



**NASDAQ: TOWN**



**NASDAQ: FRNK**

## **TowneBank Agrees to Acquire Franklin Financial Corporation**

**July 15, 2014**

# Forward-Looking Statements

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Statements made in this presentation, other than those concerning historical financial information, may be considered forward-looking statements, which speak only as of the date of this presentation and are based on current expectations and involve a number of assumptions. These include statements as to the anticipated benefits of the merger, including future financial and operating results, cost savings and enhanced revenues that may be realized from the merger as well as other statements of expectations regarding the merger and any other statements regarding future results or expectations. 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. TowneBank's ability to predict results, or the actual effect of future plans or strategies, is inherently uncertain. Factors which could have a material effect on the operations and future prospects of TowneBank, and the resulting company after the merger, include but are not limited to: (1) the businesses of TowneBank and Franklin Financial Corporation may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; (2) expected revenue synergies and cost savings from the merger may not be fully realized or realized within the expected timeframe; (3) revenues following the merger may be lower than expected; (4) customer and employee relationships and business operations may be disrupted by the merger; (5) the ability to obtain required regulatory and stockholder approvals, and the ability to complete the merger on the expected timeframe may be more difficult, time-consuming or costly than expected; (6) 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; the quality and composition of the loan and securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in the companies' respective market areas; their implementation of new technologies; their ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; and accounting principles, policies and guidelines, and (7) other risk factors detailed from time to time in filings made by TowneBank with the Federal Deposit Insurance Corporation (the "FDIC"). TowneBank undertakes no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.

In connection with the proposed merger, TowneBank will file with the FDIC a proxy statement/prospectus. TowneBank will deliver a definitive joint proxy statement/prospectus to its stockholders seeking their approval of the merger and related matters. In addition, TowneBank may file other relevant documents concerning the proposed merger with the FDIC.

Investors and stockholders are urged to read the definitive joint proxy statement/prospectus when it becomes available and any other relevant documents to be filed with the FDIC in connection with the proposed merger because they will contain important information. Free copies of the definitive joint proxy statement/prospectus, when available, also may be obtained by directing a request by telephone or mail to TowneBank, 6001 Harbour View Boulevard, Suffolk, Virginia 23425, Attention: Investor Relations (telephone: (757) 638-6794), or by accessing TowneBank's website at <https://townebank.com> under "Investor Relations." The information on TowneBank's website is not, and shall not be deemed to be, a part of this presentation or incorporated into other filings TowneBank makes with the FDIC.

TowneBank and its directors and executive officers may be deemed to be participants in the solicitation of proxies from the stockholders of TowneBank in connection with the merger. Information about the directors and executive officers of TowneBank is set forth in the proxy statement for TowneBank's 2014 annual meeting of stockholders filed with the FDIC on April 18, 2014. Additional information regarding the interests of these participants and other persons who may be deemed participants in the merger may be obtained by reading the definitive joint proxy statement/prospectus regarding the merger when it becomes available.

# Overview of Transaction Terms

<b>Transaction:</b>	<ul style="list-style-type: none"><li>▪ TowneBank to acquire Franklin Financial Corporation</li></ul>
<b>Considerations:</b>	<ul style="list-style-type: none"><li>▪ 1.40x shares of TOWN common stock for each share of FRNK common stock; 100% stock</li></ul>
<b>Transaction Value<sup>1</sup>:</b>	<ul style="list-style-type: none"><li>▪ \$23.04 per share or \$275 million</li></ul>
<b>Ownership Split:</b>	<ul style="list-style-type: none"><li>▪ 69% / 31%</li></ul>
<b>Management:</b>	<ul style="list-style-type: none"><li>▪ Senior management team to be comprised primarily of TowneBank executives</li><li>▪ T. Patrick Collins to lead TowneBank of Richmond</li></ul>
<b>Board Composition:</b>	<ul style="list-style-type: none"><li>▪ Richard T. Wheeler, Jr. added to TOWN board</li></ul>
<b>Capital:</b>	<ul style="list-style-type: none"><li>▪ TowneBank's \$76 mm of SBLF projected to be repaid at close</li><li>▪ Transaction is substantially accretive to tangible common equity and pro forma company is well positioned to deploy capital</li></ul>
<b>Required Approvals:</b>	<ul style="list-style-type: none"><li>▪ Customary regulatory and shareholder approvals of both TOWN and FRNK</li></ul>
<b>Pricing:</b>	<ul style="list-style-type: none"><li>▪ 113% of TBV</li></ul>
<b>Expected Closing:</b>	<ul style="list-style-type: none"><li>▪ Q4 2014</li></ul>

