

Contingency Funding Plan (CFP)
First National Bank

Overview

The Board of Directors and Management of *First National Bank* recognize the importance of liquidity in the day-to-day operation of our franchise and believe it crucial to have a plan for addressing liquidity in times of crisis. We believe that liquidity crises can occur both from internal as well as external events and our plan addresses both contingencies. Our bank has historically recognized the need for funding sources that go beyond our most important source – our retail deposit business – and we have created a funding program that identifies various wholesale funding sources that can be used whenever appropriate. We execute a liquidity program today that uses both asset-based and liability-based principles and we do favor retail deposits whenever they are available at efficient cost. In those circumstances where wholesale funding offers either a maturity or cost efficiency not available with retail deposits, we will evaluate and use these sources as part of our normal funding program. Our CFP does correlate to our ALCO policy which states that we will not exceed a ratio of 40% for wholesale funding as a percent of total assets. Similarly, we have set limits on our wholesale funding sources as follows and our CFP will adhere to these limits:

Funding Source	Limit (% of Assets)
1. <i>FHLB Advances</i>	25%
2. <i>Brokered Deposits</i>	25%
3. <i>CDARS</i>	15% (<i>Encompassed in Brokered Limit</i>)
4. <i>IDC Deposits</i>	10% (<i>Encompassed in Brokered Limit</i>)
5. <i>Repurchase Agreements</i>	15%
6. <i>Fed Funds Purchased</i>	15%
7. <i>Internet CDs</i>	15%
8. <i>Federal Reserve Discount Window</i>	20%

The reason we have applied generous limits to each source has to do with the fact that different economic environments favor different sources and we want to be able to take advantage of the most economical funding sources as appropriate to manage both our interest rate risk and funding costs. We will, however, not exceed our overall 40% limit.

Funding Sources

- Our primary source of funding will be our retail deposit base. We will generate this funding by aggressively marketing in our trade area and by actively seeking demand deposits through service-related tactics and savings deposits through competitive pricing tactics. In the event this source is not an attractive alternative either for reasons of maturity or pricing, we will consider the following sources:
- *Federal Home Loan Bank Advances* – we presently have a \$20,000,000 facility with the *FHLB* of *Atlanta* and it is collateralized with *1-4 residential mortgage portfolio and our securities portfolio as appropriate (if other collateral is used,*

- indicate this as well).** Our normal collateral position will support \$20,000,000 in borrowings, however, we typically have an additional \$10,000,000 in securities available if needed. We believe that we will always have enough collateral to support total borrowings of \$20,000,000. Historically, we have borrowed under this facility at the rate of 7% of assets and our objective for CFP purposes is to always have \$15,000,000 available for a liquidity event. Our contact for funding at *FHLB of Atlanta* is *Jim Smith* and our contact number is (800) 856-1000.
- *Federal Reserve Bank Discount Window* – we presently have a \$15,000,000 facility available from the *Federal Reserve Bank of Atlanta*. We have set aside our *commercial loan and credit card portfolios along with some of our securities portfolio* to support this facility and we typically can support up to \$20,000,000 in borrowings. We recognize that this facility will not be priced competitively in normal economic environments and do not expect to use this facility except in times of crisis. As such, this facility will be our key CFP funding source. Based on the history of the Discount Window during the liquidity event period of August 2007 through *June 2008*, it is clear to us that this is our single best source of liquidity in difficult times. Our contact for funding at the *Federal Reserve Bank of Atlanta* is *Jim Smith* at (404) 299-1000. As this is a facility we do not intend to use in normal times, we will test the facility at least *twice* a year for an overnight borrowing.
 - *Internet CDs* – we presently have a facility with *QwickRate* where we have been obtaining CD funding since 2005. Our average funding through *QwickRate* during the past 12 months has been \$5,000,000 and we believe that this source will be available in times of crisis. Though there is no limit set on us by the provider, we believe that cost effectiveness will drive the use of this source. Our contact at *QwickRate* is *Jim Smith* who can be reached at (800) 233-2333. Our normal method for using this facility is through the website (*www.qwickrate.com*).
 - *CDARS* – The Certificate of Deposit Account Registry Service is a form of brokered deposits and we have been involved in this program since 2005. In addition to allowing us to offer our own clients enhanced FDIC insurance coverage, CDARS also allows us to fund our balance sheet through their One-Way Buy program. This is a competitive bid process conducted each week and we *have not used this process in the past*. Due to the nature of the FDIC basis, we do believe that this will be a viable source of funds in a crisis situation so long as we retain our well capitalized status and we will test this facility at least *twice* a year. Our contact for CDARS is *Jim Smith* at (800) 233-2333 (**you may want to use the Funding Desk contact as CDARS for this contact**).
 - *Brokered Deposits* – we presently have an arrangement with *Silverton Bank* that allows us to issue brokered deposits as long as we meet the definition of Well Capitalized. During the past 12 months we have used this facility 3 times in order to raise \$5,000,000. We view this facility as one that should be used when the retail deposit marketplace is either too expensive or will not provide the kind of maturity we desire to manage our interest rate risk. Our contact and phone number for this facility is *Jim Smith* at (800) 233-2333.
 - *IDC Deposits* – Institutional Deposits Corp (IDC) provides a facility to us that allows us to both offer higher FDIC insurance coverage to our money market

