James Baker & Associates

Sample Bank
INVESTMENT POLICY

I. OBJECTIVE

The investment securities portfolio of _____ (Bank) of _____ shall be managed to maximize portfolio yield over the long term in a manner that is consistent with liquidity needs, pledging requirements, asset/liability management strategies and safety of principal. Portfolio strategies will be utilized to assist the Bank, through means established in this Policy and the Investment Portfolio Strategy, in the attainment of a level of interest rate sensitivity consistent with the goals of the Asset/Liability Management Policy.

II. RESPONSIBILITIES

The Investment Committee of the Bank is responsible for recommending to the Board of Directors uniform investment policies and procedures which, while striving to maximize portfolio performance, will keep the management of the portfolio within the bounds of good banking practice and satisfy the liquidity and legal requirements of the bank. Composition of the Investment Committee shall consist of Mr./Ms. _____, Mr./Ms._____, Mr./Ms._____. Mr./Mrs. _____shall serve as Chairman of the Investment Committee and Senior Investment Officer. The Investment Committee shall meet monthly or more frequently when necessary and will be accountable to the Board of Directors. Operating management of the bank portfolio is the responsibility of the Senior Investment Officer.

III. DUTIES

The Investment Committee shall receive and review data on the current economic conditions and outlook for interest rates. Receive and review balance sheet liquidity as well as loan and deposit forecasts.

A. Review monthly reports with regard to:

1. Portfolio cashflow and liquidity
2. Value of Portfolio (Total, HTM, AFS)
3. Quality of tax-exempt portfolio
4. Need for tax-exempt bonds
5. Duration of portfolio (Quarterly)

6. MBS/CMO actual performance vs. projected performance

B. Based on the aforementioned information, establish quarterly Investment Portfolio Strategies providing the following analysis:

1. Current portfolio composition
2. General strategy
3. Portfolio duration/market value risk limits
4. Desired portfolio composition
5. Quality standards
6. Profit and loss decisions
7. Specific strategies according to portfolio sector

The strategy shall consider the present and projected interest rate environment, yield curve analysis, investment product alternatives, along with the Bank's asset concentrations, tax, liquidity, and interest rate sensitivity positions. Performance against the prior quarter's strategy shall be reviewed, and the strategy for the next quarter shall be reviewed and approved by the Board of Directors.

IV. REPORTING REQUIREMENTS

A. The following reports for HTM and AFS will be reviewed quarterly with the Board of Directors:

1. All bond purchases
2. All bond sales and net profits (losses)
3. Transfers between SFAS 115 categories
4. Portfolio mix
5. Portfolio yield
6. Duration and market value risk
7. Market appreciation or depreciation of bond portfolio
8. Investment Portfolio Strategy
9. An explanation of any known exceptions to this policy as well as an action plan and timetable to bring the bank into compliance with such policy limits.

B. Annually, the written Investment Policy will be reviewed with the Board of Directors.

C. The Investment Committee shall review at least annually:

1. Objectives against results
2. Desired portfolio segmentation and mix
3. Credit risk
4. Total portfolio and AFS market value risk limits

V. DOCUMENTATION

A. The Bank will exercise the same degree of care in bond portfolio transactions as it does in documenting loans or any of the other assets of the Bank. The retention of all supporting documentation will include the following:

1. Description of each security purchased and reason for transaction
2. Designation of portfolio segmentation (AFS vs. HTM) at purchase
3. Name of Dealer
4. Trade date, settlement date
5. Issuer
6. Coupon
7. Price
8. Yield
9. Duration, average life, maturity
10. Par value
11. Cusip number
12. If applicable:
    a. Description of collateral
    b. CPR/PSA assumptions and analysis
    c. FFIEC Stress Test

VI. PORTFOLIO MANAGEMENT PHILOSOPHY

A. As stated in the Objective (Section I) of the Policy, the Investment Portfolio will be managed to maximize income within certain parameters and limits. It is the philosophy of the Bank to use effective duration, rate shock analysis, as well as total return to analyze and manage the Investment Portfolio and to determine the effect of interest rate movements on the yield and value of the Bank's portfolio. It is expected that as credit or market value risk increases, the yield should also increase.

B. The primary strategy of the Investment Portfolio will be to maximize total return. To manage inherent risks of certain securities, as well as the asset/liability position of the Bank, most investments will be placed in AFS.

C. On a quarterly basis, a comprehensive Investment Portfolio Strategy addressing asset/liability positions, asset concentrations, liquidity risk, market volatility, and desired rate of return will be developed and approved by the board. (See III. B.).

D. The investment portfolio shall be appraised on a quarterly basis by an independent source, or more often as necessary. In assessing the market value sensitivity of the investment portfolio, the Bank will apply effective duration analysis. Effective duration will be used to measure potential appreciation/depreciation in the portfolio under different interest rate scenarios. In applying duration, all embedded options (caps, floors, indexes, reset frequencies, prepayments, etc.) will be considered when analyzing any floating rate instruments to more accurately measure market value sensitivity.