(1) Based on TOWN's closing price of \$16.46 as of 7/14/14; FRNK options cashed out for approximately \$12 mm

# Strategic Rationale

## Strategically Compelling

- Provides strategic expansion into Richmond market with 8 branches and over \$1bn in assets
- Combined company is 2<sup>nd</sup> largest independent VA bank with almost \$6bn assets
- Supports continued expansion of TOWN's non-interest income business lines (e.g. insurance, mortgage, etc.)
- Legal lending limit in excess of \$110 million
- Diversifies TOWN's loan portfolio geographically

## Financially Attractive

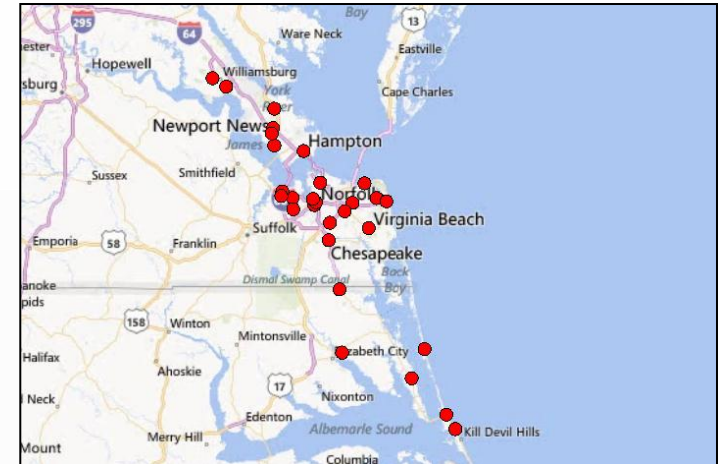
- Accretive to 2016 EPS and beyond
- Slight dilution to TBV earned back in under 2.5 years
- Strong capital post closing, with TCE/TA greater than 10%
- Supports growth and capital management opportunities
- 10% credit mark reduces risk
- More attractive than a capital raise of similar magnitude

## Low Risk Profile

- Thorough multi-week due diligence process covering all aspects of FRNK's operations; Credit review included:
  - All non-accrual loans over \$500,000
  - All REO including site visits
  - Reviewed 82% of outstanding loans
- Strong familiarity: Members of management teams have known each other for many years
- Richmond market is well known to TOWN through their lending business and non-interest income business lines
- Many of the FRNK customers are known to TOWN

# TOWN – Company Overview

- Dominant Community Bank in Virginia Beach - Norfolk MSA
  - Started as De Novo in 1999
  - Largest Community Bank by Deposits, Loans, and Assets
- Strong performance
  - 2013 ROAA of 0.9%
  - 14 years of increasing earnings
- Strong non-interest income represents ~40% of revenue
  - Towne Insurance Agency – TFA Benefits
  - Private Banking
  - Towne Investment Group
  - TowneBank Mortgage
  - Prudential Towne Realty
- Strong and experienced Senior Management Team
- Pristine credit
  - NPAs / Assets never increased above 3% during financial crisis



