

**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 17, 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 2.03 CREATION OF A DIRECT FINANCIAL OBLIGATION OR AN OBLIGATION UNDER AN OFF-BALANCE SHEET ARRANGEMENT OF A REGISTRANT.

On July 17, 2017, TowneBank completed a public offering of \$250 million in aggregate principal amount of its 4.50% fixed-to-floating rate subordinated notes due 2027 (the “Notes”). The Notes were issued pursuant to an Issuing and Paying Agency Agreement, dated as of July 17, 2017, between TowneBank, as issuer, and U.S. Bank National Association, as issuing and paying agent and note registrar. The Notes were sold at par, resulting in net proceeds, after discounts and estimated offering expenses, of approximately \$247.1 million. 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.

The Notes are unsecured, subordinated debt obligations of TowneBank and are subordinated in right of payment to all of TowneBank’s existing and future senior indebtedness, whether secured or unsecured, including claims of depositors and general creditors. The Notes are not obligations of, nor guaranteed by, any of TowneBank’s subsidiaries or affiliates and are structurally subordinated to all existing and future indebtedness and liabilities of TowneBank’s existing and future subsidiaries. The Notes will mature on July 30, 2027. From and including the date of issuance to, but excluding July 30, 2022, the Notes will bear interest at a rate of 4.50% per annum. From and including July 30, 2022 until the principal of the Notes is paid or duly made available for payment, the Notes will bear interest at a floating rate equal to three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR will be deemed to be zero) plus 2.550%.

TowneBank may, beginning with the interest payment date of July 30, 2022, and on any interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to the principal amount of the Notes plus accrued and unpaid interest to, but excluding, the date of redemption. TowneBank may also redeem the Notes at any time, including prior to July 30, 2022, at TowneBank’s option, in whole but not in part, if: (a) a change or proposed change in law occurs that could prevent TowneBank from deducting interest payable on the Notes for U.S. federal income tax purposes; (ii) a subsequent event occurs that could preclude the Notes from being recognized as Tier 2 capital for regulatory purposes; or (iii) TowneBank 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 principal amount of the Notes plus any accrued and unpaid interest to, but excluding, the redemption date. Any redemption of the Notes will be subject to obtaining the prior written approval of the Federal Deposit Insurance Corporation (the “FDIC”).

An event of default under the Notes will occur, and the payment of principal of the 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 Notes will occur if TowneBank fails to pay interest on the Notes for 30 days after the payment is due, or if TowneBank fails to pay the principal of or premium, if any, on the Notes when due. However, there are no rights of acceleration of the payment of principal or interest of Notes upon such payment failure.

The Notes are not saving accounts or deposits of TowneBank or any other bank and are not insured or guaranteed by the FDIC or any other governmental agency or instrumentality.

The foregoing summary of the Notes is not complete and is qualified in its entirety by reference to the complete text of the form of global note, which is filed as Exhibit 4.1 to this Current Report on Form 8-K and incorporated herein by reference in its entirety.

ITEM 7.01 REGULATION FD DISCLOSURE.

On July 17, 2017, TowneBank issued a press release announcing the closing of its previously announced offering of the Notes. A copy of the press release is attached hereto as Exhibit 99.1.

The information furnished by TowneBank pursuant to this item and Item 9.01, including Exhibit 99.1, 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>
4.1	Form of Global 4.50% Subordinated Note due 2027.
99.1	Press Release, dated July 17, 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 17, 2017

EXHIBIT INDEX

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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: William B. Littreal
Title: Senior Executive Vice President and
Chief Strategy and Investment
Relations Officer

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 depositary (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.

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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 COMPLETION OF SUBORDINATED NOTES OFFERING

Suffolk, VA, July 17, 2017 – (GLOBE NEWSWIRE) – TowneBank (NASDAQ: TOWN) announced today the completion of a public offering and sale of \$250 million in aggregate principal amount of its 4.50% fixed-to-floating rate subordinated notes due 2027 (the “Notes”). The Notes were sold at par, resulting in net proceeds, after discounts and estimated offering expenses, of approximately \$247.1 million. Kroll Bond Rating Agency has assigned a rating of BBB+ to the Notes.

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.

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