For example, if the portfolio has a duration of 3, its value will decline roughly 3 percent if interest rates increase one percentage point. Additionally, the appreciation/depreciation will be related as a percentage of capital. The Bank recognizes that for large changes in rates the actual change in market value may differ from duration measures. For purposes of this policy, the term "duration" shall mean "effective duration.

The Bank feels it should integrate the depreciation potential of its Investment Portfolio into an overall plan of management that relates to capital at risk.

VII. OPERATING POLICY

A. Portfolio Segmentation

The investment portfolio will be managed in accordance with current GAAP requirements. The portfolio will be segmented based upon the Bank's intent and ability to hold a security to maturity. Only securities in which the Bank intends and believes to have the ability to hold to maturity will be placed in the Held-to-Maturity (HTM) account. All other securities will be placed in the Available for Sale (AFS) account. The Bank will **not** have a Trading account at this time. Transfers among segments will be rare. The Senior Investment Officer shall clearly and thoroughly document the reason for the transfer of any security from one category to another. The ALM Committee shall approve all such transfers.

1. The relative amounts of HTM and AFS securities will be determined by Bank liquidity, respective market values, individual security "risk/return" profiles, and other factors such as the Bank's tax position.

2. Items may only be sold/transferred out of HTM for permissible reasons stated in SFAS 115:

   a. Less than 3 months to maturity or effective call date.
   b. Less than 15% of purchase face remaining on MBS/CMO.
   c. Deterioration of an issues creditworthiness.
   d. Change in the tax laws (not tax rates).
   e. Major regulatory change (i.e., change in risk weight).
   f. Business combination or disposition resulting in an unacceptable asset/liability position or excessive credit risk.

B. Portfolio Accounting

1. Securities in the HTM account will be accounted for at amortized cost, as per SFAS 115.

2. Securities in the AFS account will be accounted for at fair value with the net gain/loss (adjusted for tax) reflected in the Bank's capital.

3. Any transfers between accounts will be accounted for at fair value.

C. Transaction Procedures

1. The purchase, sale and/or exchange of portfolio securities shall be made by the Senior Investment Officer, as authorized by the Investment Committee, only from institutions that are approved by the Board of Directors, as per Exhibit 1.

2. Orders for the purchase and/or sale of Federal Funds shall be made by the Senior Investment Officer or his/her staff subject to policy determined by the Investment Committee. Attached as Exhibit 2 is the Bank's policy relating to Federal Funds purchases. Exhibit 3 presents the policy relating to Federal Funds sales.

3. Acquisition of large Certificates of Deposit over $100,000 will be coordinated by the Senior Investment Officer and his/her staff with regard to amount, maturity and rates.

4. All public funds deposits requiring collateral will be coordinated through the Senior Investment Officer to assure proper rate setting and pledging.

D. Acceptable Lot Sizes

1. U.S. Treasury, Federal Agency, and other taxable issues are to be purchased in minimums of _____.
2. Municipal securities are to be purchased in minimums of $100,000 when possible.

3. Other lot size considerations:

   a. The sale of Fed Funds or the purchase of securities under agreement to resell to any bank or dealer should normally not exceed two times the loan limit of the Bank. However, at times it may be necessary to sell more than twice the lending limit to one bank due to market conditions and/or the amount of funds to be sold. A concentration of Federal Funds sold to any bank is to be carefully monitored.

E. Periodic Evaluation of Reporting Categories

On a quarterly basis, the Senior Investment Officer shall review and assess the ongoing appropriateness of the reporting category for each security in the investment portfolio. The Senior Investment Officer shall present the results of such review to the Investment Committee and shall obtain the Committee's approval for any proposed transfer of securities between reporting categories.

F. Impairment of Securities

Irrespective of the classification, accounting and reporting treatment as AFS or HTM securities, if any decline in the market value of a security is deemed to be anything other than temporary (i.e. its value permanently impaired), then the security's carrying value shall be written down to fair value and the amount of the writedown reflected in earnings.

G. Determination of Fair Values

The determination of fair value prices of AFS securities shall be based primarily on market values quotes obtain from a third party in an effort to provide a reliable, consistent and verifiable methodology. In instances where quoted market prices are not readily available (for example, small issues of revenue bonds) a reasonable estimate of fair market value may be used utilizing techniques such as discounted cashflow analysis, "grid" or matrix pricing or option-adjusted spread models. Such valuations may be provided by a third party, such as an investment portfolio service, correspondent bank or other source. The Bank shall inquire and document that the valuation methodologies employed by the third party are adequate and consistent with SFAS 115.

VIII. PORTFOLIO EXPOSURE AND EQUITY VOLATILITY LIMITS

A. Investment Portfolio Exposure Limits

The weighted average effective duration of the total Investment Portfolio shall not exceed ___and the weighted average effective duration of the HTM portfolio shall not exceed _____. The market price volatility exposure limits of the overall portfolio shall not exceed the following limits.

INVESTMENT PORTFOLIO EXPOSURE LIMITS
(Total Portfolio)

Change in Interest Rate (in Basis Points)	Policy Limits Projected Portfolio (Depreciation After Tax as % Equity)
+100BP	
+200BP	
+300BP	

B. Equity Volatility-AFS Portfolio

The regulatory authorities exclude the AFS mark-to-market adjustment from regulatory capital. However, since the AFS portfolio will be utilized to manage interest rate risk and liquidity needs of the bank, it is important that the market value exposure be monitored in the event the securities need to be liquidated.