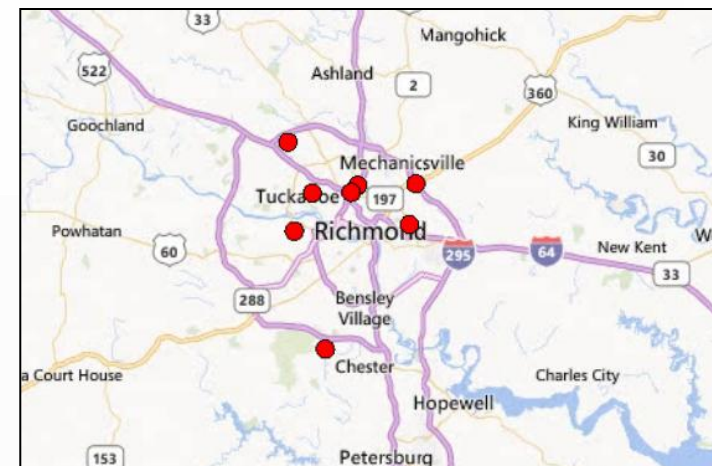
Virginia Beach-Norfolk-Newport News, VA-NC <sup>1</sup>

Rank	Institution (ST)	Branches	Deposits in Market (\$mm)	Market Share (%)
1	Wells Fargo & Co. (CA)	56	4,459	20.55
2	SunTrust Banks Inc. (GA)	41	3,561	16.41
<b>3</b>	<b>TowneBank (VA)</b>	<b>26</b>	<b>3,390</b>	<b>15.63</b>
4	BB&T Corp. (NC)	51	3,077	14.18
5	Bank of America Corp. (NC)	36	2,309	10.65
6	Monarch Financial Hldgs (VA)	12	789	3.64
7	Old Point Financial Corp. (VA)	20	731	3.37
8	Hampton Roads Bankshares Inc. (VA)	17	582	2.68
9	Southern BancShares (NC) (NC)	10	324	1.49
10	Farmers Bankshares Inc. (VA)	5	321	1.48

(1) Data as of 6/30/2013 FDIC Summary of Deposits  
Source: SNL Financial

# FRNK – Company Overview

- \$1 billion asset bank headquartered in Glen Allen, VA
- Eight offices serving each of Richmond’s key sub-markets
- 3<sup>rd</sup> ranked community bank in Richmond by deposit market share
- Strong origination platform for commercial real estate loans
  - Well-seasoned relationships with the region’s premier real estate firms
- Completed mutual-to-stock conversion in 2011
- Excess Capital
  - TCE / TA of 22.20% at Q1 2014
  - Total Capital Ratio of 29.74% <sup>2</sup> at Q1 2014



## Richmond, VA <sup>1</sup>

Rank	Institution (ST)	Branches	Deposits in Market (\$mm)	Market Share (%)
1	Bank of America Corp. (NC)	25	11,689	37.83
2	Wells Fargo & Co. (CA)	65	6,234	20.18
3	SunTrust Banks Inc. (GA)	46	3,656	11.83
4	BB&T Corp. (NC)	43	2,649	8.57
5	Union Bkshs Corp (VA)	42	1,634	5.29
6	C&F Financial Corp. (VA)	17	741	2.40
<b>7</b>	<b>Franklin Financial Corp. (VA)</b>	<b>8</b>	<b>637</b>	<b>2.06</b>
8	First Capital Bancorp Inc. (VA)	8	458	1.48
9	Village Bank & Trust Finl Corp (VA)	12	420	1.36
10	Eastern Virginia Bankshares (VA)	9	354	1.14