depositors as well as raise money market funding at competitive rates. *Over the past 12 months, we have used this facility to raise \$2,000,000 in deposits and our contact for this is Jim Smith at (800) 233-2333.*

- *Repurchase Agreements* – we presently have a facility with *Silverton Bank* that allows us to raise as much as *\$10,000,000* by pledging our high quality securities. This facility provides for both overnight and term funding. During the past 12 months, we have used this facility 2 times raising a total of *\$3,500,000*. Our Investment Policy provides that we always maintain a ratio of securities/total assets of *10%* which we feel will provide availability when needed in a liquidity event. In order to support this facility, we have an arrangement with *DTC* to hold these securities when needed for pledging and our contacts for both activities are *Jim Smith at Silverton at (800) 233-2333 and Joe Smith at DTC at (800) 233-2334*. If we do not use this facility during a 12 month period for raising funds, we will test it at least *twice* during the year.
- *Fed Funds Purchased* – as this funding source is limited in terms of usage, we have arranged for *three* facilities in the total amount of *\$9,000,000*. These facilities along with contacts and phone numbers include *Silverton Bank (Jim Smith at 800 233-3333), Nexity Bank (Joe Smith at 800 233-3334), and Wachovia Bank (Tim Smith at 800 233-2444)*. During the past 12 months, we have used these facilities 3 times in order to raise *\$5,000,000*. In the event we do not use one or more of the facilities, we will test each bank at least *twice* each year.

Role of Securities Portfolio

Our Investment Policy provides for us to always maintain our securities portfolio at no less than *10%* of total assets. We do this in order to make certain we have high quality collateral for pledging as well as for liquidity in times of need. This asset-based liquidity concept complements our liability-based concept as described above and we will liquidate for liquidity purposes if this makes sense from the perspective of profitability and/or cost efficiency.

Role of Loan Participations/Sales

During the normal course of business, we do participate loans when needed and do sell residential mortgages we create if maturity is an issue. Though this technique is quite useful in diversifying risk, we do not believe that the concept works well in a liquidity event. Such an event could be an internal one in which case our credits would be suspect or an external one in which case, there may not be willing buyers. As a result, we do not see this as an effective tool in a Liquidity Crisis.

CFP TEAM

In the event of a liquidity crisis, we will activate our CFP Team. Our team has been selected based on the key roles we see as required in such an event. We believe that this event will create enhanced communication between our bank and several key

constituents- our Regulators, our Shareholders, Our Board, Our Clients, Local Media, and our Funding Sources. Our team will include one Board member and is comprised of the following:

1. President and CEO – XXXX: main constituents are our Regulators, Shareholders and Clients. Address – XXXX, Cell Number – XXXXX.
2. Board Member – XXXX: will keep our Board of Directors current. Address – XXXX, Cell Number – XXXXX.
3. CFO – XXXX: will stay in contact with our Funding Sources and work with CEO with Regulators. Address – XXXX, Cell Number – XXXXX.
4. Communications Director: will work with CEO on communications to Shareholders, Clients, and Local Media. Address – XXXX, Cell Number – XXXXX.
5. Senior Credit Officer: will work with the team on all credit issues if that is the root cause of the liquidity event. Address – XXXX, Cell Number – XXXXX.