It shall be the policy of the Bank that the AFS portion of the investment portfolio shall demonstrate aggregate price volatility assuming a 300/200/100 basis point immediate parallel shift in the yield curve <u>not</u> greater than **a)** an amount which would result in a reduction in the Bank's equity of <u>20%/15%/10%</u> (before consideration of the SFAS 115 adjustment), or **b)** an amount which if

deducted from Tier 1 capital would result in the institution no longer being considered "well capitalized." Such calculations shall be performed no less frequently than quarterly. The foregoing amounts shall be tax-adjusted using the Bank's then current estimated effective tax rate. Reference should be made to Exhibit 1 of the Asset/Liability Management Policy for classification and types of capital.

If the bank has adopted risk limits utilizing Economic Value of Equity (EVE) shocks as described in the Asset Liability Management Policy in section XVII and the bank is in compliance with these risk limits, then the Investment and Asset Liability Committees may jointly waive compliance with the above Investment Portfolio Exposure Limits. This situation should be reported to the Board of Directors as long as it exists and should be addressed in the Quarterly Financial / Investment Strategy in terms of any possible alternatives and future actions which would need to be taken if the bank fails to comply with the EVE risk limits.

IX. PERMISSIBLE INVESTMENTS

The Bank shall purchase securities deemed permissible as follows:

A. U.S. Treasury Securities;

B. U.S. Government Agency Securities; including:

1. Government National Mortgage Association (GNMA), including CMO's and MBS's (ARM's and Fixed Rate), and Direct Obligations;
2. Federal National Mortgage Association (FNMA), including CMO's and MBS's (ARM's and Fixed Rate), and Direct Obligations;
3. Federal Home Loan Mortgage Corporation (FHLMC), including CMO's and MBS's (ARM's and Fixed Rate), and Direct Obligations;
4. Federal Home Loan Bank (FHLB)
5. Student Loan Marketing Association (SLMA);
6. Small Business Association (SA) U.S. Government Guaranteed Portion;
7. Federal Farm Credit Bank (FFCB);
8. Public Housing Authority (PHA)
9. Resolution Funding Corporation (REFCORP)
10. World Bank, Tennessee Valley Authority and entities whose securities are considered "Type II" Securities pursuant to 12 U.S. C. 24. (limited to 10% of capital).

C. Corporate Bonds and Obligations;

D. Mutual Funds;

E. Municipal Securities, including In-State and Out-of -State (tax exempt and taxable);

F. Money Market Instruments, including Fed Funds Sold, Eligible Banker's Acceptance, Commercial Paper, Certificate of Deposit and Repurchase Agreements.

Both fixed rate and adjustable rate securities may be purchased depending upon the interest rate environment and interest rate sensitivity position of the bank. All adjustable rate securities purchased by the Bank shall meet the requirements of this policy and shall be evaluated carefully, particularly those with imbedded prepayment options. Additionally, floating rate securities shall be evaluated in terms of (1) the appropriateness of the index, (particularly non-money market indices,) (2) repricing frequency, (3) lifetime cap of the security, (4) periodic caps of the securities, and (5) potential market price volatility attributable to these factors (parallel and non-parallel interest rate changes where appropriate.)

X. UNACCEPTABLE INVESTMENTS

The Bank shall not purchase certain securities deemed unacceptable for the Bank's Portfolio, including IO's, PO's, interest rate futures, options or swap contracts, and any security whose interest rate is tied to a foreign currency exchange rate. (See XI. A. 3) No derivatives other than those security types addressed specifically in this policy (collateralized mortgage obligations and agency structured notes -- see XI) shall be purchased.

XI. DIVERSIFICATION AND LIMITATIONS

A. Securities purchased shall be limited to investments that comply with Federal and State regulations and that meet Board approval. Investments not listed below (i.e. bonds issued by a new federal agency) may be purchased only if the issuer meets the Bank's general investment criteria and is in the best interest of the Bank. Any security which meets appropriate pledging requirements may be utilized to meet pledging needs. Any exceptions to these limitations must be approved by the board.

1. Direct Obligations of the U.S. Treasury.

   a. There is no limitation on the amount of U.S. Government Securities in the total investment portfolio.

   b. The weighted average duration of the U.S. Government portfolio shall not exceed____.

   c. There is no maximum lot size for purchases of U.S. Treasury Securities and it is desirable to purchase in minimums of $100,000.00.

   d. Treasuries will primarily be held in AFS for liquidity purposes but may be held in HTM subject to adequate documentation of the ability and intent to hold to maturity.

2. Federal agency and agency-sponsored securities.

a. Securities issued by any individual Federal agency may not exceed 50% of the investment portfolio or 30% of total bank assets and overall agency securities shall not exceed 70% of the investment portfolio or 40% of total bank assets.

b. The maximum holding of any single issue shall be $500,000.00 and it is desirable to purchase in minimums of $100,000.00.

c. The weighted average duration of the agency portfolio shall not exceed _____ years.

d. Non-callable agencies will generally be placed in AFS.