(1) Data as of 6/30/2013 FDIC Summary of Deposits

(2) Bank level per company filings

Source: SNL Financial

# Pro Forma Company Becomes 2<sup>nd</sup> Largest Independent Bank in Virginia

## Virginia Deposit Market Share<sup>1</sup>

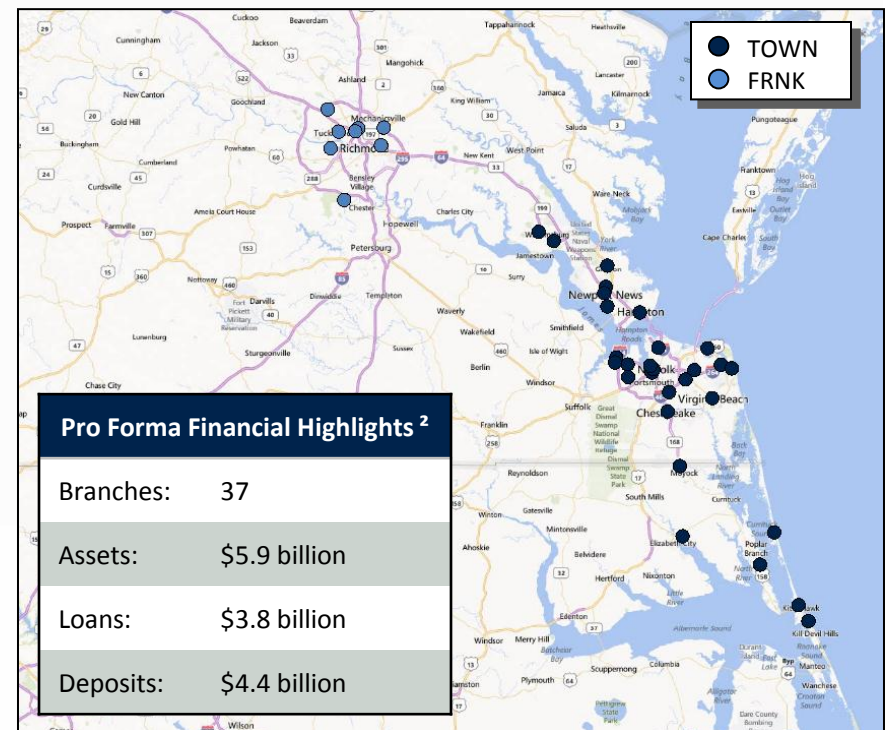
Rank	Institution (ST)	Number of Branches	Deposits (\$mm)	Market Share
1	Wells Fargo & Co. (CA)	296	\$30,197	18.1%
2	Bank of America Corp. (NC)	154	22,541	13.5
3	BB&T Corp. (NC)	364	21,874	13.1
4	SunTrust Banks Inc. (GA)	227	17,233	10.3
5	Capital One Financial Corp. (VA)	83	13,078	7.8
6	Union Bkshs Corp (VA)	131	5,748	3.4
7	United Bankshares Inc. (WV)	63	3,961	2.4
	<b>Pro Forma</b>	<b>37</b>	<b>3,887</b>	<b>2.3</b>
8	Carter Bank & Trust (VA)	88	3,758	2.3
<b>9</b>	<b>TowneBank (VA)</b>	<b>29</b>	<b>3,251</b>	<b>2.0</b>
10	PNC Financial Services Group (PA)	100	2,899	1.7
11	Burke & Herbert Bank & Trust (VA)	25	2,204	1.3
12	Cardinal Financial Corp. (VA)	27	2,198	1.3
13	Citigroup Inc. (NY)	11	1,964	1.2
14	First Citizens BancShares Inc. (NC)	47	1,347	0.8
15	Toronto-Dominion Bank	20	1,141	0.7
16	C&F Financial Corp. (VA)	26	1,013	0.6
17	Eastern Virginia Bankshares (VA)	28	992	0.6
18	Hampton Roads Bankshares Inc. (VA)	25	982	0.6
19	First Bancorp Inc. (VA)	18	981	0.6
20	Middleburg Financial Corp. (VA)	13	964	0.6
<b>31</b>	<b>Franklin Financial Corp. (VA)</b>	<b>8</b>	<b>637</b>	<b>0.4</b>

(1) Data as of 6/30/2013 FDIC Summary of Deposits; TOWN branch data as of 3/31/14

(2) Presented for illustrative purposes only and does not indicate actual results of the combined company  
Source: SNL Financial

## Market Highlights

- Transaction creates the second largest independent community bank in Virginia, which is one of the most attractive markets in the U.S.
  - 3<sup>rd</sup> largest bank headquartered in Virginia
  - Strong market presence in northeastern North Carolina



# Deep Presence in Attractive Virginia Markets

## Overview

- Richmond, VA
  - Ranked #56 on Forbes' "Best Places for Business and Careers"
  - Major industries include healthcare, technology, financial services
  - Six Fortune 500 companies headquartered in Richmond, including:
    - Dominion Resources
    - CarMax
    - Owens & Minor
    - Genworth Financial
    - MeadWestvaco
    - Altria Group
- Hampton Roads Region <sup>1</sup>
  - Major companies headquartered in Hampton Roads region include:
    - Norfolk Southern
    - Sentara Health System
    - Dollar Tree
    - Smithfield Foods
  - Home to 12 major military installations including the country's largest naval base
  - The Port of Virginia is one of the largest container ports on the East Coast

