, margin accounts, convertible bonds, and pension and profit-sharing plans. Our full-service financial advisory business is supported by an affiliation with Raymond James Financial, Inc., a full-service broker-dealer.

Realty Services. The full spectrum of services offered in our Realty segment allows us to realize certain operational synergies in providing quality residential real estate services, originations of a variety of residential mortgages, and title services for residential and commercial title transactions. We plan to continue to pursue economically advantageous acquisitions and other strategic opportunities to grow our realty businesses.

We assist customers with the process of buying or selling a home. Additionally, we also provide other realty-related services, including relocation services for individuals and families, including those in the military; and property management services for single-family homes, condominiums, townhomes, apartments, offices, vacation rentals, and retail establishments. Our vacations rentals business specializes in resort property management, offering vacation rentals with many of the most distinctive resort properties in Hilton Head, South Carolina, Oak Island, North Carolina and Deep Creek Lake, Maryland. In addition, we process residential mortgage loans, from application acceptance to loan closing and funds disbursement. Once finalized, they are packaged and sold principally in the secondary market through purchase commitments from investors that subject us to only de minimis market risk. In addition to relocation and property management services, we offer title and settlement services, perform real estate closings for residential properties, and issue title insurance policies for both residential and commercial transactions.

Insurance Services. The Insurance segment provides individual and business members with a wide array of insurance products, including life, property, casualty, and vehicle insurance. We offer travel, medical, and baggage protection insurance for travelers via vacation property management companies. By using nationally recognized carriers, we also offer employee benefit programs, including medical, dental, vision, life, and disability insurance tailored to the members' unique needs. To further meet the needs of our members, we can also serve as an administrator for health care and dependent care flexible benefit plans, allowing members' employees to pay insurance premiums, childcare expenses, and/or health care expenses with tax-free dollars.

Competition

Because we offer a wide variety of services, we compete with other financial institutions as well as other financial service providers, real estate companies, mortgage loan originators, and insurance companies. Competition is generally based on pricing and quality of products and services offered, level of service, convenience, availability of services, and the degree of expertise and personal manner in which services are offered.

Commercial banking in our market areas is highly competitive. We face competition from other banks, savings institutions, credit unions, consumer finance companies, insurance companies, real estate companies, and other financial institutions in our targeted market areas. Some of these competitors are not subject to the same degree of regulation imposed upon us. Many have broader geographic markets and substantially greater resources and can offer more diversified products and services.

Despite the intense level of competition, we believe that the existing and future banking and financial services market in our market areas present excellent opportunities for a locally owned and managed financial services company. Among other factors, the economic outlook for the areas and the size and growth potential of the existing markets for banking and other financial services point to a growing demand for such services. Further, in view of the continuing trend in the financial services industry toward consolidations into larger, sometimes impersonal, national institutions, our company fulfills a market for the personal and customized financial services an independent, locally run company can offer.

Market Area

Our primary service area is Richmond, Virginia, and the Greater Hampton Roads region in southeastern Virginia, and northeastern North Carolina. This market includes the Virginia cities and counties of Chesapeake, Chesterfield County, Gloucester County, Hampton, Hanover County, Henrico County, James City County, Newport News, Norfolk, Poquoson, Portsmouth, Richmond, Suffolk, Virginia Beach, Williamsburg, and York County, and the North Carolina cities and counties of Camden County, Corolla, Grandy, Kill Devil Hills, Moyock, and Southern Shores. The service area has a diverse, well-rounded economy supported by a solid manufacturing base, a substantial military presence in Hampton Roads, and a significant state government presence in Richmond.

The primary service area encompasses the Hampton Roads MSA, the 37th largest metropolitan area in the United States, with a population of approximately 1.73 million as of July 2016, and the Richmond MSA, the 45th largest metropolitan area in the United States, with a population of approximately 1.28 million as of July 2016. Several colleges and universities, medical centers, and arts and entertainment facilities contribute to a valued quality of life in the regions.

We also offer residential mortgages in the Charlottesville, Virginia, in the North Carolina cities of Charlotte, Elizabeth City, Raleigh, and Wilmington, in the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA, in the Baltimore-Columbia-Towson, MD MSA, in Frederick, Maryland, and in Lancaster, Pennsylvania. Additionally, we have insurance offices located in Greenville and Raleigh, North Carolina, and the counties of Essex, Gloucester, Northumberland, Prince William, and Richmond in Virginia.

Risks Related to Our Business

Investing in the subordinated notes involves risks. You should carefully consider the information under “Risk Factors” and the other information included or incorporated by reference in this offering circular before investing in the subordinated notes.

Corporate Information

Our headquarters are located at 5716 High Street, Portsmouth, Virginia 23703. Our telephone number is (757) 638-7500. Additional information related to us is available at our website, <http://www.townebank.com>. Information on or accessed through our website is not incorporated by reference into, and does not form a part of, this offering circular.

THE OFFERING

The following is a brief summary of certain terms of this offering which does not contain all the information that may be important to you. You should read this summary in conjunction with the other information herein. A more complete description of the subordinated notes appears under “Description of Subordinated Notes.”

Issuer	TowneBank
Securities Offered	4.50% Fixed-to-Floating Rate Subordinated Notes due 2027
Aggregate Principal Amount	\$250,000,000
Use of Proceeds	We estimate that the net proceeds from this offering will be approximately \$247.1 million, after deducting the initial purchaser’s discounts and estimated offering expenses payable by us. We intend to use the net proceeds of the offering for general corporate purposes, which may include supporting our growth organically or through strategic acquisitions.
Maturity Date	July 30, 2027
Interest Rate	From and including the original issuance date to, but excluding, July 30, 2022, a fixed rate per annum of 4.50%. From and including July 30, 2022, through maturity or earlier redemption, a floating rate per annum equal to three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero) plus 2.550%.
Interest Payment Dates	Interest on the subordinated notes will be payable semi-annually in arrears on January 30 and July 30 of each year, beginning on January 30, 2018 and ending on July 30, 2022, and thereafter will be payable quarterly in arrears on January 30, April 30, July 30 and October 30 of each year, beginning on October 30, 2022, through maturity or earlier redemption of the subordinated notes. If any interest payment date falls on a day that is not a business day, interest will be paid on the next succeeding business day (and without any interest or other payment in respect of any such delay). See “Description of Subordinated Notes—Principal and Interest Payments.”
Subordination; Ranking	<p>The subordinated notes will be our unsecured, subordinated obligations and will:</p> <ul style="list-style-type: none"> • rank junior in right of payment to all of our existing and future senior indebtedness, whether secured or unsecured, including claims of depositors and general creditors; • rank equally in right of payment with any unsecured, subordinated indebtedness that we incur in the future that rank equally with the subordinated notes; • rank senior in right of payment to any indebtedness the terms of which provide that such indebtedness ranks junior to the subordinated notes; and • be structurally subordinated to all existing and future indebtedness and liabilities of our existing and future subsidiaries.

As of March 31, 2017, on a consolidated basis, we had total outstanding indebtedness, deposits and other liabilities of approximately \$7.1 billion, including \$201.9 million of outstanding indebtedness and other liabilities of our subsidiaries that would rank structurally senior to the subordinated notes. In addition, as of March 31, 2017, Paragon had total outstanding indebtedness, deposits and other liabilities of approximately \$1.4 billion (excluding approximately \$18.6 million of junior subordinated debentures issued by Paragon that we intend to redeem as soon as practicable following the completion of our

acquisition of Paragon), which will rank senior to the subordinated notes when and if that acquisition is consummated. As of March 31, 2017, we had no subordinated debt outstanding. The subordinated notes are not savings accounts or deposits of any bank and are not insured or guaranteed by the FDIC or any other governmental agency or instrumentality.

No Security or Guarantees The subordinated notes are not obligations of, nor are they guaranteed by, any of our subsidiaries or affiliates. The obligations under the subordinated notes will not be secured by any collateral.

Redemption The subordinated notes are redeemable by us, in whole or in part, beginning with the interest payment date of July 30, 2022 and on any scheduled interest payment date thereafter, at a redemption price equal to 100% of the principal amount of the subordinated notes redeemed, plus accrued and unpaid interest on such subordinated notes to, but excluding, the redemption date. Any partial redemption will be made pro rata among all of the holders.

The subordinated notes are also redeemable by us, in whole but not in part, at any time, including prior to July 30, 2022, if: (i) a change or prospective change in law occurs that could prevent us from deducting interest payable on the subordinated notes for U.S. federal income tax purposes; (ii) a subsequent event occurs that could preclude the subordinated notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) we are required to register as an investment company under the Investment Company Act of 1940, as amended, in each case, at a redemption price equal to the 100% of the principal amount of the subordinated notes redeemed, plus accrued and unpaid interest on such subordinated notes to, but excluding, the redemption date.

The subordinated notes are not subject to repayment at the option of the holders. Any redemption of the subordinated notes will be subject to obtaining the prior written approval of the FDIC. See “Description of Subordinated Notes—Redemption.”

Events of Default An event of default under the subordinated notes will occur, and the payment of principal of the subordinated notes may be accelerated, only in the event of a receivership or conservatorship, insolvency, liquidation or similar proceeding of TowneBank. A payment failure under the subordinated notes will occur if we fail to pay interest on the subordinated notes for 30 days after the payment is due, or if we fail to pay the principal of or premium, if any, on the subordinated notes when due. However, there are no rights of acceleration of the payment of principal or interest of subordinated notes upon such payment failure. In addition, FDIC consent may be required for any payments of interest, if we are or would become undercapitalized. There will be no trust indenture in connection with the subordinated notes.

Denominations The subordinated notes will be offered and sold in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. The subordinated notes are not exchangeable for denominations smaller than \$1,000. The subordinated notes will be denominated in U.S. dollars and all payments of interest and principal will be made in U.S. dollars.

Registration and Resales The subordinated notes will not be registered with the SEC or any other U.S. federal regulatory agency under the Securities Act or the securities laws of any other jurisdiction. The subordinated notes are being offered and sold in reliance upon an exemption from registration under Section 3(a)(2) of the Securities Act. Resales of subordinated notes may be made without registration with the SEC.

No Listing The subordinated notes will not be listed on any securities exchange or included in any automated dealer quotation system. There is currently no public trading market for the subordinated notes.

Additional Issues of Subordinated

Notes We may, without notice to or consent of the holders of outstanding subordinated notes, create and issue additional subordinated notes having the same terms and conditions as the subordinated notes (except for the issue date, issue price and the first interest payment date). Such further subordinated notes will form a single series with the subordinated notes, provided that such additional subordinated notes are fungible with the previously outstanding subordinated notes for U.S. federal income tax purposes.

Issuing and Paying Agency

Agreement The subordinated notes will be issued under an Issuing and Paying Agency Agreement between us, as issuer, and U.S. Bank National Association, as issuing and paying agent and subordinated note registrar, a copy of which will be available for inspection by holders of the subordinated notes at the offices of the Issuing and Paying Agent located at James Center Two, 1021 East Cary Street, Suite 1850, Richmond, Virginia 23219, Attention: Global Corporate Trust Services.

Governing Law The subordinated notes and the Issuing and Paying Agency Agreement will be governed by the laws of the State of New York.

Risk Factors See “Risk Factors” beginning on page 12 and other information included or incorporated by reference in this offering circular for a discussion of factors you should consider carefully before deciding to invest in the subordinated notes.

Summary Historical Consolidated Financial Information

The following tables set forth selected historical consolidated financial and other data as of and for each of the periods ended and as of the dates indicated. The selected historical consolidated statements of income data for each of the years ended December 31, 2016, 2015, and 2014 and the selected historical consolidated balance sheets data as of December 31, 2016 and 2015 are derived from our audited consolidated financial statements, which are incorporated by reference into this offering circular. The consolidated selected historical statements of income data for the years ended December 31, 2013 and 2012 and the selected historical consolidated balance sheets data as of December 31, 2014, 2013, and 2012 are derived from audited consolidated financial statements that are not incorporated by reference into this offering circular. The selected consolidated financial data presented below as of and for the three months ended March 31, 2017 and 2016 is derived from our unaudited interim consolidated financial statements, which are incorporated by reference into this offering circular. Results from past periods are not necessarily indicative of results that may be expected for any future period. You should read these tables together with the historical consolidated financial information contained in our consolidated financial statements and related notes, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the year ended December 31, 2016, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, which have been filed with the FDIC and are incorporated herein by reference.