3. Structured Notes and Callable Agency Securities

Any Agency Securities which are considered "structured notes" shall be analyzed and documented carefully prior to purchase. Structured Notes include:

a. Step-up bonds;
b. De-leverage floaters;
c. Inverse floaters;
d. Dual indexed floaters;
e. Range bonds and;
f. Index amortizing notes

The performance characteristics of these securities (including yield, market price, liquidity, volatility, cashflows and duration) shall be evaluated and documented prior to purchase in a 300 basis point parallel rising and falling interest rate environment as well as non-parallel yield curve shifts, when appropriate. Any key assumptions used in the analyses shall be clearly understood and documented by the Senior Investment Officer. While callable agency securities are not considered "structured notes", they will also be analyzed similarly prior to purchase. The Senior Investment Officer shall have a clear understanding of the risks inherent in each of these securities individually as well as overall aggregate risks.

At the time of purchase, the Senior Investment Officer shall identify reputable sources which can provide reasonable market values for any structured notes purchased.

No more than _____of any individual agency structured note issue shall be purchased. In the aggregate, structured agency notes (excluding callable securities) shall constitute no more than 20% of the investment portfolio or 10% of total bank assets. The volumes, market values, gains/losses and other relevant data of these securities shall be reviewed by the Investment Committee and reported to the Board of Directors no less frequently than quarterly.

4. Municipal Bonds - Overview

   a. Municipal securities will be purchased with consideration of the current tax position of the Bank.

   b. Appropriate credit evaluation must be performed prior to purchasing non-rated or low rated municipal bonds. (Requirements are discussed later).

   c. The total municipal portfolio shall not exceed _____% of the total investment portfolio or _____% of total bank assets.

   d. The weighted average duration for the total municipal portfolio shall not exceed 8.0. The duration and price volatility of individual municipal bonds in a rising/falling interest rate environment will be considered at purchase and will be evaluated quarterly for the overall municipal portfolio.

   e. Credit files must be maintained and updated as necessary on all tax-exempt bonds.

   f. A legal opinion by a recognized bond attorney shall be obtained when deemed prudent.

   g. Zero coupon municipal bonds are an allowable investment but should be carefully evaluated in the perspective of the risk assessment of the individual bond, the total investment portfolio and the bank overall.

   h. Most municipals will normally be placed in HTM. Some high-grade municipals may be placed in AFS to allow management of the Bank's tax position.

   i. An assessment of the potential impact of any call provisions shall be considered.

5. General Obligation Bonds

   a. Any bond escrowed by U.S. Treasuries or Federal Agencies are acceptable for the Bank's Portfolio.

   b. All out-of-state issues shall have at least an "A" rating by Moody's and/or Standard Poors (See Exhibit 8) or equivalent creditworthiness must be established. (See d. Below). In the aggregate, out-of-state municipal bonds rated below AA shall not exceed 10% of the total investment portfolio or 5% of the total bank assets.

   c. In-state issues shall have at least a "Baa/BBB" rating or a #2 rating by the municipal rating committee of the state or or equivalent creditworthiness must be established. (See d. Below). The aggregate of in-state municipal bonds having a rating below #2 shall not exceed 10% of the total investment portfolio or 5% of total bank assets.

d. For non-rated general obligation bonds or those rated below the rating limits at b. and c. above, the following factors considered shall be in evaluating the merits of bonds:

(1) Relationship of debt burden to proper valuation
(2) Reasonableness of debt burden on a per capita basis and popular trends
(3) Historical trends of debt and debt paying ability
(4) Relationship of tax burden to property valuation
(5) Assessed valuation, including basis or assessment
(6) Tax collection record
(7) Recent trends in tax rates
(8) Economic background

6. Revenue Bonds

a. Revenue bonds will be purchased only upon approval of the Investment Committee. The same rating criteria apply for revenue bonds as general obligation bonds.

b. When considering the purchase of non-rated or low rated (See 5. above) revenue bonds, the following should be taken into account and documentation in the same manner as required in the Bank's loan policy:

(1) The number of times annual gross revenues cover debt service (coverage). Minimum coverage should be _____ times.

(2) The segregation of revenue funds from general funds.

(3) The flow of revenues from general funds.

(4) Special covenants in the bond indenture.

c. Revenue bonds should be purchased using prudent banking judgment, based upon performance history and reliable estimates of the credit standing of the issue.

d. Revenue bonds of a single issuer with historical financials, shall not exceed 10% of Bank's capital position at any given time.

e. For Type III securities as defined in 12 U.S.C. 24, the Bank will not hold in aggregate more than 5% of the Bank's capital position at any given time.

7. Corporate Bonds

a. Corporate bond holdings may not exceed _____% of the total investment portfolio.

b. Corporate bond purchases of a single issuer shall not exceed 10% of capital and surplus.

c. The weighted average duration of the corporate portfolio shall not exceed _____.

d. Corporate bonds in the investment portfolio must have a rating of BBB/BAA by Moody's and/or Standard and Poors.

e. Credit files must be maintained and updated as necessary on all corporate bonds.

f. Corporate bonds will typically be placed in HTM.