## Demographic Highlights

- Richmond, VA
  - Total population: 1,247,586
  - Projected population change: 4.43%
    - *Nationwide*: 3.50%
  - Median household income: \$57,679
    - *Nationwide*: \$51,579
- Hampton Roads Region <sup>1</sup>
  - Total population: 1,722,167
  - Projected population change: 3.93%
  - Median household income: \$60,617

(1) Includes Norfolk, Portsmouth, Virginia Beach, Chesapeake, Suffolk, Newport News, Hampton  
Source: SNL Financial, Forbes



# Pro Forma Financial Impact

## Assumptions

- Gross credit mark of 10%, \$60 million
- One-time merger related expenses of ~\$10 million (pre-tax)
- Cost savings expected to be 33% of FRNK's non-interest expense base (excluding ESOP expense)
- Revenue synergies identified not included in modeling
- TOWN's SBLF projected to be repaid at close

## Pro Forma Analysis

- Financial Impact:
  - **Accretive in 2016 and beyond**
  - **Single-digit TBV dilution in 2015**
  - TBV accretive in less than 2.5 years
- Balance Sheet at Close <sup>1</sup>:
  - Assets: ~\$6bn
  - Loans: ~\$4bn
  - Deposits: ~\$5bn
- Capital Ratios at Close <sup>1</sup>:
  - TCE / TA: 10.6%
  - Tier 1 Leverage: 10.8%
  - Tier 1 Capital: 13.5%
  - Total RBC: 14.4%

(1) Presented for illustrative purposes only and does not indicate actual results of the combined company

# Credit Due Diligence

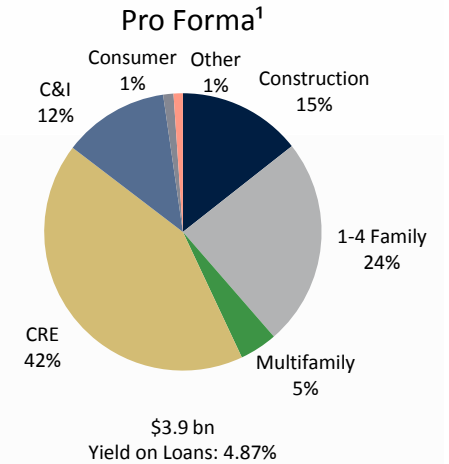
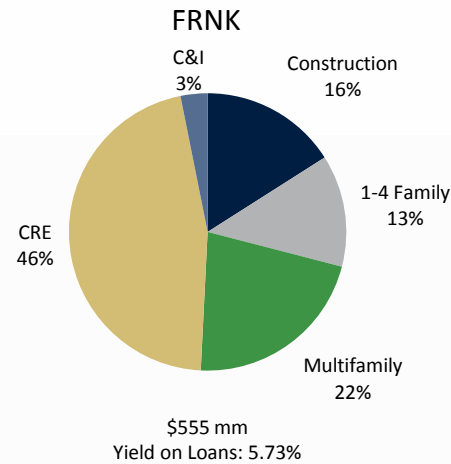
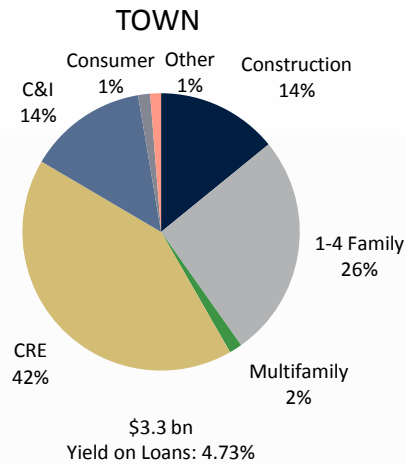
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- **Diligence Highlights**

