

Report of Organizational Actions Affecting Basis of Securities

OMB No. 1545-2224

► See separate instructions.

Part I Reporting Issuer

1 Issuer's name		2 Issuer's employer identification number (EIN)	
TowneBank		54-1910608	
3 Name of contact for additional information	4 Telephone No. of contact	5 Email address of contact	
Kevin Fly	757-686-7028	kevin.fly@townebank.net	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact		7 City, town, or post office, state, and Zip code of contact	
6001 Harbour View Blvd.		Suffolk, VA 23435	
8 Date of action		9 Classification and description	
June 24, 2016		Common Stock	
10 CUSIP number	11 Serial number(s)	12 Ticker symbol	13 Account number(s)
89214P109		TOWN	N/A

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ► On June 24, 2016 (the "effective date"), Monarch Financial Holdings, Inc. ("Monarch") was merged with and into TowneBank (NASDAQ:TOWN), with TowneBank as the surviving entity, pursuant to the terms and condition of the Agreement and Plan of Reorganization (the "Merger Agreement"), dated December 16, 2015.

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ► Pursuant to the Merger Agreement, each share of Monarch was converted into the right to receive .8830 shares of TowneBank common stock. Cash was received in lieu of fractional shares at a rate of \$22.54 per share of TowneBank stock. The transaction qualifies as a "reorganization" within the meaning of 368(a)(1) of the IRC. Under section 358(a), the shareholder's aggregate tax basis in the TowneBank common stock received pursuant to the transaction (including any fractional TowneBank common stock shares deemed received and exchanged for cash) will equal the aggregate tax basis in the original Monarch common stock surrendered in the transaction.

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ► Refer to the description of the basis calculation in Part II, Box 15 above. The June 24, 2016 closing price of a single share of TOWN common stock on the NASDAQ stock exchange was \$21.21.

Part II Organizational Action (continued)**17** List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ►

IRC 368 (a)(1)

IRC 354

IRC 356

IRC 358

IRC 1001

18 Can any resulting loss be recognized? ► For United States federal income tax purposes a former Monarch shareholder generally will not recognize any gain or loss with respect to the exchange of Monarch common stock shares for shares of TowneBank common stock in the transaction, but will however, have to recognize gain or loss in connection with any cash received in lieu of fractional share interest in TowneBank common stock equal to the difference between the amount of cash received in lieu of a fractional share and the portion of the Monarch shareholder's adjusted tax basis of the Franklin shares surrendered that is allocable to the fractional share of TowneBank stock. Such gain or loss generally will be long-term capital gain or loss if the holding period in the Franklin shares is more than twelve months as of the closing date of the merger.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ► The reportable tax year is the calendar year ending December 31, 2016.

Any information disclosed in this information return should not be considered, used or relied upon as tax advice on the tax treatment of the transaction, and each shareholder of TowneBank common stock should consult their tax advisor as to the resulting tax consequences of the transaction.

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ► /s/ Kevin Fly

Date ►

Print your name ► Kevin Fly

Title ► Executive Vice President

Paid Preparer Use Only

Print/Type preparer's name

Preparer's signature

Date

Check ☐ if self-employed

PTIN

Firm's name ►

Firm's EIN ►

Firm's address ►

Phone no.