8. Mortgage Backed Securities

a. Only mortgage-backed securities (MBS) issued by or collateralized by Federal agencies (i.e. FNMA, FHLMC, GNMA) shall be purchased for the investment portfolio.

b. Mortgage-backed securities may not exceed _____% of the total investment portfolio.

c. The weighted average duration of the mortgage portfolio shall not exceed _____.

d. A determination of the diversification of the underlying mortgages will be done prior to purchase. The following criteria will be reviewed:

(1) Coupon
(2) Issuer
(3) Yield
(4) Maturity, average life and duration
(5) Geographic characteristics, if available
(6) Number and average balance outstanding, if available

e. A pre-purchase analysis will be completed and documented in the file for each individual pool, including a rate shock analysis which utilizes a wide spectrum of prepayment assumptions reflecting price, yield and cashflow / average life volatility in changing interest rates.

f. A periodic check of each mortgage-backed pool will be completed as to the actual performance versus projected performance, at a minimum on an annual basis.

g. Most fixed-rate MBS will be placed in AFS to manage their prepayment risk. Some seasoned/high cashflow MBS which exhibit lower prepayment volatility may be placed in HTM.

h. Floating rate mortgage-backed pools may be purchased as deemed necessary by asset/liability analysis.

i. When analyzing floating rate mortgage-backed securities all embedded options (i.e. Index, Cap, Floor, Margin, Reset Frequency, Periodic Cap, etc.) will be taken into consideration. It is understood that embedded options can significantly reduce the effective duration (vs. cashflow duration) of floating rate mortgages.

j. Most floating-rate MBS will be placed in AFS to assist in managing the bank's asset/liability position.

9. Collateralized Mortgage Obligations (CMO)

a. Only CMOs issued by or collateralized by Federal agencies shall be purchased for the investment portfolio.

b. CMOs may not exceed 50% of the total investment portfolio, or 25% of total bank assets.

c. The weighted average duration of the CMO portfolio may not exceed _____.

d. First Pay and PAC CMOs are preferable; however, other tranche types may be purchased with prudent evaluation of yield and average life stability with respect to interest rate changes and prepayment variance. See 8e above regarding pre-purchase analysis and documentation.

e. A determination of the diversification of the underlying mortgages will be done prior to purchase. The following criteria will be reviewed:

(1) Coupon
(2) Issuer
(3) Yield
(4) Maturity, average life and duration
(5) Geographic characteristics
(6) Number and average balances outstanding

f. A prepayment analysis will be completed and documented in the file for each CMO prior to purchase.

g. A periodic (at least annual) check of each CMO will be completed as to the actual performance versus projected performance.

h. Floating rate CMOs may be purchased as deemed necessary by asset/liability analysis.

i. When analyzing floating rate CMOs all embedded options (i.e. Index, Cap, Floor, Margin, Reset Frequency, Periodic Cap, etc.) will be taken into consideration. It is understood that embedded options can significantly reduce the effective duration (vs. cashflow duration) of floating rate CMOs.

j. The bank will review price/yield and cashflow sensitivity analysis of each CMO prior to purchase. (Section 8.e. above) The analysis will be based upon the prospectus when

available, otherwise third party documentation, such as The Bloomberg, will be utilized. A prospectus will be obtained when available.

k. Short average-life (<2.0), fixed-rate CMO tranches with very defined cashflows ("PAC - LIKE") and little extension risk may be placed in HTM. All other fixed-rate CMO tranches will be placed in AFS.

l. Most floating-rate CMO tranches will be placed in AFS to manage the Bank's asset/liability position.

10. Mutual Funds

a. Mutual funds purchased must be registered with the SEC and their investments must conform to banking regulations.

b. Mutual fund holdings may not exceed _____% of total investments, or _____% of total assets.

c. All mutual funds will be placed in AFS.

11. Money Market Instruments

a. The average duration of the money market portfolio will be determined in concert with the overall asset/liability position of the bank.

b. The money market portfolio shall not exceed ____% of the total investment portfolio.

c. All money market instruments with 3 month maturity will be placed in HTM. Longer money market instruments may be placed in AFS.

12. Federal Funds Sold

a. Fed Funds sold must be made to institutions on the approved list (Exhibit 3).

b. The total Fed Funds sold position of the bank should not exceed _____% of the total investment portfolio. Reference is made to the Bank's policy on Regulation F "Interbank Liabilities."

13. Commercial Paper

a. Commercial paper shall be purchased with a rating of no less than Moody's _____and/or Standard and Poors _____.

b. Commercial paper of a single issuer shall be limited to _____% of capital and surplus.

14. Bankers Acceptances

    a. Bankers acceptances purchased shall be issued by insured domestic institutions.

    b. Bankers acceptances of a single issuer shall be limited to _____% of capital and surplus.

15. Certificates of Deposit

    a. CD purchases shall be limited to financial institutions with a minimum of _____ in assets, a minimum of _____% equity capital/total assets, and a history of positive and stable earnings unless the amount is less than $100,000 and the institution is FDIC insured.

    b. CD's of a single issuer shall be limited to _____% of capital and surplus.

    c. CD's will be purchased with a maturity of less than _____ years.