	As of and for the three months ended March 31,		As of and for the year ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
(In thousands, except per share amounts)							
Results of Operations:							
Net interest income	\$ 60,281	\$ 46,336	\$ 218,876	\$ 180,442	\$ 145,736	\$ 143,895	\$ 144,284
Noninterest income (1) (2)	44,886	32,415	155,216	116,379	96,744	89,917	81,184
Total revenue	105,167	78,751	374,098	297,725	242,465	234,423	228,473
Noninterest expenses	70,248	52,161	267,827	202,157	178,864	168,792	158,749
Provision for loan losses	2,541	(259)	5,357	3,027	492	4,248	16,155
Net income attributable to							
TowneBank	21,968	17,819	67,250	62,382	42,169	41,762	37,931
Net income per common share –							
basic	0.35	0.35	1.18	1.22	1.18	1.14	1.03
Net income per common share –							
diluted	0.35	0.35	1.18	1.22	1.18	1.14	1.03
Period End Data:							
Total assets	\$8,174,786	\$6,365,169	\$7,973,915	\$6,296,574	\$4,982,485	\$4,672,997	\$4,405,923
Total assets – tangible (2)	7,872,823	6,178,224	7,671,149	6,115,579	4,846,816	4,552,935	4,286,921
Earning assets	7,362,550	5,745,710	7,346,961	5,827,888	4,610,142	4,296,486	4,033,813
Loans (net of unearned income							
and deferred costs)	5,913,080	4,552,260	5,807,221	4,519,393	3,564,389	3,381,194	3,226,426
Allowance for loan losses	43,195	37,760	42,001	38,359	35,917	38,380	40,427
Goodwill and other							
intangibles	301,962	186,945	302,766	180,995	135,668	120,061	119,002
Noninterest-bearing deposits	2,052,598	1,449,660	1,947,312	1,393,264	1,224,466	1,037,028	978,818
Interest-bearing deposits	4,138,174	3,505,466	4,087,885	3,520,763	2,622,136	2,530,076	2,401,234
Total deposits	6,190,772	4,955,126	6,035,197	4,914,027	3,846,602	3,567,104	3,380,052
Total equity	1,101,245	836,003	1,086,558	820,194	618,276	585,318	559,879
Total equity – tangible (2)	799,283	649,058	783,792	639,199	482,608	465,257	440,877
Book value per share	17.42	16.00	17.20	15.71	14.88	14.16	13.30
Book value per share –							
tangible (2)	12.59	12.38	12.36	12.21	11.09	10.76	9.52
Cash dividends declared per							
share	0.13	0.12	0.51	0.47	0.43	0.38	0.33

- (1) Excludes investment securities gains of \$0.01 million in 2016 and \$0.90 million in 2015, investment securities losses of \$0.02 million in 2014, and investment securities gains of \$0.61 million in 2013 and \$3.01 million in 2012.
- (2) Non-GAAP financial measure. See “Non-GAAP Financial Measures” below.

	As of and for the three months ended March 31,		As of and for the year ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
(In thousands, except per share amounts)							
Daily average balances:							
Total assets	\$8,000,366	\$6,313,238	\$7,205,236	\$6,039,418	\$4,866,584	\$4,507,233	\$4,201,452
Total assets - tangible (2)	7,698,310	6,126,524	6,958,267	5,858,762	4,738,306	4,387,578	4,087,602
Earning assets	7,177,697	5,664,461	6,603,377	5,528,362	4,472,117	4,123,527	3,811,846
Loans, excluding nonaccrual loans (net of unearned income)	5,862,799	4,516,277	5,129,990	4,239,887	3,450,730	3,258,562	3,048,121
Allowance for loan losses	42,610	38,555	39,547	37,194	37,168	39,698	40,100
Goodwill and other intangibles	302,056	186,714	246,968	180,656	128,278	119,655	113,850
Noninterest-bearing deposits	1,957,887	1,415,793	1,720,093	1,343,360	1,158,888	1,022,168	904,512
Interest-bearing deposits	4,102,109	3,499,607	3,852,099	3,324,533	2,590,162	2,415,178	2,370,003
Total deposits	6,059,996	4,915,400	5,572,192	4,667,893	3,749,050	3,437,346	3,274,515
Total equity	1,093,490	830,178	963,775	804,744	606,777	574,558	545,566
Total equity – tangible (2)	791,433	643,464	716,807	624,088	478,499	454,903	431,716
Key Ratios:							
Return on average assets	1.11%	1.14%	0.93%	1.03%	0.87%	0.93%	0.90%
Return on average tangible Assets (2)	1.22%	1.21%	1.02%	1.10%	0.93%	0.95%	0.93%
Return on average equity	8.15%	8.63%	6.98%	7.75%	6.95%	7.27%	6.95%
Return on average tangible Equity (2)	11.88%	11.56%	9.93%	10.34%	9.16%	9.18%	8.79%
Net interest margin (3)	3.45%	3.33%	3.50%	3.45%	3.38%	3.61%	3.92%
Efficiency ratio (1) (2)	66.80%	66.24%	71.59%	68.11%	73.76%	72.19%	70.41%
Average earning assets/total average assets	89.72%	89.72%	91.65%	91.54%	91.89%	91.49%	90.73%
Average loans/average deposits	96.75%	91.88%	92.06%	90.83%	92.04%	94.80%	93.09%
Average noninterest deposits/ total average deposits	32.31%	28.80%	30.87%	28.78%	30.91%	29.74%	27.62%
Allowance for loan losses/ period end loans	0.73%	0.83%	0.72%	0.85%	1.01%	1.14%	1.25%
Period end equity/period end total assets	13.47%	13.13%	13.63%	13.03%	12.41%	12.53%	12.71%

(1) Excludes investment securities gains of \$0.01 million in 2016 and \$0.90 million in 2015, investment securities losses of \$0.02 million in 2014, and investment securities gains of \$0.61 million in 2013 and \$3.01 million in 2012.

(2) Non-GAAP financial measure. See “Non-GAAP Financial Measures” below.

(3) Presented on a tax-equivalent basis.

Non-GAAP Financial Measures

We have included certain non-GAAP financial measures in this offering circular, including certain measures that exclude goodwill and other intangible assets, which we believe allows management to review the Company's core operating results and core capital position and facilitates comparisons with other banks. We calculate period-end total assets – tangible, period-end total equity – tangible, daily average total assets – tangible and daily average total equity – tangible by excluding goodwill and other intangible assets.

In addition, we present return on average assets, return on average tangible assets, return on average equity, and return on average tangible equity. The Company excludes the balance of average goodwill and other intangible assets from our calculation of return on average tangible assets and return on average tangible equity. Please see below for a reconciliation of these measures.

	As of and for the three months ended March 31,		As of and for the year ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
Return on average assets (GAAP basis)	1.11%	1.14%	0.93%	1.03%	0.87%	0.93%	0.90%
Impact of excluding average goodwill and other intangibles	0.11%	0.07%	0.09%	0.07%	0.06%	0.02%	0.03%
Return on average tangible assets	<u>1.22%</u>	<u>1.21%</u>	<u>1.02%</u>	<u>1.10%</u>	<u>0.93%</u>	<u>0.95%</u>	<u>0.93%</u>
Return on average equity (GAAP basis)	8.15%	8.63%	6.98%	7.75%	6.95%	7.27%	6.95%
Impact of excluding average goodwill and other intangibles	3.73%	2.93%	2.95%	2.59%	2.21%	1.91%	1.84%
Return on average tangible equity	<u>11.88%</u>	<u>11.56%</u>	<u>9.93%</u>	<u>10.34%</u>	<u>9.16%</u>	<u>9.18%</u>	<u>8.79%</u>

The Company also presents book value per share (period ended shareholders' equity divided by the period ended common shares outstanding) and tangible book value per share. In calculating tangible book value per share, the Company excludes goodwill and other intangible assets, allowing management to review its core capital position. Please see below for a reconciliation.

	As of and for the three months ended March 31,		As of and for the year ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
			(Per share)				
Book value per share (GAAP basis)	\$17.42	\$16.00	\$17.20	\$15.71	\$14.88	\$14.16	\$13.30
Impact of excluding average goodwill and other intangibles	<u>(4.83)</u>	<u>(3.62)</u>	<u>(4.84)</u>	<u>(3.50)</u>	<u>(3.79)</u>	<u>(3.40)</u>	<u>(3.78)</u>
Tangible book value per share	<u>\$12.59</u>	<u>\$12.38</u>	<u>\$12.36</u>	<u>\$12.21</u>	<u>\$11.09</u>	<u>\$10.76</u>	<u>\$ 9.52</u>

When presenting non-interest income and the efficiency ratio (noninterest expense divided by the sum of net interest income and noninterest income, excluding securities gains or losses), the Company excludes the gains and losses on securities because of the uncertainty of the amount of gain or loss recognized. Please see below for a reconciliation.

	As of and for the three months ended March 31,		As of and for the year ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
Efficiency ratio (GAAP basis)	66.80%	66.24%	71.59%	67.90%	73.77%	72.00%	69.48%
Impact of excluding securities gains/(losses)	<u>— %</u>	<u>— %</u>	<u>— %</u>	<u>0.21%</u>	<u>(0.01)%</u>	<u>0.19%</u>	<u>0.93%</u>
Efficiency ratio, as reported	<u>66.80%</u>	<u>66.24%</u>	<u>71.59%</u>	<u>68.11%</u>	<u>73.76%</u>	<u>72.19%</u>	<u>70.41%</u>

RISK FACTORS

An investment in our subordinated notes involves various risks. Before making an investment decision, you should carefully read and consider the risk factors described below as well as the other information included or incorporated by reference in this offering circular, as the same may be updated from time to time by our future filings with the FDIC under the Securities Exchange Act of 1934, as amended (“Exchange Act”). You should read these risk factors together with the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2016 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, and any other documents filed with the FDIC and incorporated by reference in this offering circular. Any of these risks, if they are realized, could materially adversely affect our business, financial condition, and results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect us. In any such case, you could lose all or a portion of your original investment.

The subordinated notes are unsecured and subordinated to our existing and future senior indebtedness.

The subordinated notes will be our unsecured, subordinated obligations and will be subordinated in right of payment to all of our existing and future senior indebtedness, whether secured or unsecured, including claims of depositors and general creditors. As of March 31, 2017, we had total outstanding indebtedness, deposits and other liabilities of approximately \$7.1 billion, which would rank senior in right of payment to the subordinated notes, and we had no subordinated debt outstanding at March 31, 2017. In addition, as of March 31, 2017, Paragon had total outstanding indebtedness, deposits and other liabilities of approximately \$1.4 billion (excluding approximately \$18.6 million of junior subordinated debentures issued by Paragon that we intend to redeem as soon as practicable following the completion of our acquisition of Paragon), which will rank senior to the subordinated notes when and if that acquisition is consummated. We may incur substantial additional indebtedness, including additional senior indebtedness and indebtedness ranking senior to or on a parity with the subordinated notes in the future.

In the event that we become insolvent, are placed in receivership or conservatorship, or are liquidated or reorganized, senior indebtedness and secured indebtedness will be entitled to be paid in full from our assets before any payment may be made with respect to the subordinated notes. Holders of the subordinated notes will participate in our remaining assets, if any, ratably with all holders of our unsecured, subordinated indebtedness that is on a parity with the subordinated notes. In any of the foregoing events, we may not have sufficient assets to pay all amounts owing on the subordinated notes and other parity indebtedness. As a result, if holders of the subordinated notes receive any payments, they may receive less, ratably, than holders of senior indebtedness and secured indebtedness. See “Description of Subordinated Notes.”

The subordinated notes are structurally subordinated to the obligations of our subsidiaries, and the holders of those obligations will be entitled to receive payment in full of those obligations before we participate in any distribution of the assets of our subsidiaries in the event of their liquidation or insolvency.

