



Capital Planning Proposal

OUR PROMISE

As your potential partner in this vital endeavor, Seifried & Brew LLC (“S&B”) promises to provide _____ (the “Bank”) with the knowledge and expertise needed to keep moving forward – during times of prosperity and economic downturns.

THE S&B PHILOSOPHY

S&B provides dynamic content, context, and education to community financial institutions through client-specific access. The mediums available to clients are nationally recognized speaking engagements, facilitations, books, articles, analyses, internet-based presentations, risk models, and the proprietary Seifried & Brew Total Risk Index (the “S&B Risk Index”).

Through significant experience, S&B has expertise in national and regional economic perspectives. For community financial institutions, the partnership has industry-wide influence on strategic planning, risk management, asset liability management, capital planning, financial trending, investment portfolio review, and conflict resolution. Whether the needs are at the board level, with the senior management team, or customer events, S&B’s philosophy is founded on traditional, conservative, and profitable community banking that creates an environment for our nation to prosper.

Conventional concepts are the root of every insight we offer. They historically are, and always will be, the foundation and strength of our financial system.

CAPITAL IS THE FOUNDATION OF COMMUNITY BANKING

Capital is the foundation upon which every community bank is built. A weak foundation will not support a shaky structure. Likewise, a strong foundation can support traditional, conservative community banking. In our book for community bank directors, *The Art of Capital Planning – The “How-To” Guide*, we refer to a bank’s capital as a “diamond with many facets.” To understand and optimize the bank’s capital adequacy for each business model, capital must be viewed from many perspectives. These perspectives include: regulatory minimum levels of capital; board-set minimum levels of capital; the equity-to-assets ratio, tangible capital-to-tangible assets ratio, tier 1 leverage ratio, tier 1 risk-based capital ratio, and total risk-based capital ratio; and the economic value of equity (EVE). Growth, credit issues, earnings, interest rate fluctuations, and dividends have an effect on each of these perspectives.

The Financial Crisis proved that strong capital served the community banking industry. Though there were many failures, the vast majority of community banks were able to weather the recession and the first credit cycle since the early 1990s. Now, in the aftermath of the financial crisis, focus is being renewed on capital adequacy and capital planning for the future. It is now on the regulators’ list. They want to see every community bank’s capital plan, no matter how much capital is currently in the bank. This is not only being regulatory driven, but is being born out of the directors’ concern for their bank’s stability in the future.

As previously discussed, community bank capital has many facets. A critical facet of capital is whether or not it will be sufficient to support the risks inherent or perceived in the bank’s business model and the



future growth of the bank's business model. If there is a capital shortfall, will your board of directors be able to raise additional capital? Therefore, it is vital that the capital plan be the foundation for the bank's strategic plan. The two plans should go hand in hand. When the strategic plan is completed, there should be a capital plan in place that supports the strategic plan.

All of this pertains to the "Art of Capital Planning." The challenge to every community bank board and management team is to not only create the long-term capital plan, but to fully understand all facets of capital to enable the bank to effectively implement its strategic plan.

THE S&B PROCESS

S&B Performance Risk Report

The S&B Performance Risk Report ("S&B PRR") is an all-inclusive report of the Bank's performance and risk profile which includes the proprietary Seifried & Brew Total Risk Index ("S&B Risk Index").

The S&B PRR will provide the Bank with a thorough review of its balance sheet, income statement, and other financial and strategic information. The S&B PRR also provides comparisons to a state peer group and national benchmark. (A customized peer group can be substituted for the state peer group at an additional fee.) Trend analysis is also an important element of this report.

S&B will also utilize its proprietary S&B Risk Index to incorporate our risk evaluation of the Bank's business model and to examine the Bank's risk exposure taking into account the economic environment. This includes capital risk, credit risk, liquidity risk, earnings at risk, national economic risk, and state economic risk.

The S&B PRR is the core working document for the Capital Planning Process. S&B's analytics division will work with you to truly represent your Bank thoroughly and accurately.

EVE Strategic Planning Model

S&B's pre-session interactions with the Bank's management team will yield a baseline projection of value that is viewed as feasible and attainable. This provides the foundation for the development of a tangible three-, five-, and 10-year EVE Strategic Planning Model that illustrates capital adequacy.

Written Capital Plan Deliverables

As part of the Capital Planning Process, S&B provides the following services.

- S&B will prepare the S&B PRR covering one (1) quarter for the Bank, utilizing its proprietary S&B Risk Index.
- S&B will produce up to three (3) EVE strategic planning model scenarios for the Bank.
- S&B will "credit shock" the Bank's mix of loans. The S&B Credit Shock Model is used to simulate the Bank's mix of loans in worse-case and severe-case scenarios. S&B believes that credit shocking is useful for the board and management to move from intuitively estimating a credit cycle to anticipating a credit cycle strategically.