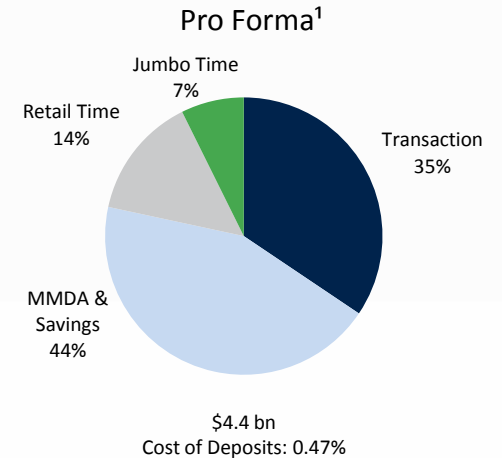
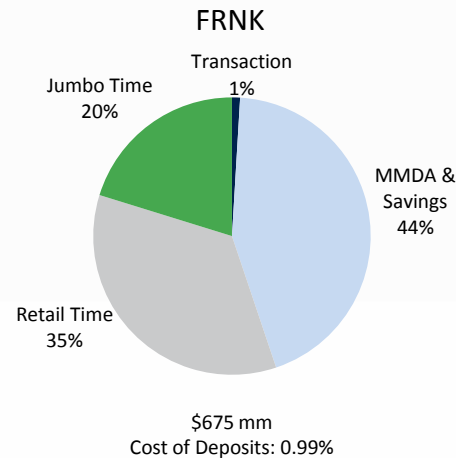
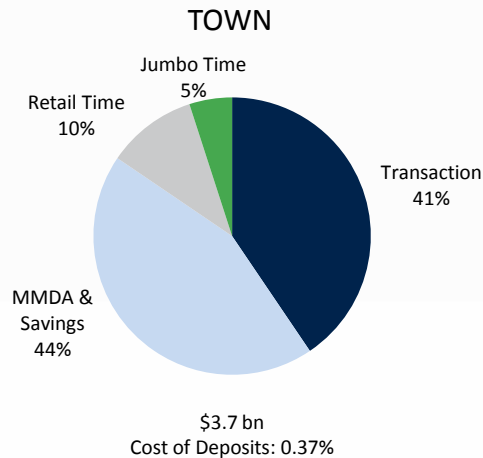
- Comprehensive credit due diligence process to review Franklin's loan and OREO portfolios
- Conservative credit mark of 10%
- All non-accrual loans over \$500,000 reviewed
- All REO reviewed including site visits
- Reviewed 82% of total loan portfolio

# Pro Forma Loans & Deposits

## Loan Composition



## Deposit Composition



(1) Pro forma loan and deposit composition is preliminary and does not give effect to purchase accounting adjustments; yield on loans is loan-weighted, cost of deposits is deposit-weighted; presented for illustrative purposes only and does not indicate actual results of the combined company

Note: Data from regulatory and company filings

Source: SNL Financial

# Benefits to Stakeholders

## Customers

- High-touch, exquisite service
- Enhanced product and services offering
- Wider geographic footprint of service
- 8 convenient Richmond locations
- Higher legal lending limit

## Employees

- Franklin employees will join the TOWN family that has been recognized as one of the “Best Places to Work” by Inside Business
- Limited market overlap will provide opportunities for growth in responsibilities and roles
- Companies familiarity should ensure smooth integration
- TOWN is an experienced acquiror, having completed 22 financial services acquisitions over the last 15 years

## Shareholders

- TOWN has a long track record of superior financial results: recognized by SNL as one of the top 15 consistently high-performing banks since 2003
- ROAA of 0.9% in 2013
- Pro forma EPS accretion in 2016 and minimal TBV dilution earned back in under 2.5 years
- Strong pro forma capital, with TCE/TA above 10%, supports growth and capital management strategies

## Community

- Both companies have a legacy of philanthropic support to their communities
- TOWN and TowneBank Foundation have provided more than \$27 mm in community support since its founding in 1998
- Franklin Federal Foundation, with the additional support of TOWN, will continue its legacy of community support of charitable organizations in central Virginia