The subordinated notes are unsecured, subordinated obligations solely of TowneBank and are not obligations of, or guaranteed by, our subsidiaries or any of our affiliates. We are a separate and distinct legal entity from our subsidiaries. Our subsidiaries have no obligation to pay any amounts to us, including any dividends, to make any other distributions to us or to provide us with funds to meet any of our obligations. Our rights and the rights of our creditors, including the holders of the subordinated notes, to participate in any distribution of the assets of our subsidiaries (either as a stockholder or as a creditor), upon a liquidation, reorganization, insolvency or receivership of any such subsidiary (and the consequent right of the holders of the subordinated notes to participate in those assets after repayment of our senior indebtedness), will be subject to and effectively subordinated to the claims of the creditors of such subsidiary. In addition, we may become subject to regulatory requirements that we satisfy any deposit liabilities prior to servicing our debt obligations, such as the subordinated notes. As a consequence of the foregoing, the subordinated notes are structurally subordinated to the liabilities of our subsidiaries. As of March 31, 2017, our subsidiaries had, in the aggregate, outstanding indebtedness and other liabilities of \$201.9 million, all of which would rank structurally senior to the subordinated notes.

The subordinated notes are not savings accounts or deposits of any bank, and are not insured by the FDIC or any other governmental agency or instrumentality, and are not guaranteed by any of our affiliates.

The subordinated notes are unsecured, subordinated obligations solely of TowneBank. The subordinated notes are not savings accounts or deposits of any bank and are not insured by the FDIC or any other governmental agency or

instrumentality. Accordingly, the subordinated notes are subject to investment risk, including, without limitation, loss of principal. The subordinated notes are not obligations of, nor are they guaranteed by any of our other affiliates or subsidiaries and may not be used as collateral for a loan from us. There are no other arrangements that enhance the seniority of the subordinated notes in relation to our senior indebtedness.

The subordinated notes are subject to limited rights of acceleration and may only be accelerated in the event we are subject to any insolvency, receivership, conservatorship, liquidation or a similar proceeding.

Payment of principal of the subordinated notes may be accelerated by the holders of the subordinated notes only in the event of our insolvency, receivership, conservatorship, liquidation or similar proceeding.

Thus, you have no right to accelerate the payment of principal of the subordinated notes, if we fail in the performance of any of our obligations under the subordinated notes. The FDIC could require us to obtain prior regulatory approval to pay interest on the subordinated notes if our capital was determined to be insufficient by the FDIC or would be deemed by the FDIC insufficient upon such payment.

The FDIC has broad power to override acceleration rights of the holders in a conservatorship or receivership of TowneBank.

Although the subordinated notes permit holders to accelerate the subordinated notes upon certain events involving a receivership, insolvency, liquidation or similar proceeding with respect to TowneBank, the FDIC would act as conservator or receiver in any such situation and have broad powers with respect to contracts, including the subordinated notes, in spite of any acceleration provision. Notwithstanding any provisions of the subordinated notes, the FDIC as receiver or conservator would have the right to transfer or direct the transfer of the obligations of the subordinated notes to any bank or bank holding company, and such assuming institution would expressly assume the obligation of the due and punctual payment of the unpaid principal and interest on the subordinated notes and the due and punctual performance of all covenants and conditions. Any such transfer and assumption would supersede and void any Event of Default, acceleration or subordination which may have previously occurred, or which may occur due or related to such transaction, plan, transfer or assumption, pursuant to the provisions of the subordinated notes; except that any interest and principal previously due, other than by reason of acceleration, and not paid shall, in the absence of a contrary agreement by the holder of the subordinated notes, be deemed to be immediately due and payable as of the date of such transfer and assumption, together with the interest from its original due date at the applicable rate specified in the subordinated notes.

We have the ability to issue additional subordinated notes or incur additional debt under the terms of the subordinated notes or otherwise, and the limited covenants related to the subordinated notes do not restrict our ability to do so.

The covenants in the subordinated notes are limited. The subordinated notes do not limit our ability to issue additional subordinated notes or to incur additional debt, including senior indebtedness and other indebtedness of any type. Our incurrence of additional debt or liabilities may adversely affect our ability to pay our obligations on the subordinated notes, the credit ratings on the subordinated notes, and the liquidity and market values of our subordinated notes. The subordinated notes contain no restrictions on granting security interests or liens on our assets or issuing or repurchasing our other securities. As a result, the subordinated notes generally do not protect you in the event of an adverse change in our financial condition or results of operations.

In addition, we are not required to maintain any financial ratios or specific levels of capital and surplus or liquidity in connection with the subordinated notes. The subordinated notes will not contain any provision that would provide protection to their holders against a decline in credit quality resulting from a merger, takeover, recapitalization, or similar restructuring of us or our affiliates or significant sales of our capital stock by the holders of such stock or any other event involving us or our affiliates that may adversely affect our credit quality.

If an active and liquid trading market for the subordinated notes does not develop or continue, the market price of the subordinated notes may decline and you may be unable to sell your subordinated notes.

The subordinated notes are a new issue of securities for which there is currently no public market. We do not intend to list the subordinated notes on any national securities exchange or include the subordinated notes in any automated dealer

quotation system. An active trading market may not develop for the subordinated notes. Although the initial purchaser has indicated that it intends to make a market in the subordinated notes, it may, in its discretion, discontinue market making activities at any time. Even if a trading market for the subordinated notes develops, the market may not be liquid or continue. If an active trading market does not develop or continue, you may be unable to resell your subordinated notes or may only be able to sell them at a substantial discount from your purchase price.

Our credit ratings may not reflect all risks of an investment in the subordinated notes.

Actual or anticipated changes in the credit ratings assigned to the subordinated notes, if any, may not reflect all risks related to our business, the structure and other factors on any trading market, if any, for, or trading value of, the subordinated notes. In addition, actual or anticipated changes in our credit ratings will generally affect any trading market, if any, for, or trading value of, the subordinated notes. Moreover, ratings do not reflect market prices or suitability of a security for a particular investor. Accordingly, you should consult your own financial and legal advisors as to the risks entailed by an investment in the subordinated notes and the suitability of investing in the subordinated notes in light of your particular circumstances. Credit ratings are not a recommendation to buy, sell or hold any securities, including the subordinated notes, and may be revised or withdrawn at any time by the credit rating organization in its sole discretion. In addition, credit rating agencies continually review their ratings for the companies that they follow, including us. The credit rating agencies also evaluate the financial services industry as a whole and may change their credit rating for us and our securities, including the subordinated notes, based on their overall view of our industry. If a rating on the subordinated notes, us or our other securities is lowered by a rating agency in the future, the trading price of the subordinated notes could decline significantly.

The market value of the subordinated notes may be less than the principal amount of the subordinated notes.

The market for, and market value of, the subordinated notes may be affected by a number of factors. These factors include: the method of calculating the principal, premium, if any, interest or other amounts payable, if any, on the subordinated notes; the time remaining to maturity of the subordinated notes; the aggregate amount outstanding of the subordinated notes; any redemption or repayment features of the subordinated notes; the level, direction, and volatility of market interest rates generally; general economic conditions of the capital markets in the United States; geopolitical conditions and other financial, political, regulatory, and judicial events that affect the capital markets generally; any market-making activities with respect to the subordinated notes; and the operating performance of the Bank. The only way to liquidate your investment in the subordinated notes prior to maturity or earlier redemption will be to sell the subordinated notes. At that time, there may be a very illiquid market for the subordinated notes or no market at all.

The subordinated notes will not be issued pursuant to an indenture.

We are not required to qualify an indenture under the Trust Indenture Act of 1939, as amended (the “Trust Indenture Act”), in connection with the subordinated notes and have not entered into any trust indenture governing the subordinated notes. The subordinated notes will be subject to an Issuing and Paying Agency Agreement. The Issuing and Paying Agent is not a fiduciary for the holders of the subordinated notes and is not required to enforce the rights of the holders of the subordinated notes, including the rights to receive principal and interest. See “Description of Subordinated Notes—The Issuing and Paying Agent and Certain Other Provisions of the Issuing and Paying Agency Agreement.”

In addition, as DTC or its nominee will be the registered holder of all subordinated notes, DTC or its nominee will be the only entity that can enforce the obligations under the subordinated notes, respond to requests for consents, waivers or amendments, and exercise other rights of holders of subordinated notes. Therefore, a beneficial owner of subordinated notes generally must rely on the procedures of DTC and of those other parties through whom such owner’s interest in the subordinated notes is held to exercise any rights of a holder of the subordinated notes.

We may be able to redeem the subordinated notes at any time upon the occurrence of certain events.

By their terms, the subordinated notes may be redeemed by us at any time upon the occurrence of certain events involving the capital treatment of the subordinated notes. In particular, upon our determination in good faith that an event has occurred that would constitute a “tax event,” “capital event” or “investment company event,” we may, at our option, redeem the subordinated notes in whole, but not in part, at any time upon the occurrence of any such event, subject to the approval of the FDIC. See “Description of Subordinated Notes—Redemption.” If we redeem the subordinated notes, you may not be able to reinvest the redemption price you receive in a similar security.

Investors should not expect us to redeem the subordinated notes on the date they become redeemable or on any particular date after they become redeemable.

The subordinated notes have no mandatory redemption date and are not redeemable at the option of investors. By their terms, the subordinated notes may be redeemed by us at our option, either in whole or in part, beginning with the interest payment date of July 30, 2022 and on any scheduled interest payment date thereafter, or, in whole but not in part, at any time within 90 days of the occurrence of certain changes relating to a tax event, capital event or investment company event, as described below under “Description of Subordinated Notes—Redemption.” Any decision we may make at any time to propose a redemption of the subordinated notes will depend upon, among other things, our evaluation of our capital position, including for bank capital ratio purposes, the composition of our stockholders’ equity and general market conditions at that time. In addition, our right to redeem the subordinated notes is subject to limitations established by the FDIC’s capital adequacy rules, and under current regulatory rules and regulations we would need regulatory approval to redeem the subordinated notes. We cannot guarantee that the FDIC would approve any redemption of the subordinated notes that we may propose.

The historical levels of three-month LIBOR are not an indication of the future levels of three-month LIBOR.

In the past, the level of three-month LIBOR has experienced significant fluctuations. You should note that historical levels, fluctuations and trends of three-month LIBOR are not necessarily indicative of future levels. Any historical upward or downward trend in three-month LIBOR is not an indication that three-month LIBOR is more or less likely to increase or decrease at any time during the floating rate period of the subordinated notes, and you should not take the historical levels of three-month LIBOR as an indication of its future performance.

Uncertainty relating to the LIBOR calculation process may adversely affect the value of the subordinated notes.

Regulators and law enforcement agencies in the United Kingdom and elsewhere are conducting civil and criminal investigations into whether the banks that contribute to the British Bankers’ Association (the “BBA”) in connection with the calculation of daily LIBOR may have been underreporting or otherwise manipulating or attempting to manipulate LIBOR. Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. At this time, it is not possible to predict the effect of any such changes and any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere. Uncertainty as to the nature of such potential changes may adversely affect the trading market for LIBOR-based securities, including the subordinated notes.

We will be subject to additional regulatory scrutiny if our total assets exceed \$10 billion.

As of March 31, 2017, we had \$8.17 billion in total consolidated assets. We expect that we will exceed \$10 billion in total consolidated assets upon completion of our proposed acquisition of Paragon, which we anticipate will occur in the first quarter of 2018. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) and its implementing regulations impose various additional requirements on banks with \$10 billion or more in total assets, including compliance with portions of the Federal Reserve’s enhanced prudential oversight requirements and annual stress testing requirements. In addition, banks with \$10 billion or more in total assets are primarily examined by the Consumer Financial Protection Bureau (“CFPB”) with respect to various federal consumer financial protection laws and regulations. Currently, we are subject to regulations adopted by the CFPB, but the FDIC is primarily responsible for examining our compliance with consumer protection laws and those CFPB regulations.