16. Repurchase Agreements:

    a. The Senior Investment Officer may enter into repurchase and/or reverse repurchase agreements under the following guidelines:

        (1) Whenever securities are purchased under agreement to resell, the Senior Investment Officer will adhere to the following guidelines:

        (2) All securities purchased under agreement to resell must be done direct, only with institutions that appear on our approved repurchase agreement list. See Exhibit 5.

        (3) Specific terms of each agreement must be in written form with authorized signatures. See Exhibit 6.

        (4) All transactions must be done at or below the bid side of the market for the collateral being offered.

        (5) The Senior Investment Officer will monitor the market value of the collateral to ensure margin maintenance.

    b. Whenever securities are sold under an agreement to repurchase, the Senior Investment Officer will adhere to the following guidelines:

        (1) All securities sold under agreement to repurchase must be done direct, only with institutions on our approved repurchase agreement list and customers of _____ Bank.

(2) Specific terms of each agreement must be in written form with authorized signatures. See Exhibit 7.

(3) All such agreements will be don at the market for the collateral.

XII. RESTRICTED TRANSACTIONS

The following transactions are prohibited in the investment portfolio.

A. Gains Trading

Gains trading is a practice of purchasing securities with the intent of quickly reselling appreciated securities to recognize a profit and retaining depreciated securities to defer recognizing a loss.

Securities purchased with the intent of profiting from short-term interest rate movements would be assigned to the Trading Account on trade date.

B. When-Issued Securities Trading

When-issued securities trading is the buying and selling of securities in the interim between the announcement of an offering and the issuance dates of these securities. If cash or cash equivalents are not held to satisfy delivery of securities purchased on a when-issued basis, the investment portfolio may become unsuitably leveraged.

It is not inappropriate to purchase securities on a when-issued basis. However, if a security is purchased on a when-issued basis with the intent to sell the security prior to settlement date should it appreciate in value, then the transaction must take place in the Trading account.

C. Pair-Offs

A Pair-Off is a set of securities transactions by which a purchase is offset by a sale of the identical securities prior to settlement. Similar to when-issued transactions, Pair-Offs may result in unsuitable leverage if cash or cash equivalents are not held to satisfy delivery of securities purchased.

Only in unusual circumstances should a Pair-Off occur in the investment portfolio. It is expected that securities purchased in the investment portfolio will be held to maturity unless a change in the Bank's circumstances indicates that the securities should be sold.

D. Corporate Settlement of U.S. Government and Federal Agency Securities Purchases

Regular-way settlement for transactions in U.S. Government and Federal Agency securities one business day after the trade date. Regular-way settlement for corporate securities is five business days after the trade date. The use of a corporate settlement method for U.S. Government securities purchases is inappropriate in the investment portfolio if the intent is either to leverage the portfolio or to speculate on interest rate movements. However, corporate settlement may be used for pledging needs, funding needs, ease of settlement or other non-speculative reasons.

It is not appropriate to settle securities purchases on other than a regular-way basis. If the securities are currently attractively priced, yet funding will not be available on regular-way settlement date, a negotiated settlement date is often preferable to short-term financing. The purchase should be recorded in the investment portfolio on trade date and the total duration of the portfolio, including the unsettled securities, should not exceed policy guidelines.

E. Repositioning Repurchase Agreements

Repositioning Repurchase Agreements are Repurchase Agreements used to provide financing for speculative transactions. Repurchase Agreements are not inappropriate if used to raise low cost short-term funds to finance short-term needs. However, it is never appropriate to engage in Repurchase Agreements to finance speculative transactions.

F. Short Sales

A short sale is the sale of a security that is not owned. A short sale can be used to either hedge the portfolio against rising interest rates or to speculate on the fall in the price of the security. As hedging is more appropriately implemented using alternative strategies, including the purchase of securities with negative duration, futures contracts, or options, short sales are an inappropriate activity for the investment portfolio.

G. Delegation of Discretionary Investment Authority

The Senior Investment Officer retains full discretion over the bank's portfolio. There will be no delegation of authority to any individual who is not an employee of the bank. Any delegated portion of the investment portfolio in which the portfolio manager does not review and authorize transactions will be reported as held for sale.

H. Covered Calls

In the event of adopting an approved covered call policy, the securities held against which the call options have been written will be designated as held for sale and reported at the lower of cost or market.

I. Adjusted Trading

The bank will <u>not</u> engage in "Adjusted Trading" practices which involve the sale of a security to a broker or dealer at a price above the prevailing market value and the simultaneous purchase and booking of a different security at a price greater than its market value.

XIII. LIMITED SECURITIES

While securities included on the List of Limited Securities can be used advantageously to control exposure to interest rate volatility and enhance earnings, their use involves increased risk of impairing

the Investment Portfolio's liquidity, marketability, pledgeability, and price volatility. Thus these instruments will be used only in the event in which the Bank's overall interest rate risk is reduced.