(Your team designates may be different, but please cover all of the constituencies you deem appropriate and make sure names, addresses are included.)

This team will also be responsible for communicating with our own staff on a regular and consistent basis so long as the crisis is on-going.

Crisis Events

We believe that crisis events can be both short and long term and can be created by internal or external situations. At this time, we can visualize several short term scenarios that would revolve around events like Weather Related issues – Hurricanes, Tornados, Floods -, Acts of War, and PR situations that could reflect badly on our institution leading to large deposit withdrawal or withdrawal of funding sources. Longer term events are seen as ones that severely impact our institution and could lead to failure. By the nature of this event, we see this situation as one involving significant loan or investment losses brought on by improper controls. To guard against the latter, our investment policy limits the amount of risk we can take to *overnight Fed Funds Sold, Treasury Obligations, Agency Obligations that are “AAA” rated, and Corporate Bonds of at least “A” quality. As we believe the risk in this portfolio to be associated with the last category, we have purposely held no more than 2% of our assets in this type of security.* We also see this long term risk as one that could be part of a larger industry-wide demise and recognize that funding ourselves in that scenario could be much more difficult. For purposes of this Plan, we have identified the following indicators as ones that could lead to a liquidity event:

1. Non Performing Assets / Total Assets > 5% (NPA=Non Accruals + 90 or greater days past dues + OREO)
2. Net Charge Offs / Assets > 2%
3. Capital Ratios < Well Capitalized
4. Deposit Withdrawal > 2% of Deposits

(You may have other indicators – these are just examples)

5. Quarterly Loss (*this would have to be carefully drawn based on the age of the bank – in the case of a de novo, this would not be appropriate*).
6. Any other situation deemed problematic by Senior Management

Short Term Crisis – by its nature, a short term crisis would not be one that would typically cut our institution off from our normal funding on an individual basis but rather could lead to systemic risk that affects us along with the market in general. Our plan then in these kinds of situations would be to replenish our funding through the most likely sources of funding that could exist in this situation – Fed Funds Lines, Internet CDs, Federal Home Loan Bank Advances, and the Federal Reserve Discount Window. This would be the order in which we replenish and our decision to use one over the other would be based on price efficiency and maturity need. Based on our experience during the latest liquidity event (March 2008 – the so-called Bear Stearns Week-end), each of these sources remained viable, however, it was clear that the Discount Window was the most price efficient and this is where we would look first in this short term crisis. This also makes sense in that this source of funding would not likely be used in normal times and hence would be fully available to us.

Longer Term Crisis – unlike the former situation, this kind of event would likely cut us off from several normal sources of funds. We believe that of all our funding sources, the Fed Funds lines are most credit sensitive and we don't think that these facilities would be available in this event. Any form of brokered deposit would also be off limits if our event involved the loss of our well capitalized status. Finally, we also believe that the Repurchase Agreement market would be off limits based on the credit sensitive nature of the "lenders" in this arena. So, in a longer term event, our focus would be on Internet CDs (by its nature, this market already operates in the <\$100,000 market and is covered under FDIC insurance), Federal Home Loan Bank Advances, and the Federal Reserve Discount Window. This is also where we might see a desire to liquidate securities but that decision would be based on the expected losses created by such a sale.

Stress Testing

Our stress testing methodology will consist of three scenarios – our normal and expected cash flow laid out over the next 12 months on a monthly basis, our short term liquidity event which stresses us to locate 10% of our assets (at that time) in new funding, and a longer term crisis in which our stress involves 20% of our assets. During the past 5 years, our bank has never experienced a loss of deposits that exceeded 10% of our assets and using 10% and 20% of assets appears to us to be a conservative methodology for this exercise. (*If your experience doesn't include 5 years, use an appropriate time period and if you have actually experienced a loss of deposits over some time period of less than, say, six months, you may have to use higher %'s*). Our short term stress test cash flow will describe an event of just 3 months duration in which our need for funding is started and finished in that period. Our longer term stress test cash flow will be one of 12 months and will encompass monthly changes in need that accelerate to a high of 20% of assets.

(You should include at least three cash flow scenarios that depict this situation).