Under the Dodd-Frank Act, the minimum ratio of net worth to insured deposits of the Deposit Insurance Fund was increased from 1.15% to 1.35% and the FDIC is required, in setting deposit insurance assessments, to offset the effect of the increase on institutions with assets of less than \$10 billion, which results in institutions with assets greater than \$10 billion paying higher assessments. In addition, institutions with assets greater than \$10 billion are subject to a deposit assessment based on a new scorecard issued by the FDIC. The scorecard method uses a performance score and a loss severity score, which are combined and converted into an initial base assessment rate. The performance score is based on measures of the bank’s ability to withstand asset-related stress and funding-related stress and weighted CAMELS ratings, which are ratings ascribed under the CAMELS supervisory rating system and assigned based on a supervisory authority’s analysis of a bank’s financial statements and on-site examinations. The loss severity score is a measure of potential losses to the FDIC in the event of the bank’s failure. Under a formula, the performance score and loss severity score are combined and converted to a total score that determines the bank’s initial base assessment rate. The FDIC has the discretion to alter the total score based on factors not captured by the scorecard. The resulting initial base assessment rate is also subject to adjustments downward

based on long term unsecured debt issued by the bank, to adjustment upward based on long term unsecured debt held by the bank that is issued by other FDIC-insured institutions, and to further adjustment upward if the bank's brokered deposits exceed 10% of its domestic deposits.

In addition, once our assets exceed \$10 billion, we will be subject to the Durbin Amendment promulgated under the Dodd-Frank Act. Under the Durbin Amendment, interchange fees for debit card transactions are capped at \$0.21 plus five basis points. This limitation on interchange fees will adversely impact our results of operations.

Compliance with these requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain customers or effectively compete for new business opportunities. To ensure compliance with these heightened requirements when effective, our regulators may require us to fully comply with these requirements or take actions to prepare for compliance even before our total consolidated assets equal or exceed \$10 billion. As a result, we may incur compliance-related costs before we might otherwise be required, including if we do not continue to grow at the rate we expect. Our regulators may also consider our preparation for compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This offering circular contains forward-looking statements. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, targets, expectations, anticipations, assumptions, estimates, intentions and future performance and involve known and unknown risks, many of which are beyond our control and which may cause our actual results, performance or achievements or the commercial banking industry or economy generally, to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are neither historical facts nor assurances of future performance. We generally identify forward-looking statements by terminology such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “could,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of those words or other comparable words.

Any forward-looking statements contained in this offering circular are based on our historical performance or on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us, the initial purchaser or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. Actual results may differ materially from those in the forward-looking statements due to, among other things, the following factors:

- the effects of future economic, business and market conditions;
- our ability to manage future growth and compete in new markets in which we are expanding;
- changes in defense spending by the federal government, which would adversely impact the economy in the Greater Hampton Roads economy;
- changes in interest rates;
- any future decline in the value of our goodwill or other intangible assets;
- the loss of any of our key personnel;
- any disruptions or other adverse impacts of our reliance on certain external vendors and business counterparties over which we may have limited or no control;
- environmental liability risk associated with our lending activities;
- risks associated with weather, natural disasters, acts of war or terrorism, and other external events;
- security breaches and other disruptions could compromise our information and expose us to liability, which could damage our reputation and our business;
- the risk that our risk-management framework may not be effective in mitigating risk and loss;
- the adverse effect a failure of our internal and disclosure controls and procedures could have on our results of operations and financial condition;
- the effect that a negative perception of the Company through social media could have on our reputation and business;
- the risk that our liquidity could be impaired by an inability to access the capital markets or an unforeseen outflow of cash;
- risks associated with acquisitions and the resulting integrations may affect costs and revenue or may not be available to us;
- deterioration of the credit quality of our loan portfolio;
- any inadequacy in our allowance for loan losses;
- our reliance on independent appraisals to determine the value of real estate collateral, and our ability to realize those values if we are forced to foreclose upon such loans;
- the cyclical nature of our mortgage revenue and its sensitivity to interest rates, changes in economic conditions, decreased economic activity, or slowdowns in the housing market;

- the impact of recently enacted capital standards, new regulations issued by the Consumer Financial Protection Bureau, other government regulations, changes in legal and regulatory requirements and monetary policies;
- our ability to implement various technologies into our operations, to protect confidential and sensitive data and to respond to cybersecurity risks;
- additional regulatory scrutiny if and when our total assets exceed \$10 billion; and
- our ability to complete and successfully integrate the business of Paragon in the expected timeframe, if at all, and to achieve expected revenue synergies, cost savings and other benefits from the merger.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included elsewhere in this offering circular and the documents incorporated by reference herein, including our “Risk Factors” contained in our Annual Report on Form 10-K for the year ended December 31, 2016 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. We caution you not to place undue reliance on any forward-looking statements, which speak only as of the date of this offering circular. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately \$247.1 million, after deducting the initial purchaser's discounts and estimated offering expenses payable by us. We intend to use the net proceeds of the offering for general corporate purposes, which may include supporting our growth organically or through strategic acquisitions.

CAPITALIZATION

The following table sets forth our unaudited consolidated capitalization at March 31, 2017 on an actual basis and an as adjusted basis to give effect to the offering of the subordinated notes offered hereby, after deducting the initial purchaser's discounts and estimated offering expenses payable by us. The table should be read in conjunction with the documents incorporated herein by reference. See "Incorporation of Certain Documents by Reference."

	March 31, 2017	
	Actual	As adjusted
	(Unaudited)	
	(Dollars in thousands)	
Indebtedness:		
Advances from the Federal Home Loan Bank	\$ 687,366	\$ 527,366(1)
Repurchase agreements and other borrowings	35,318	35,318
Other liabilities	160,085	160,085
4.50% Fixed-to-Floating Rate Subordinated Notes due 2027 offered hereby	—	247,100
Total indebtedness	\$ 882,769	\$ 969,869
Equity:		
Preferred stock:		
Authorized and unissued shares – 2,000,000	\$ —	\$ —
Common stock:		
\$1.667 par: 90,000,000 shares authorized; 62,571,739 shares issued at March 31, 2017	104,307	104,307
Capital Surplus	746,289	746,289
Retained earnings	243,337	243,337
Common Stock issued to deferred compensation trust, at cost:		
693,654 shares at March 31, 2017	(11,294)	(11,294)
Deferred compensation trust	11,294	11,294
Accumulated other comprehensive income (loss)	(4,173)	(4,173)
Total shareholders' equity	\$1,089,760	\$1,089,760
Noncontrolling interests	11,485	11,485
Total equity	\$1,101,245	\$1,101,245
Total capitalization	\$1,984,014	\$2,071,114

(1) Reflects repayment of \$160 million of Federal Home Loan Bank of Atlanta ("FHLB") advances in May 2017.

CAPITAL RATIOS

The following table sets forth our actual regulatory capital ratios at December 31, 2016 and March 31, 2017, and regulatory capital ratios at March 31, 2017, on an as adjusted basis after giving effect to the offering of the subordinated notes offered hereby.

	March 31, 2017		December 31, 2016
	Actual	As Adjusted	Actual
Capital ratios:			
Tier 1 leverage ratio	10.49%	10.15%	10.44%
Tier 1 risk-based capital ratio	11.98	11.73	11.82
Total risk-based capital ratio	12.62	15.93	12.44
Common equity Tier 1 ratio	11.94	11.69	11.75

RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratios of earnings to fixed charges for the periods shown and pro forma as of March 31, 2017, as adjusted to show the issuance of the subordinated notes offered hereby on January 1, 2017. For purposes of computing the ratios, earnings represent income before income taxes, plus fixed charges. Fixed charges include all interest expense. The ratios are presented both including and excluding interest on deposits.

	Three Months Ended March 31,			Year Ended December 31,		
	2017	2016	2017 As Adjusted	2016	2015	2014
Ratio of earnings to fixed charges:						
Including interest on deposits	4.30X	4.20X	3.57X	3.82X	3.85X	3.36X
Excluding interest on deposits	9.51X	9.43X	5.89X	8.52X	7.82X	5.70X

During 2017, we completed repayments of \$100 million and \$160 million of FHLB advances in March and May, respectively. In aggregate, we refinanced the existing FHLB advances, with a cost of funds of 4.28%, with new financing issued in the fourth quarter of 2016, at a cost of funds of 1.26%. The resulting annualized pre-tax savings is expected to be approximately \$7.9 million. The “as adjusted” column in the table below shows the impact of these savings, together with the issuance of the subordinated notes offered hereby, in each case as if effected on January 1, 2017, on our ratios of earnings to fixed charges on a pro forma basis:

	Three Months Ended March 31,			Year Ended December 31,		
	2017	2016	2017 As Adjusted	2016	2015	2014
Ratio of earnings to fixed charges:						
Including interest on deposits	4.30X	4.20X	4.29X	3.82X	3.85X	3.36X
Excluding interest on deposits	9.51X	9.43X	9.45X	8.52X	7.82X	5.70X

DESCRIPTION OF SUBORDINATED NOTES

The following summaries of certain provisions of the subordinated notes and the Issuing and Paying Agency Agreement do not purport to be complete and are subject to and qualified in their entirety by reference to the provisions of the subordinated notes and the Issuing and Paying Agency Agreement.

General

The subordinated notes will be issued and administered an Issuing and Paying Agency Agreement to be dated as of July 17, 2017, as the same may be supplemented and amended from time to time (the “Issuing and Paying Agency Agreement”) between TowneBank, as issuer, and U.S. Bank National Association, as issuing and paying agent and registrar (the “Issuing and Paying Agent”). A copy of the Issuing and Paying Agency Agreement and the form of subordinated notes will be available for inspection by owners of beneficial interests in the subordinated notes at the offices of the Issuing and Paying Agent located at James Center Two, 1021 East Cary Street, Suite 1850, Richmond, Virginia 23219, Attention: Global Corporate Trust Services. Except as described below under “—Book-Entry System,” the subordinated notes will be issued only in book-entry form. The subordinated notes will initially be represented by a global certificate registered in the name of Cede & Co., as nominee of DTC, as depositary. See “—Book-Entry System.”

The subordinated notes will constitute a single series of TowneBank’s subordinated debt securities and will be limited initially to an aggregate principal amount of \$250,000,000.

The subordinated notes will be fully paid-in upon issuance, and will be direct, unsecured, subordinated obligations of TowneBank. There is no sinking fund for the subordinated notes. No recourse shall be had for the payment of principal of or interest on any subordinated note, for any claim based thereon, or otherwise in respect thereof, against any subsidiary of TowneBank or any stockholder, employee, agent, officer or director, as such, past, present or future, of TowneBank, any subsidiary of TowneBank, or of any of their successors. The subordinated notes will not contain any limitation on the amount of debt, deposits or other obligations, secured and unsecured, ranking senior or equal in priority to the indebtedness evidenced by the subordinated notes that we may incur hereafter.

The subordinated notes will not contain any provision that would provide protection to the holders of the subordinated notes against a sudden and dramatic decline in credit quality resulting from a merger, takeover, recapitalization, or similar restructuring of TowneBank or any other event involving TowneBank that may adversely affect our credit quality, nor will the subordinated notes contain any provision restricting us from incurring additional senior, *pari passu* or other debt, secured and unsecured, in the future. We may offer and sell additional subordinated notes, having the same terms as the subordinated notes, except for the issue date, issue price and the initial interest payment date. The purchase of the subordinated notes may not be funded directly or indirectly by us, and subordinated notes will not be eligible to serve as collateral to secure a loan from us.

The subordinated notes will not be registered under the Securities Act or the securities laws of any other jurisdiction and are being offered and sold pursuant to an exemption from registration with the SEC under Section 3(a)(2) of the Securities Act. The Issuing and Paying Agency Agreement is not required to be, and is not being, qualified under the Trust Indenture Act. We have not entered into an indenture in connection with the issuance of the subordinated notes.

Because the subordinated notes will not be issued pursuant to an indenture, no trustee will act on behalf of holders in relation to the subordinated notes. Each holder will be responsible for acting independently with respect to certain matters affecting such holder’s subordinated notes, including enforcing the agreements or covenants contained therein, responding to any requests for consents, waivers or amendments or accelerating the maturity of such holder’s subordinated notes upon the occurrence of an Event of Default (as defined below). If the holder of any subordinated notes is a depository institution, TowneBank’s obligations under the subordinated notes to that depository institution will be subject to a specific waiver of the right of offset by that depository institution. In addition, the subordinated notes contain no covenants or restrictions restricting the incurrence of debt and do not otherwise afford protection to holders of the subordinated notes in the event of a highly leveraged transaction or other transaction involving us that could adversely affect the holders of the subordinated notes.

Each beneficial owner of a global note will be required to purchase a minimum principal amount of \$1,000 of subordinated notes, and integral multiples of \$1,000 thereafter. Subordinated notes cannot be exchanged for subordinated notes having a denomination of less than \$1,000.