If any limited securities are purchased, the Senior Investment Officer will provide the Board of Directors with a current separate status report on such securities at least quarterly for as long as such securities are owned. (Assuring compliance with all regulatory requirements regarding Board reporting and approval).

The purchases of a given issue will be limited to the Bank's lending limit and the aggregate market value of all limited securities listed below will not exceed 20 percent of the market value of the Investment Portfolio at the time of purchase.
All Limited Securities must be placed in AFS and carried at fair market value.

A. List of Limited Securities:

1. Stripped Mortgage backed Securities.
2. Asset Backed Securities Residuals.
3. Zero Coupon Bonds with maturities exceeding 10 years.
4. All "high-risk mortgage derivatives" as designated in the Supervisory Policy Statement on Securities Activities.

XIV. SELECTION OF SECURITIES DEALERS

The Bank shall know the securities firms and the personnel with whom they deal. The Board of Directors and/or the Investment Committee shall review and approve a list of securities firms with whom the bank is authorized to do business (Exhibit 1). The dealer selection process includes an investigation of the following:

A. Capital strength and review of broker-dealer financial statement
B. Dealer reputation
C. Formal enforcement actions against the dealer
D. Background, experience and expertise of the sales representative

XV. SELECTION OF SAFEKEEPING LOCATIONS

The Bank will use any institution listed in Exhibit 4 for safekeeping of securities.

XVI. CONFLICT OF INTEREST

Any officer or director who is directly involved in the purchase or sale of securities on behalf of the Bank shall report any personal securities transactions with approved dealers listed in Exhibit 1 to the Investment Committee and Board of Directors at least quarterly. Additionally, any such individual

shall report to the Asset Liability Management Committee and the Board of Directors any gift, gratuity or expense reimbursement in excess of $50.00 in value received from a securities dealer within thirty days of the receipt of such gift.

XVII. MARK-TO-MARKET TAXATION -- I.R.C. SEC. 475

Unless specifically indicated to the contrary, all securities (loans or investment securities) held by the Bank as of October 31, 1993, or subsequently acquired, are hereby identified as "held for investment" or "not held for sale" for tax purposes under I.R.C. Sec 47 and are, therefore, not subject for the mark-to-market provision of I.R.C. Sec. 475.

XVIII. PROVISION FOR EXCEPTIONS

In those situations when it may be prudent to make investment moves which would differ from current operating policy and when it would be impossible for the entire committee to convene, the Senior Investment Officer and on other Investment Committee member may act for the entire committee. This policy is intended to be flexible to deal with rapidly changing conditions in the money and bond markets; therefore, the policies and procedures enumerated in this statement of policy can be amended by a vote of the Investment Committee. Any amendments to this policy will be recommended for approval by the Board of Directors at its next Board Meeting.

EXHIBIT 1

APPROVED DEALERS IN SECURITIES

_____ Bank of _____ may buy (sell) securities from (to) the following approved dealers. All purchases and sales will be delivery vs. payment.

NAME OF DEALER	APPROVED TRADE LIMIT	LOCATION
1. James Baker & Associates	$10,000,000.00	Oklahoma City, OK
2.		
3.		
4.		

5.

6.

7.

The limit for unsettled trades with any of the above dealers is $10,000,000.00.

EXHIBIT 2

FEDERAL FUNDS PURCHASES

All Federal Funds purchased by _____ bank of _____, are made on an unsecured basis for our own Account. Federal Funds Purchases may be made on a secured basis; however, the Board of Directors must pass the following resolution authorizing the purchase of Federal Funds and identifying those who can borrow prior to any such borrowings.

"Upon a motion by _____, and seconded by _____, the following resolutions were approved and adopted.

Be it resolved that the _____, or _____, or _____, or their successors in office, or any one of them are hereby authorized for, or on behalf of, and in the name of this bank to:

1. Negotiate and purchase Federal Funds from _____ up to an amount not to exceed _____ in the aggregate amount at any one time outstanding.

2. Pledge as security for Federal Funds purchased any government or municipal securities owned by this bank, which are now or hereafter shall be held in Safekeeping at _____.

Be it further resolved that this Resolution shall immediately be construed as a pledge to _____ for any and all Federal Funds purchased from said bank from this day forward and shall continue in force until notice to the contrary in writing is duly served on said bank."

Signed by: _____ Signed by: _____

Revised January 6, 2000

EXHIBIT 3

FEDERAL FUNDS SALES

_____ Bank will sell Federal Funds to the banks listed below. It is our policy to sell no more than the lesser of $_____ our legal lending limit to any one bank on a given day; however, at times it maybe necessary to sell more than _____ to one or more of these banks because of market conditions and the amount of funds that must be sold. In such cases the President or his designator shall approve such transactions. In the event the Bank is acting "as agent", then we may sell five times the legal lending limit provided a listing of the institutions to which funds are being sold is obtained and the quality, strength and reputation of such institution is assessed.

BANK NAME	LOCATION
1.	
2.	
3.	
4.	
5.	
6.	

Revised January 6, 2000

EXHIBIT 4

APPROVED SAFEKEEPING AGENTS

_____ Bank of _____, may Safekeep securities with the following institutions. This list shall be reviewed and approved annually by the Committee and Board of Directors.