DTC or its nominee will be the registered holder of all of the subordinated notes. Therefore, DTC or its nominee will be the only entity that can respond to requests for consents, waivers or amendments, and exercise other rights of holders of the subordinated notes. Consequently, a beneficial owner of subordinated notes generally must rely on the procedures of DTC and of those other parties through whom such owner's interest in the subordinated notes is held to exercise any rights of a holder of the subordinated notes. **WE WILL TREAT DTC OR ITS NOMINEE AS THE SOLE AND ABSOLUTE OWNER OF ALL THE SUBORDINATED NOTES FOR THE PURPOSE OF RECEIVING PAYMENT OF INTEREST ON AND PRINCIPAL OF SUCH SUBORDINATED NOTES, AND FOR ALL OTHER PURPOSES WHATSOEVER.** See “—Book-Entry System.”

The subordinated notes are solely obligations of TowneBank and are not obligations of any of our subsidiaries or affiliates. The subordinated notes are not secured by any of TowneBank's assets. **The subordinated notes are not savings accounts or deposits of TowneBank or any other bank. The subordinated notes are not insured or guaranteed by the FDIC or any other governmental agency or instrumentality.**

Principal and Interest Payments

If not previously redeemed, payment of the full principal amount of the subordinated notes will be due on July 30, 2027 (the “Maturity Date”). From and including the original issuance date to, but excluding July 30, 2022, the subordinated notes will bear interest at a fixed rate per annum of 4.50%. From and including July 30, 2022, through the Maturity Date or earlier redemption, the subordinated notes will bear interest at a floating rate per annum equal to the then current three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero) plus 2.550%.

From and including the original issuance date to, but excluding, July 30, 2022, interest payable will be calculated on the basis of a 360-day year of twelve 30-day months. From and including July 30, 2022, interest payable will be calculated on the basis of a 360-day year and the number of days actually elapsed. TowneBank will pay interest on the subordinated notes semi-annually in arrears on January 30 and July 30 of each year, beginning on January 30, 2018, and ending on July 30, 2022, and thereafter will be payable quarterly in arrears on January 30, April 30, July 30, and October 30 of each year, beginning on October 30, 2022 (each, an “Interest Payment Date”), through maturity or earlier redemption of the subordinated notes. The subordinated notes will bear interest from July 17, 2017 to the first Interest Payment Date, and otherwise from the most recent Interest Payment Date on which we have paid or provided for interest on the subordinated notes, to, but excluding such Interest Payment Date. The subordinated notes have no credit sensitive feature whereby the interest rate on the subordinated notes is adjusted based on our credit standing. Interest will be paid to the person in whose name such subordinated note was registered at the close of business on January 15 and July 15 of each year, beginning on January 15, 2018, and ending on July 15, 2022, and thereafter on January 15, April 15, July 15 and October 15 of each year, beginning on October 15, 2022 preceding the related Interest Payment Date. However, interest not punctually paid or duly made available for payment, if any, will be paid instead to the person in whose name the subordinated note is registered on a special record date rather than on the regular record date. In the case of interest due at the Maturity Date, we will pay interest to the persons to whom principal is payable, whether or not the Maturity Date is an Interest Payment Date.

On each Interest Payment Date after the first Interest Payment Date, we will pay interest for the period from and including the immediately preceding Interest Payment Date to, but excluding, the succeeding Interest Payment Date (an “Interest Period”). The first Interest Period will be the period from and including July 17, 2017 and to, but excluding, January 30, 2018.

In the event that an Interest Payment Date is not a Business Day (as defined below), we will pay interest on the next day that is a Business Day, with the same force and effect as if made on the Interest Payment Date, and without any interest or other payment with respect to the delay. If the Maturity Date falls on a day that is not a Business Day, the payment of principal and interest, if any, will be made on the next succeeding Business Day and no interest shall accrue for the period from and after such Maturity Date. For purposes of this offering circular, the term “Business Day” means any day that is not a Saturday or Sunday and that is not a day on which banking institutions in New York, New York or Portsmouth, Virginia are generally authorized or obligated by law or executive order to close.

Payment of interest on the subordinated notes may be subject to prior approval by the FDIC, the Bureau of Financial Institutions of the State Corporation Commission of the Commonwealth of Virginia (the “BFI”) or other applicable regulator of TowneBank, if we are undercapitalized or has been so required by the FDIC, BFI or other applicable regulatory authority.

The Issuing and Paying Agent will determine three-month LIBOR on the second Business Day prior to each Interest Period (each such date an “interest determination date”) and reset the interest rate on the subordinated notes bearing interest at the floating rate on the first day of each Interest Period (each such date a “reset date”). Absent manifest error, the Issuing and Paying Agent’s determination of the floating rate will be binding and conclusive on the holders of subordinated notes and us. The Issuing and Paying Agent will notify us of each determination of the floating rate for each applicable Interest Period.

Three-month LIBOR will be determined as follows:

- (i) With respect to each interest determination date (a “LIBOR interest determination date”), three-month LIBOR will be the London Interbank Offered Rate (expressed as a percentage per annum) for deposits in U.S. dollars having an index maturity of three months that appears on the display on Reuters, or any successor service, on page “LIBOR01”, or any page that may replace that page on that service, as of 11:00 a.m., London time, on such LIBOR interest determination date. If no such rate so appears, three-month LIBOR on such LIBOR interest determination date will be determined in accordance with provision described in clause (ii) below.
- (ii) If such screen does not include such a rate or is unavailable on a determination date, the Issuing and Paying Agent will request the principal London office of each of four major banks in the London interbank market, as selected by the Issuing and Paying Agent, to provide such bank’s offered quotation (expressed as a percentage per annum), as of approximately 11:00 a.m., London time, on such LIBOR interest determination date, to prime banks in the London interbank market for three-month deposits in U.S. dollars in a principal amount of not less than \$1,000,000 for a single transaction in the relevant market at the relevant time. If at least two such offered quotations are so provided, the three-month LIBOR for the Interest Period will be the arithmetic mean of such quotations; provided, however, that if the banks so selected by the Issuing and Paying Agent are not quoting as mentioned in this sentence, three-month LIBOR determined as of such LIBOR interest determination date shall be three-month LIBOR in effect on such LIBOR interest determination date or, in the case of the Interest Period commencing on the first reset date, 1.95%. All percentages used in or resulting from any calculation of three-month LIBOR will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% rounded up to 0.00001%.

Notwithstanding the foregoing, in the event three-month LIBOR for any Interest Period as determined in accordance with this paragraph is less than zero, three-month LIBOR for such Interest Period shall be deemed to be zero.

Redemption

The subordinated notes are redeemable by us, in whole or in part, on any Interest Payment Date on or after July 30, 2022. The subordinated notes are also redeemable by us, in whole but not in part, at any time upon the occurrence of one of the following:

- a “tax event,” which means the receipt by us of an opinion of independent tax counsel to the effect that, as a result of (a) an amendment to or change (including any announced prospective amendment or change) in any law or treaty, or any regulation thereunder, of the United States or any of its political subdivisions or taxing authorities, (b) a judicial decision, administrative action, official administrative pronouncement, ruling, regulatory procedure, regulation, notice or announcement, including any notice or announcement of intent to adopt or promulgate any ruling, regulatory procedure or regulation, (c) an amendment to or change in any official position with respect to, or any interpretation of, an administrative or judicial action or a law or regulation of the United States that differs from the previously generally accepted position or interpretation, or (d) a threatened challenge asserted in writing in connection with an audit of our federal income tax returns or positions or a similar audit of any of our subsidiaries or a publicly known threatened challenge asserted in writing against any other taxpayer that has raised capital through the issuance of securities that are substantially similar to the subordinated notes, in each case, occurring or becoming publicly known on or after the date of the issuance of the subordinated notes, there is more than an insubstantial risk that the interest payable on the subordinated notes is not, or within 90 days of receipt of such opinion of tax counsel, will not be, deductible by us, in whole or in part, for U.S. federal income tax purposes;
- a “capital event,” which means the good faith determination by us that, as a result of (a) any amendment to or change (including any announced prospective amendment or change) in, the laws or any regulations thereunder of the United States or any rules, guidelines or policies of an applicable regulatory authority for TowneBank or (b) any final official administrative pronouncement or judicial decision interpreting or applying such laws or

regulations, which amendment or change is effective or which pronouncement or decision is made, adopted, approved or effective on or after the date of original issuance of the subordinated notes, the subordinated notes do not constitute, or within 90 days of such determination will not constitute, Tier 2 capital (or its then equivalent if we were subject to such capital requirement) for purposes of capital adequacy rules of the FDIC (or any successor regulatory authority), as then in effect and applicable to us; or

- an “investment company event,” which means our becoming required to register as an investment company pursuant to the Investment Company Act of 1940, as amended.

Any such redemption of the subordinated notes will be at a redemption price equal to the principal amount of the subordinated notes redeemed, plus accrued and unpaid interest on such notes to, but excluding, the date of redemption. Any partial redemption will be made pro rata among all of the holders of subordinated notes. Any redemption of the subordinated notes would require prior written approval of the FDIC.

The subordinated notes are not subject to repayment at the option of the holder thereof, in whole or in part, prior to maturity, and are not subject to any sinking fund.

We will give irrevocable notice of our intention to redeem subordinated notes not more than 60 nor less than 30 days prior to the date fixed for redemption. From and after any redemption date, if monies for the redemption of subordinated notes will have been made available for redemption on the redemption date, the subordinated notes will cease to bear interest, if applicable, and the only right of the holders of the subordinated notes shall be to receive payment of the principal amount and, if appropriate, all unpaid interest accrued to the redemption date. Holders of the subordinated notes should not expect the subordinated notes to be redeemed prior to maturity.

Subordination

Our indebtedness evidenced by the subordinated notes, including our obligations to pay principal and interest, is unsecured and subordinate and junior in right of payment to our senior indebtedness. In the event of any insolvency, receivership, conservatorship, reorganization, liquidation or similar proceedings of TowneBank, all such senior obligations shall be entitled to be paid in full before any payment shall be made on account of the principal of, premium, if any, or interest on, the subordinated notes. “Senior indebtedness” includes all savings accounts, deposits, borrowed money (secured and unsecured), our obligations or obligations guaranteed by us arising from off-balance sheet guarantees and direct-credit substitutes (including any letters of credit, bankers’ acceptance or similar agreement), any capitalized lease obligation, any deferred obligation for payment of the purchase price of any property or assets, and obligations associated with derivative products such as interest rate and foreign-exchange contracts, commodity contracts and similar arrangements and obligations to our general creditors (as defined and required by the FDIC under its final Basel III capital rules for subordinated debt to qualify as Tier 2 capital). “Senior indebtedness” excludes any indebtedness that: (a) expressly states that it is junior to, or ranks equally in right of payment with, the subordinated notes or (b) is identified as junior to, or equal in right of payment with, the subordinated notes. In the event of any such proceeding, after payment in full of all sums owing with respect to such senior obligations, the holders of the subordinated notes, together with any of our obligations ranking equally with such subordinated notes, shall be entitled to be paid our remaining assets the unpaid principal of, premium, if any, and interest on, such subordinated notes or such other obligations before any payment or other distribution, whether in cash, property, or otherwise, shall be made on account of any capital stock or any of our obligations ranking junior to such subordinated notes. Nothing herein shall impair our obligation which is absolute and unconditional, to pay the principal of, premium, if any, and interest on the subordinated notes according to their terms.

Notwithstanding any other provisions contained in the subordinated notes, the FDIC or any receiver or conservator of TowneBank appointed by the FDIC, as part of any transaction or plan of reorganization or liquidation may transfer or direct the transfer of the obligations represented by the subordinated notes to any bank selected by such entity which expressly assumes the obligation of the due and punctual payment of the unpaid principal, premium, if any, and interest on the subordinated notes and the due and punctual performance of all covenants and conditions contained in the subordinated notes. Any “depository institution,” as defined in Section 3(c)(1) of the Federal Deposit Insurance Act, which holds a subordinated note (or beneficial interest therein) shall be deemed to have agreed by acquiring such subordinated note (or beneficial interest) to waive any rights to offset all or any portion of the indebtedness represented by such subordinated note (or interest) against any indebtedness or other obligations of such institution to us. The subordinated notes are not secured or guaranteed by any of our subsidiaries or affiliates, and are not subject to any other arrangement that legally or economically enhances the seniority of the subordinated notes.

As of March 31, 2017, on a consolidated basis, we had total outstanding indebtedness, deposits and other liabilities of approximately \$7.1 billion, including \$201.9 million of outstanding indebtedness and other liabilities of our subsidiaries that would rank senior to the subordinated notes. In addition, as of March 31, 2017, Paragon had total outstanding indebtedness, deposits and other liabilities of approximately \$1.4 billion (excluding approximately \$18.6 million of junior subordinated debentures issued by Paragon that we intend to redeem as soon as practicable following the completion of our acquisition of Paragon), which will rank senior to the subordinated notes when and if that acquisition is consummated. We had no outstanding subordinated notes or other obligations that would rank equally with the subordinated notes at March 31, 2017.

The Issuing and Paying Agent and Certain Other Provisions of the Issuing and Paying Agency Agreement

Pursuant to the Issuing and Paying Agency Agreement, the Issuing and Paying Agent will act as our sole paying agent with respect to the subordinated notes. We may, pursuant to the terms of the Issuing and Paying Agency Agreement, rescind the designation of an Issuing and Paying Agent, appoint a successor Issuing and Paying Agent or approve a change in the office through which any Issuing and Paying Agent acts.

The Issuing and Paying Agency Agreement will provide that the Issuing and Paying Agent shall, in its capacity as issuing agent and upon receipt of instructions from us, authenticate global notes representing the subordinated notes and deliver such global notes to DTC. In its capacity as registrar, the Issuing and Paying Agent will:

- keep a register to provide for registration of all subordinated notes and transfers thereof;
- maintain records showing for each outstanding subordinated note, the principal amount and other terms thereof;
- record any transfers of the subordinated notes; and
- prepare lists of holders of the subordinated notes as may be required by us or any person needing such information and so authorized by us. Payments of principal and interest will be made in accordance with the procedures set forth under “Book-Entry System.” In its capacity as paying agent, the Issuing and Paying Agent shall determine the LIBOR when applicable. See “—Principal and Interest Payments.”

The duties and obligations of the Issuing and Paying Agent with respect to matters governed by the Issuing and Paying Agency Agreement will be determined solely by the express provisions thereof, and the Issuing and Paying Agent will not be liable except for the performance of such duties and obligations as are specifically set forth in the Issuing and Paying Agency Agreement. The Issuing and Paying Agent will not have any fiduciary duty or obligations to us, any holder of a subordinated note or any third party, nor will it be liable for any costs, expenses, damages, liabilities or claims under the Issuing and Paying Agency Agreement except to the extent directly arising out of its negligence or willful misconduct.

Any money that we pay to the Issuing and Paying Agent for the purpose of making payments on the applicable subordinated notes and that remains unclaimed two years after the payments were due will, at our request, be returned to us. After that time any holder of such a subordinated note can only look to us for payment on such subordinated notes.

Events of Default; Waiver

An “Event of Default” in respect of the subordinated notes will occur if we are subject to any receivership, conservatorship, insolvency, liquidation or similar proceeding. A “Payment Failure” in respect of the subordinated notes will occur if we fail to pay interest on the subordinated notes for 30 days after the payment is due, or if we fail to pay the principal of or premium, if any, on the subordinated notes when due. We will promptly notify, and provide copies of such notice to, the Issuing and Paying Agent of the occurrence of any Payment Failure or Event of Default. The Issuing and Paying Agent will promptly send through DTC copies of any such notice to the holders of the subordinated notes.

Each subordinated note will provide that if any Event of Default has occurred and is continuing, the holder of such subordinated note may declare the principal of such subordinated note, together with any unpaid accrued interest thereon, to be immediately due and payable by written notice to us. Upon such declaration and notice such principal amount and accrued interest shall become immediately due and payable; provided, however, that, to the extent then required under or pursuant to applicable capital or other regulations, the subordinated notes may not be repaid prior to maturity without the prior approval of the FDIC. We will apply to the FDIC for prior approval of repayment promptly after receiving notice of acceleration. Any Event of Default with respect to the subordinated notes may be waived by the holder.

Neither the failure to pay principal of or interest on the subordinated notes nor a failure to perform any of our other obligations under the Issuing and Paying Agency Agreement or the subordinated notes constitutes an “Event of Default” in respect of the subordinated notes, and no right of acceleration exists in any such case.

Consolidation, Merger and Sale of Assets

We will not consolidate with or merge into any other entity or convey, transfer or lease its assets substantially as an entirety to any entity, unless the successor expressly assumes our obligations on the subordinated notes.

Further Issuances

We may from time to time, without the consent of the holders of the subordinated notes, create and issue further subordinated notes having the same terms and conditions as the subordinated notes, except for the issue date, the issue price and first Interest Payment Date. Additional subordinated notes having such identical terms shall be consolidated and form a single series (including the same CUSIP number) with the previously outstanding subordinated notes, provided that such additional subordinated notes are fungible with the previously outstanding subordinated notes for U.S. federal income tax purposes.

Capital Treatment

The subordinated notes are intended to qualify as “Tier 2 capital” for bank regulatory purposes. At the beginning of each of the last five years prior to maturity, the amount of subordinated notes treated as Tier 2 capital is reduced by 20%, such that in the last year preceding maturity, none of the outstanding subordinated notes will be Tier 2 capital.

Governing Law

The subordinated notes and the Issuing and Paying Agency Agreement will be governed by and construed in accordance with the laws of the State of New York and, where applicable, the laws of the United States.

Book-Entry System

The subordinated notes will be represented by one or more permanent global notes (collectively, the “global notes”) registered in the name of DTC or its nominee. Ownership of beneficial interests in the global notes will be limited to institutions that have accounts with DTC or its nominee (each, a “participant” and collectively, the “participants”) or persons that may hold interests through participants. Investors in the global notes that are not participants may hold their interests indirectly through organizations that are participants in such systems.

Beneficial ownership of the global notes by participants will be shown on, and transfers thereof will be effected only through, records maintained by DTC or its nominee, and its participants. Beneficial ownership of the global notes by persons that hold through participants will only be evidenced by, and transfers of such ownership interests within such participants will be effected only through, records maintained by such participants. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws may impair the ability to hold or transfer such ownership interests.

We have been advised by DTC that upon issuance of a global note or global notes and the deposit of such global note or global notes with DTC, DTC will immediately credit on its book entry registration and transfer system the respective principal amounts of subordinated notes represented by such global note or global notes to the accounts of participants. Each owner of a beneficial interest in a global note is required to hold at all times a beneficial interest in a \$1,000 principal amount or any integral multiple of \$1,000 in excess thereof of such global note.

Principal and interest payments on the subordinated notes registered in the name of DTC or its nominee will be made by the Issuing and Paying Agent to DTC or its nominee, as the case may be, as the registered owner and holder of the global note or global notes. Such payments to DTC or its nominee, as the case may be, will be made in immediately available funds, provided that in the case of payments of principal and interest on the Maturity Date, the global note or global notes are presented to the Issuing and Paying Agent in time for the Issuing and Paying Agent to make such payments in such funds in accordance with its normal procedures. Under the terms of the Issuing and Paying Agency Agreement, we and the Issuing

and Paying Agent will treat the persons in whose names the subordinated notes are registered as the owners of such subordinated notes for the purpose of receiving payment of principal and interest on such subordinated notes and for all other purposes. Neither we nor the Issuing and Paying Agent has any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

DTC has advised us and the Issuing and Paying Agent that upon receipt of any payment of principal or interest in respect of a global note it will immediately credit the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note or global notes as shown on the records of DTC or its nominee. Payments by participants to owners of beneficial interests in the global notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in “street names,” and will be the responsibility of such participants or indirect participants.

Transfers between participants in DTC will be effected under DTC’s procedures and will be settled in same day funds.

Participants and owners of beneficial interests in the global notes will not be entitled to receive subordinated notes in definitive form and will not be considered holders of the subordinated notes unless (i) DTC notifies us in writing that it is unwilling or unable to act as a depository or if DTC ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days, (ii) we, at our option, notify the Issuing and Paying Agent in writing that we elect to cause the issuance of subordinated notes in definitive form or (iii) any event shall have happened and be continuing that, after notice or lapse of time or both, would constitute an Event of Default with respect to the subordinated notes. In such circumstances, upon surrender by DTC or a successor depository of the global notes, subordinated notes in definitive form will be issued to each person that DTC or a successor depository identifies as the beneficial owner of the related subordinated notes. Upon such issuance, the Issuing and Paying Agent is required to register such subordinated notes in the name or names of, and cause the same to be delivered to, such person or persons (or the nominee thereof). Such subordinated notes would be issued in fully registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.

Except as provided above, beneficial owners of global notes will not be entitled to receive physical delivery of subordinated notes in definitive form and no global note will be exchangeable except for another global note of like denomination and tenor to be registered in the name of DTC or its nominee. Accordingly, each person owning a beneficial interest in a global note must rely on the procedures of DTC and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the subordinated notes. We understand that under existing industry practices, if we request any action of holders of the subordinated notes or any holder of beneficial interests in a global note desires to give or take any action a holder of the subordinated notes is entitled to give or take under the terms of the subordinated notes, DTC would authorize the participants owning the relevant beneficial interests to give or take such action, and such participants would authorize the beneficial owners owning through such participants to give or take such action or would otherwise act upon the instructions of the beneficial owners owning through them.

DTC has advised us that DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for millions of issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the depository system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly. The rules applicable to DTC’s participants are on file with the U.S. Securities and Exchange Commission. More information

about DTC can be found at www.dtcc.com and www.dtc.org. The information in this section concerning DTC and its book-entry system has been obtained from sources that the bank believes to be reliable, but we take no responsibility for its accuracy or completeness.

Clearance and Settlement

Initial settlement for the subordinated notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material U.S. federal income tax considerations related to the acquisition, ownership and disposition of the subordinated notes we are offering. It is not a complete analysis of all the potential tax considerations relating to the subordinated notes. This summary is based upon the provisions of the Code and regulations promulgated thereunder, and rulings and judicial decisions. These authorities may be changed, perhaps with retroactive effect, so as to result in U.S. federal income tax consequences different from those set forth below. There can be no assurance that the Internal Revenue Service (the “IRS”) will not challenge one or more of the tax consequences described herein, and we have not sought any ruling from the IRS with respect to statements made and conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary is limited to persons that purchase the subordinated notes upon their initial issuance at their “issue price” (i.e., the first price at which a substantial amount of the subordinated notes is sold for cash to investors (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity as underwriters, placement agents or wholesalers)) and that will hold the subordinated notes as capital assets (generally, property held for investment) for U.S. federal income tax purposes. This summary does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction. In addition, this discussion does not address all U.S. federal income tax considerations that may be applicable to holders’ particular circumstances or to holders that may be subject to special tax rules, such as, for example:

- holders subject to the alternative minimum tax;
- cooperatives;
- foreign persons or entities (except to the extent set forth below);
- banks, insurance companies, or other financial institutions;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt organizations;
- brokers and dealers in securities or commodities;
- U.S. expatriates;
- certain former citizens and long-term residents of the United States;
- traders in securities that elect to use a mark-to-market method of tax accounting for their securities holdings;
- United States holders (as defined below) whose functional currency is not the United States dollar;
- persons that will hold the subordinated notes as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction;
- persons deemed to sell the subordinated notes under the constructive sale provisions of the Code; or
- entities or arrangements classified as partnerships for U.S. federal income tax purposes or other pass-through entities, or investors in such entities that hold the subordinated notes.

If an entity or arrangement classified as a partnership for U.S. federal income tax purposes holds subordinated notes, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If you are an entity or arrangement classified as a partnership for U.S. federal income tax purposes that will hold subordinated notes or a partner of such a partnership, you are urged to consult your tax advisor regarding the tax consequences of holding the subordinated notes to you.

This summary of material U.S. federal income tax considerations is for general information only and is not tax advice. You are urged to consult your tax advisor with respect to the application of U.S. federal income tax laws to your particular situation as well as any tax considerations arising under other U.S. federal tax laws (such as the estate or gift tax laws) or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.