NAME OF INSTITUTION	LOCATION
1.	
2.	
3.	
4.	
5.	

Revised January 6, 2000

EXHIBIT 5

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

_____ Bank of _____ may enter into Repurchase Agreement and Reverse Repurchase Agreements with the following institutions:

NAME OF INSTITUTION	LOCATION
1. James Baker & Associates	Oklahoma City, OK
2.	
3.	
4.	
5.	

Revised January 6, 2000

EXHIBIT 6
REVERSE REPURCHASE AGREEMENT

THIS AGREEMENT made this _____ day of _____, 19____, by and between _____ Bank of _____ (Bank Client-PURCHASER) and _____ of _____ (SELLER).

In consideration of the mutual covenants hereof, SELLER hereby agrees to and does by these presents sell unto PURCHASER $_____ in face value of U. S. Government Securities described as follows:

for the total purchase price of $_____ payable to SELLER in federal funds upon execution of this Agreement and receipt of the securities at the offices of the PURCHASER in_____. SELLER hereby authorizes PURCHASER to retain physical possession of said U. S. Government Securities until the maturity of this Agreement, at which time PURCHASER will deliver said securities back to SELLER, and SELLER shall thereupon resume the physical possession of said securities as the sole owner thereof. It is mutually agreed that no right of substitution of securities shall be allowed.

SELLER hereby covenants and agrees to repurchase, and PURCHASER agrees to sell the above-described U. S. Government Securities on _____, (_____ days from the original date of execution of this Agreement) for the total consideration of $_____, which includes interest payable to PURCHASER at the rate of _____% per annum on a _____-day basis in the aggregate amount of $_____. Payment of said sum to be made by SELLER to PURCHASER in federal funds upon the maturity of this Agreement and the receipt of the said securities at SELLER's offices in _____.

It is further agreed that any interest becoming due and payable upon said U. S. Government Securities during the term of this Agreement shall be the property of and payable to SELLER.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by the appropriate officers and the seal of each to be affixed hereto on the date first above appearing.

ATTEST: _____**Bank of**

_____**(PURCHASER)**

BY:_____ BY:_____

ATTEST **(NAME OF SELLER)**

Revised January 6, 2000

BY:_____ BY:_____

Revised January 6, 2000

EXHIBIT 7

REPURCHASE AGREEMENT

THIS AGREEMENT made this _____ day of _____, 19____, by and between _____ Bank of_____ (SELLER) and _____ of _____ (PURCHASER).

In consideration of the mutual covenants hereof, SELLER hereby agrees to and does by these presents sell unto PURCHASER $_____ in face value of U. S. Government Securities described as follows:

for the total purchase price of $_____ payable to SELLER in federal funds upon execution of this Agreement. PURCHASER hereby authorizes SELLER to retain possession of said U. S. Government under safekeeping receipt in favor of PURCHASER, the original copy of said safekeeping receipt to be delivered to PURCHASER when issued. Upon maturity of this Agreement, PURCHASER will deliver said safekeeping receipt for the above-described securities back to SELLER, and SELLER shall thereupon resume the physical possession os said securities as the sole owner thereof. It is mutually agreed that no right of substitution of securities shall be allowed.

SELLER hereby covenants and agrees to repurchase, and PURCHASER agrees to sell the above-described U. S. Government Securities on _____, (_____ days from the original date of execution of this Agreement) for the total consideration of $_____, which includes interest payable to PURCHASER at the rate of _____% per annum on a _____-day basis in the aggregate amount of $_____. Payment of said sum to be made by SELLER upon maturity of the Agreement and surrender of the said safekeeping receipt by PURCHASER to SELLER at SELLER's offices in _____.

It is further agreed that any interest becoming due and payable upon said U. S. Government Securities during the term of this Agreement shall be the property of and payable to SELLER.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by the appropriate officers and the seal of each to be affixed hereto on the date first above appearing.

ATTEST: **_____Bank of**

_____ (SELLER)

BY:_____ BY:_____

ATTEST **(NAME OF PURCHASER)**

BY:_____ BY:_____

Revised January 6, 2000

EXHIBIT 8

INVESTMENT POLICY
QUALITY RATINGS

The following ratings will serve as a guide in assessing the credit quality of rated municipal obligations and corporate securities:

Standard & Poor's	Moody's	Descriptions
		Bank Quality Investments:
AAA	Aaa	Highest grade obligations
AA	Aa	High grade obligations
A	A-1, A	Upper medium grade, favorable attributes
BBB	Baa-1, Baa	Medium grade on the borderline between definitely sound obligations and those containing predominately speculative elements. Generally, the lowest quality bonds that may qualify for bank investment
		Speculative & Defaulted Issues:
BB	Ba+, Ba	Lower medium grade with only minor investment characteristics
B	B-1, B	Low grade, generally undesirable characteristics
D	Caa, Ca, C	Lowest rated class, often defaulted, extremely poor prospects
		Provisional or Conditional Rating:
Rating - P	Con (Rating)	Debt service requirements are largely dependent on reliable estimates as to future events

Revised January 6, 2000