Classification of the Subordinated Notes

Generally, the determination of whether an obligation represents debt, equity, or some other instrument for U.S. federal income tax purposes is based on all the relevant facts and circumstances and no single factor is determinative. Because of

their level of subordination and the holders' rights in the event of a default, the characterization of the subordinated notes as debt or equity for U.S. federal income tax purposes is uncertain.

We intend to treat the subordinated notes as indebtedness for U.S. federal income tax purposes, although no opinions have been sought, and no assurances can be given, with respect to such treatment. Also, no rulings will be sought from the IRS regarding the characterization of the subordinated notes. The following discussion assumes that our treatment of the subordinated notes as indebtedness for U.S. federal income tax purposes will be respected. If the treatment of the subordinated notes as indebtedness is not upheld, they may be treated, for U.S. federal income tax purposes, as stock in TowneBank.

Each holder should consult its own tax advisor about the proper characterization of the subordinated notes for U.S. federal income tax purposes. Notwithstanding the foregoing, by purchasing the subordinated notes, you agree to treat them as debt for U.S. federal income tax purposes.

United States Holders

This subsection describes the tax considerations for a U.S. holder. You are a U.S. holder if you are a beneficial owner of a subordinated note and you are:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust (1) if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons (as defined in the Code) have the authority to control all of its substantial decisions, or (2) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Interest

As a general rule, interest paid or accrued on the subordinated notes will be treated as ordinary income to U.S. holders. A U.S. holder using the accrual method of accounting for U.S. federal income tax purposes must include interest on the subordinated notes in income as the interest accrues, while a U.S. holder using the cash receipts and disbursements method of accounting for U.S. federal income tax purposes must include interest in income when payments are received or constructively received by the holder, except as described in the following paragraph.

Pursuant to U.S. Treasury regulations issued under Sections 1271 through 1275 of the Code (the "Regulations"), the subordinated notes are intended to be treated as "variable rate debt instruments" that provide for a single fixed rate followed by a qualified floating rate ("QFR") for U.S. federal income tax purposes. Under the Regulations, solely for the purpose of determining the amount (if any) of original issue discount ("OID") on the subordinated notes, the initial fixed rate is converted to a QFR (the "replaced QFR"). The replaced QFR must be such that the fair market value of the subordinated notes on the issue date is approximately the same as the fair market value of otherwise identical notes that provide for the replaced QFR (rather than the fixed rate) for the initial period. In determining any OID on the subordinated notes, the subordinated notes must then be converted into "equivalent" fixed rate debt instruments by substituting each QFR provided under the terms of the subordinated notes (including the replaced QFR) with a fixed rate equal to the value of the QFR on the issue date of the subordinated notes. The application of the Regulations to the subordinated notes is complicated and could potentially result in the existence of OID with respect to the subordinated notes. In the event the subordinated notes were treated as issued with OID, the amount and timing of interest income with respect to the subordinated notes would be affected. For example, a U.S. holder generally will be required to include such OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such holder's regular method of tax accounting. Such OID would be included in gross income for each day during each taxable year in which the subordinated note is held using a constant yield-to-maturity method that reflects the compounding of interest. However, we intend to set the rate for the fixed-rate period and the floating-rate period under the subordinated notes in a manner that will satisfy the tests under the Regulations in order to avoid the existence of OID under the subordinated notes upon issuance. Thus, it is expected, and assumed for purposes of this discussion, that the subordinated notes will not be issued with OID and we intend to treat the subordinated notes in a manner consistent with this assumption. Holders should consult their tax advisors with respect to this issue.

Sale, exchange, redemption, retirement or other taxable disposition of the subordinated notes

Upon the sale, exchange, redemption, retirement or other taxable disposition of a subordinated note, you will recognize taxable gain or loss equal to the difference between the amount realized on such disposition (except to the extent any amount realized is attributable to accrued but unpaid interest, which, if not previously included in income, will be treated as interest as described above) and your adjusted tax basis in the subordinated note. Your adjusted tax basis in a subordinated note generally will be its cost. Gain or loss recognized on the disposition of a subordinated note generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such disposition, your holding period for the subordinated note is more than one year. Long-term capital gains of non-corporate taxpayers generally are eligible for preferential rates of taxation. The deductibility of capital losses is subject to certain limitations.

If a U.S. holder disposes of its subordinated notes before the record date for a payment, such U.S. holder will have to treat a portion of its proceeds from the disposition as ordinary income for U.S. federal income tax purposes in an amount equal to the accrued but unpaid interest on its subordinated notes (to the extent such amounts have not previously been included in income). Because the subordinated notes may trade at prices that do not fully reflect the value of accrued but unpaid interest thereon, upon a sale of the subordinated notes before a record date for payment, a U.S. holder may recognize a capital loss to the extent the amount such holder receives for the subordinated notes does not reflect the total amount of accrued and unpaid interest thereon. In such event, because of the limitations imposed under U.S. federal income tax law on the use of capital losses to offset ordinary income, a U.S. holder generally may not be able to apply the capital losses recognized from the sale of the subordinated notes to offset all or a portion of any ordinary income recognized by such holder with respect to the sale of the subordinated notes that is attributable to such holder's accrued but unpaid interest on the sold subordinated notes, other than in the case of individuals who are permitted to offset a de minimis amount of ordinary income with capital losses.

Medicare tax

Certain U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to an additional 3.8% Medicare tax on their "net investment income," which generally will include any interest income or gain recognized by such U.S. holders with respect to the subordinated notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder who is an individual, estate or trust, you are urged to consult your own tax advisor regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the subordinated notes.

Information reporting and backup withholding

In general, information reporting requirements will apply to payments of interest and the proceeds of certain sales and other taxable dispositions (including retirements) of the subordinated notes unless you are an exempt recipient (such as a corporation). Backup withholding (at a rate of 28%) generally will apply to such payments if you fail to provide your taxpayer identification number or certification of exempt status or have been notified by the IRS that payments to you are subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that you furnish the required information to the IRS on a timely basis.

Non-U.S. Holders

This subsection describes the tax considerations for a non-U.S. holder. You are a non-U.S. holder if you are the beneficial owner of a subordinated note and are an individual, corporation, estate or trust that is not a U.S. holder.

Payments of interest

Subject to the discussion of backup withholding and FATCA withholding below, payments of interest on the subordinated notes to you generally will be exempt from U.S. federal income tax and withholding tax under the "portfolio interest" exemption if you properly certify as to your foreign status (as described below) and:

- you do not conduct a trade or business within the United States to which the interest income is effectively connected;

- you do not own, actually or constructively, 10% or more of the combined voting power of all classes of our stock entitled to vote;
- you are not a “controlled foreign corporation” that is related to us through stock ownership; and
- you are not a bank that receives such interest in consideration for an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business.

The portfolio interest exemption generally applies only if you appropriately certify as to your foreign status. You can generally meet this certification requirement by providing a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable (or appropriate substitute or successor form) to the applicable withholding agent certifying under penalty of perjury that you are not a U.S. person. If you hold the subordinated notes through a securities clearing organization, financial institution or other agent acting on your behalf, you may be required to provide appropriate certifications to such agent. Your agent will then generally be required to provide appropriate certifications to the applicable withholding agent, either directly or through other intermediaries. Special rules apply to foreign partnerships, estates and trusts and other intermediaries, and in certain circumstances certifications as to foreign status of partners, trust owners or beneficiaries may have to be provided. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS. If you cannot satisfy the requirements described above for the portfolio interest exemption, payments of interest made to you on the subordinated notes will be subject to a 30% U.S. federal withholding tax, unless you provide the applicable withholding agent either with (1) a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable (or appropriate substitute or successor form), establishing an exemption from (or a reduction of) withholding under the benefit of an applicable income tax treaty or (2) a properly executed IRS Form W-8ECI (or appropriate substitute or successor form) certifying that interest paid on the subordinated notes is not subject to withholding tax because the interest is effectively connected with your conduct of a trade or business in the United States (as discussed below under “—Income or gain effectively connected with a U.S. trade or business”).

Sale, exchange, redemption, retirement or other taxable disposition of subordinated notes

Subject to the discussion of backup withholding and FATCA withholding below, you generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, redemption, retirement or other taxable disposition of a subordinated note unless:

- the gain is effectively connected with your conduct of a trade or business in the United States (and, if an income tax treaty applies, is attributable to your permanent establishment or fixed base in the United States);
- you are a nonresident alien individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met; or
- you are subject to Code provisions applicable to certain United States expatriates.

If you are described in the first bullet point, see “—Income or gain effectively connected with a U.S. trade or business” below. If you are described in the second bullet point, you generally will be subject to U.S. federal income tax at a rate of 30% on the amount by which your capital gains allocable to U.S. sources, including gain from such disposition, exceed any capital losses allocable to U.S. sources, except as otherwise required by an applicable income tax treaty.

To the extent that the amount realized on a sale, redemption, exchange, redemption, retirement or other taxable disposition of the subordinated notes is attributable to accrued but unpaid interest on the subordinated notes, this amount generally will be treated in the same manner as described in “—Payments of interest” above.

Income or gain effectively connected with a U.S. trade or business

If you are engaged in the conduct of a trade or business in the United States and interest on a subordinated note or gain recognized from the sale, exchange, redemption, retirement or other taxable disposition of a subordinated note is effectively connected with the conduct of that trade or business, you generally will be subject to U.S. federal income tax on such interest or gain on a net income basis in the same manner as if you were a United States person as defined under the Code. You generally will not be subject to the 30% U.S. federal withholding tax on interest if you provide a properly executed IRS Form W-8ECI (or appropriate substitute or successor form) to the applicable withholding agent. If you are eligible for the benefits of an income tax treaty between the United States and your country of residence, any effectively connected income or gain generally will be subject to U.S. federal income tax only if it is also attributable to a permanent establishment or fixed

base maintained by you in the United States. In addition, if you are a foreign corporation, you may be subject to an additional branch profits tax equal to 30% (or a lower applicable income tax treaty rate) of your earnings and profits for the taxable year, subject to adjustments, that are effectively connected with your conduct of a trade or business in the United States.

Information reporting and backup withholding

Generally, information returns will be filed with the IRS in connection with payments of interest on the subordinated notes and the amount of tax, if any, withheld with respect to such payments. Copies of the information returns reporting such payments and any withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty. You may be subject to additional information reporting and backup withholding of tax on payments of interest and, depending on the circumstances, the proceeds of a sale or other taxable disposition (including a retirement or redemption) of subordinated notes unless you comply with certain certification procedures to establish that you are not a U.S. person. The certification procedures required to claim an exemption from withholding of tax on interest described above generally will satisfy the certification requirements necessary to avoid additional information reporting and backup withholding as well. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that you furnish the required information to the IRS on a timely basis. You are urged to consult your own tax advisor regarding the application of backup withholding rules in your particular situation, the availability of an exemption from backup withholding and the procedure for obtaining such an exemption, if applicable.

FATCA

The Foreign Account Tax Compliance Act provisions of the Hiring Incentives to Restore Employment Act, commonly referred to as “FATCA,” generally impose a 30% withholding tax on certain payments made on interest-bearing obligations issued on or after July 1, 2014 to certain foreign financial institutions and other non-financial foreign entities if certain disclosure requirements related to direct and indirect U.S. account holders and/or U.S. stockholders are not satisfied.

Under applicable Treasury regulations and other administrative guidance, a withholding tax of 30% may be imposed, subject to certain exceptions, on payments of (a) interest on the subordinated notes, and (b) on or after December 31, 2018, gross proceeds from the sale or other disposition of the subordinated notes. In the case of payments made to a “foreign financial institution” (generally including an investment fund), as a beneficial owner or as an intermediary, the tax generally will be imposed, subject to certain exceptions, unless such institution (i) enters into (or is otherwise subject to) and complies with an agreement with the U.S. government (a “FATCA Agreement”) or (ii) is required by and complies with applicable foreign law enacted in connection with an intergovernmental agreement between the United States and a foreign jurisdiction (an “IGA”), in either case to, among other things, collect and provide to the United States or other relevant tax authorities certain information regarding U.S. account holders of such institution. In the case of payments made to a foreign entity that is not a financial institution, as a beneficial owner or as an intermediary, the tax generally will be imposed, subject to certain exceptions, unless such entity provides the withholding agent with a certification that it does not have any “substantial” U.S. owners (generally, any specified U.S. person that directly or indirectly owns more than a specified percentage of such entity) or that identifies its “substantial” U.S. owners. If the subordinated notes are held through a foreign financial institution that enters into (or is otherwise subject to) a FATCA Agreement, such foreign financial institution (or, in certain cases, a person paying amounts to such foreign financial institution) generally will be required, subject to certain exceptions, to withhold such tax on payments of interest and proceeds described above made to (x) a person that fails to comply with certain information requests or (y) a foreign financial institution that has not entered into (and is not otherwise subject to) a FATCA Agreement and is not required to comply with FATCA pursuant to applicable foreign law enacted in connection with an IGA. You are urged to consult your own tax advisors regarding FATCA and the application of these requirements to your investment in the subordinated notes.

CERTAIN ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), is a broad statutory framework that governs most U.S. retirement and other U.S. employee benefit plans. ERISA and the rules and regulations of the Department of Labor (the “DOL”) under ERISA contain provisions that should be considered by fiduciaries of employee benefit plans subject to the provisions of Title I of ERISA or Section 4975 of the Code (an “ERISA Plan”). Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan. A fiduciary of an ERISA Plan should consider the fiduciary standards of ERISA in the context of the ERISA Plan’s particular circumstances before authorizing an investment in the subordinated notes. Among other factors, the fiduciary should consider whether the investment would be consistent with the fiduciary’s obligations under applicable laws, including common law, ERISA and the Code and the applicable regulations and guidance issued thereunder; whether it would satisfy the prudence and diversification requirements of ERISA; whether it would be consistent with the documents and instruments governing the ERISA Plan, including an ERISA Plan’s investment policy statement; whether it would be in the best interests of the participants and beneficiaries of the ERISA Plan; and whether the investment would involve a non-exempt prohibited transaction under ERISA or the Code.

In determining whether an investment in the subordinated notes (or making such investment available under a participant-directed ERISA Plan) is prudent for ERISA purposes, a fiduciary of an ERISA Plan should consider all relevant facts and circumstances including, without limitation, possible limitations on the redemption of the subordinated notes, whether the investment provides sufficient liquidity in light of the foreseeable needs of the ERISA Plan (or the participant account in a participant-directed ERISA Plan), and whether the investment is reasonably designed, as part of the ERISA Plan’s portfolio, to further the ERISA Plan’s purposes, taking into consideration the risk of loss and the opportunity for gain (or other return) associated with the investment. It should be noted that it is the obligation of the appropriate fiduciary for each ERISA Plan to consider whether an investment in subordinated notes by the ERISA Plan (or making such notes available for investment under a participant-directed ERISA Plan), when judged in light of the overall portfolio of the ERISA Plan, will meet the prudence, diversification and other applicable requirements of ERISA and the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans, as well as individual retirement accounts, Keogh plans or any other plans or arrangements that are subject to Section 4975 of the Code (together with ERISA Plans, referred to as “Plans”), from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to the Plan, unless an exemption is available. A violation of these prohibited transaction rules may result in excise tax or other liabilities under ERISA or the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. In addition, the fiduciary of the ERISA Plan that violates these prohibited transaction rules may be subject to penalties and liabilities under ERISA and the Code. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), church plans (as defined in Section 3(33) of ERISA) that have not made an election under Section 410(d) of the Code and non-U.S. plans (as described in Section 4(b)(4) of ERISA) (“Non-ERISA Arrangements”) are not subject to the requirements of Section 406 of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, non-U.S. or other laws that regulate their investments (“Similar Laws”).

The acquisition and/or holding of the subordinated notes by a Plan or any entity whose underlying assets include “plan assets” by reason of any Plan’s investment in the entity with respect to which we, or certain of our affiliates is or becomes a party in interest or disqualified person may result in a prohibited transaction under ERISA and/or Section 4975 of the Code, unless the subordinated notes are acquired and/or held pursuant to an applicable exemption. The DOL has issued a number of prohibited transaction class exemptions, or “PTCEs,” that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase and/or holding of subordinated notes. These exemptions include, without limitation, PTCE 84-14 (for certain transactions determined by independent “qualified professional asset managers”), PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 95-60 (for transactions involving certain insurance company general accounts), and PTCE 96-23 (for transactions managed by “in-house asset managers”). Furthermore, newly-issued class exemptions, including the “Best Interest Contract Exemption”, may also provide relief for certain transactions involving investment advisers who are also fiduciaries. In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions between Plans and a party in interest or disqualified person other than a fiduciary, such as the issuer of the

subordinated notes and its affiliates, provided that neither the issuer of the subordinated notes nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more and receives no less than “adequate consideration” in connection with the transaction. Each of the above-noted exemptions contains conditions and limitations on its application. As such, there can be no assurance that all of the conditions of any such exemptions will be satisfied. In this circumstance, Plans and fiduciaries of Plans proposing to invest in our subordinated notes should consult with their counsel to determine whether an investment in our subordinated notes would result in a transaction that is prohibited by ERISA, Section 4975 of the Code or similar laws.

Because of the foregoing, the subordinated notes shall not be purchased or held by any Plan, Non-ERISA Arrangement or person investing “plan assets” of any Plan, if the purchase and holding will constitute a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Law.

Accordingly, by acceptance of a subordinated note, each purchaser and subsequent transferee will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the subordinated notes constitutes assets of any Plan or Non-ERISA Arrangement or (ii) the acquisition and holding of the subordinated notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

The foregoing summary regarding certain aspects of ERISA, and the Code is based on ERISA, the Code, judicial decisions and DOL and IRS regulations and rulings that are in existence on the date of this offering circular. The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in violations of ERISA fiduciary duties or non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the subordinated notes (and holding the subordinated notes) on behalf of, or with the assets of, any Plan or Non-ERISA Arrangement, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the subordinated notes.

Purchasers of the subordinated notes have the exclusive responsibility for ensuring that their purchase and holding of the subordinated notes comply with the fiduciary responsibility rules of ERISA and do not violate ERISA, the Code or applicable Similar Laws.

PLAN OF DISTRIBUTION

We have entered into a purchase agreement with Sandler O'Neill & Partners, L.P., as initial purchaser, with respect to the subordinated notes being offered hereby. Subject to the terms and conditions of the purchase agreement, we have agreed to sell to the initial purchaser, and the initial purchaser has agreed to purchase, all of the subordinated notes in this offering.

Commissions and Discounts

The initial purchaser is offering the subordinated notes directly to the public at the public offering price set forth on the cover page of this offering circular and to certain dealers at that price less a concession not in excess of 0.50% of the principal amount of the subordinated notes. After the initial offering of the subordinated notes, the offering price and other selling terms may be changed by the initial purchaser.

The purchase agreement provides that the initial purchaser will be entitled to a discount equal to 1.0% of the principal amount of the subordinated notes.

Expenses of the offering, including certain of the initial purchaser's expenses that we have agreed to reimburse, but not including the initial purchaser discount, are estimated at \$400,000 and are payable by us.

Indemnification

We have agreed to indemnify the initial purchaser against certain liabilities.

Price Stabilization, Short Positions and Penalty Bids

In connection with this offering, the initial purchaser may engage in stabilizing transactions, which involves making bids for, purchasing and selling the subordinated notes in the open market for the purpose of preventing or retarding a decline in the market price of the subordinated notes while this offering is in progress. These stabilizing transactions may include making short sales of the subordinated notes, which involves the sale by the initial purchaser of a greater amount of subordinated notes than it is required to purchase in this offering, and purchasing the subordinated notes on the open market to cover positions created by short sales. The initial purchaser must close out any short position by purchasing the subordinated notes in the open market. A short position is more likely to be created if the initial purchaser is concerned that there may be downward pressure on the price of the subordinated notes in the open market that could adversely affect investors who purchase in this offering.

These activities may have the effect of raising or maintaining the market price of the subordinated notes or preventing or retarding a decline in the market price of the subordinated notes, and, as a result, the price of the subordinated notes may be higher than the price that otherwise might exist in the open market. If the initial purchaser commences these activities, it may discontinue them at any time. Neither we nor the initial purchaser make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the subordinated notes.

Affiliations

The initial purchaser, and some of its affiliates, have performed and expect to continue to perform financial advisory and investment banking services for us from time to time in the ordinary course of their respective businesses, and have received, and may continue to receive, compensation for such services. In addition, in the ordinary course of their business activities, the initial purchaser and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for its own account and for the accounts of its customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The initial purchaser and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

NOTICE TO INVESTORS

The subordinated notes have not been, and are not required to be, registered under the Securities Act, or the securities laws of any other jurisdiction. The subordinated notes are being offered and sold pursuant to an exemption from the registration requirements of the Securities Act provided by Section 3(a)(2) of the Securities Act.

Qualification of an indenture under the Trust Indenture Act is not required and no trust indenture has been entered into in connection with the subordinated notes.

In making an investment decision, investors must rely on their own examination of TowneBank and the terms of the subordinated notes offered hereby, including the merits and risks involved.

LEGAL MATTERS

The validity of the subordinated notes sold in this offering will be passed upon for us by Williams Mullen, Richmond, Virginia, and for the initial purchaser by Troutman Sanders LLP, Richmond, Virginia.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements of TowneBank and its subsidiaries as of December 31, 2016 and 2015, and for each of the years in the three-year period ended December 31, 2016, incorporated by reference in this offering circular, and the effectiveness of internal control over financial reporting as of December 31, 2016, have been audited by Dixon Hughes Goodman LLP, independent registered public accounting firm, as stated in their reports incorporated by reference herein.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

Certain information previously filed with the FDIC has been “incorporated by reference” into this offering circular. This means that we disclose important information to you by referring you to other documents filed with the FDIC under the Exchange Act. The information incorporated by reference is deemed a part of this offering circular. We incorporate by reference into this offering circular the following documents filed with the FDIC (other than, in all cases except our Form 8-K furnished on June 22, 2017, those documents or portions of those documents that are furnished and not filed):

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the FDIC on March 1, 2017;
- Our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, filed with the FDIC on May 10, 2017;
- Our Current Reports on Form 8-K filed with the FDIC on February 22, 2017, February 27, 2017, April 27, 2017, May 2, 2017, May 24, 2017, May 25, 2017, and June 22, 2017;
- Our Proxy Statement on Schedule 14A for our Annual Meeting of Shareholders held on May 24, 2017 (solely those portions that were incorporated by reference into Part III of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016); and
- All documents that we file under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act on or after the date of this offering circular and before the termination of the offering of securities under this offering circular.

Any statement contained in this offering circular or in a document incorporated or deemed to be incorporated by reference into this offering circular shall be deemed to be modified or superseded for purposes of this offering circular to the extent that a statement contained in any subsequently filed document which also is, or is deemed to be, incorporated by reference in this offering circular modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this offering circular.

We will provide you with a copy of any information that we incorporate by reference into this offering circular at no cost, by writing or calling us. Requests for such materials should be directed to:

TowneBank
Attn: Investor Relations
6001 Harbour View Boulevard
Suffolk, Virginia 23435
Telephone number: (757) 638-6794

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the reporting requirements of the FDIC, which are substantially similar to the reporting requirements of the Exchange Act. In accordance with Sections 12, 13 and 14 of the Exchange Act and as a bank that is not a member of the Federal Reserve System, we file certain reports, proxy materials, information statements and other information with the FDIC, copies of which can be inspected and copied at the public reference facilities maintained by the FDIC, at the Public Reference Section, Room F-6043, 550 17th Street, N.W., Washington, DC 20429. Requests for copies may be made by telephone at (202) 898-8913 or by fax at (202) 898-3909. Certain financial information filed by us with the FDIC is also available electronically at the FDIC's website at <http://www2.fdic.gov/efr/>, which include the Exchange Act and certain other filings we make with the FDIC. We also maintain an "Investor Relations" page on our website containing additional information about us at <http://www.townebank.com>, which information include the Exchange Act filings and certain other filings we make with the FDIC. None of the information about us maintained on our website is incorporated into this offering circular by reference.

\$250,000,000

4.50% Fixed-to-Floating Rate Subordinated Notes due 2027

TOWNE BANK

Offering Circular

SANDLER O'NEILL + PARTNERS, L.P.