- Using the Bank's ALCO model, S&B will assess and translate the impact of rising and falling interest rates on the Bank's capital.
- If applicable, S&B will establish a dividend plan for the Bank. If the Bank pays dividends or is planning to pay dividends in the future, the capital plan acts as a foundation for laying out a long term dividend plan. Typically, community banks set the dividend on a quarter to quarter basis. By developing a long-term dividend plan, the board can understand the longer term impact to capital caused by the payment of dividends and adjust the dividend accordingly. S&B believes that the dividend plan can act as a "roadmap" for the board in declaring dividends.
- S&B will customize capital raising options for the Bank which such options are both quantified and placed into a hierarchy of probability. Contingency methods of raising capital are an essential component of capital planning.

Onsite Presentation

From national conventions to the board room, S&B has developed the skills to convey critical information and translate concepts into understandable communication. This "common sense" approach can be very useful in presenting the S&B Capital Plan to your board and management team. Conventional concepts are the root of every insight we offer.

After your onsite presentation, your directors and management team will have confirmation of how the Bank is protecting itself from risk.

THE S&B BOOKSTORE

S&B has published books that can help directors and senior management increase their knowledge to prepare for their sessions. The S&B Bookstore includes:

- Post-Financial Crisis Strategic Planning for Community Banks
- The Art of Capital Planning – The "How-To" Guide
- How the Seifried & Brew Total Risk Index Predicted 99% of Failed Banks/Managing Risk Post-Financial Crisis
- The Art of Risk
- The Art of Tax Efficiency



**Capital Planning
Engagement Letter**

Seifried & Brew LLC (“S&B”) agrees to perform all outlined services for _____ (the “Bank”) in a timely manner and to the Bank’s satisfaction. This signed Engagement Letter will engage both the Bank and S&B to perform these strategic exercises together for the joint purpose of capital planning for the Bank.

Services:

✓Check Desired Services	Services :	Pricing	Amount Due For Services Checked
	Onsite Capital Planning Meeting (per day) ¹	\$5,000	
N/A	S&B Performance and Risk Report ²	\$3,500	N/A
	Credit Shock Analysis	\$1,000	
	Eve Modeling ³	\$2,500	
	Asset Liability Policy Review	\$1,000	
	Asset Liability Model Study	\$4,000	
	Liquidity Policy Review	\$1,000	
	Investment Policy Review	\$1,000	
	Written Capital Plan	\$10,000	
Total Due For All Services			\$

- ¹ Pricing includes one (1) facilitator and does not include applicable travel expenses. If you would like to schedule more than one (1) facilitator, please contact us for pricing.
- ² The S&B Performance and Risk Report covers one (1) quarter. This report is also available on an annual basis at an aggregate price of \$7,500. The annual fee also includes one (1) telephone conference with Jamie Sumner and Kyle Kuster.
- ³ The Economic Value of Equity Model includes up to three (3) Balance Sheet and Income Statement Simulations as well as the necessary strategic, analytical, and tactical preparation needed.

Scheduling the Meeting:

If the Bank has engaged S&B to conduct a Capital Planning Meeting, then the following date and facilitator(s) will apply.

Date:

- S&B will facilitate a Capital Planning Meeting on _____, 201_.

Facilitators:

- Jamie Sumner
- Kyle Kuster



Contract pricing is guaranteed for 30 days from the date of execution of the Engagement Letter by S&B. **FULL PAYMENT IS DUE ON EXECUTION OF THE ENGAGEMENT LETTER BY THE BANK.** Please remit payment to Seifried & Brew LLC, 817 West Broad Street, Bethlehem, PA 18018.

Confidentiality:

In order to provide the services outlined herein, the Bank understands and agrees that it will be necessary to provide certain financial data and other information to S&B that the Bank considers confidential and proprietary. To ensure proper confidential treatment of this information, the Bank acknowledges that it has read the Confidentiality Agreement on the next page, and agrees with and accepts that the terms of the Confidentiality Agreement are sufficient to properly protect its confidential and proprietary information.

By signing this Engagement Letter, the Bank is authorizing S&B to complete and deliver the services indicated above. With notification, additional services may be added.

_____ Bank	Seifried & Brew LLC
Signature	Signature
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____



Capital Planning Confidentiality Agreement

In connection with the services to be provided by Seifried & Brew LLC (the “S&B Services”), we acknowledge that you will provide us with access to confidential financial and other information about the Bank and its operations (the “Confidential Information”). S&B hereby agrees as follows:

Confidentiality

We will use the Confidential Information only for the purpose of performing and completing the S&B Services for you and we will not disclose or reveal the Confidential Information other than as directed by you in writing. The foregoing notwithstanding, the Confidential Information or portions thereof may be disclosed to those of our directors, officers, employees, advisors and agents (collectively, “Representatives”) who need to know such information for the purpose of performing and completing the S&B Services for you (it being understood that the Representatives will be informed of the confidential nature of the Confidential Information and will agree to comply with this Confidentiality Agreement).

Confidential Information

The term “Confidential Information” does not include information which (i) at the time of disclosure or thereafter is generally available to and known by the public (other than as a result of its disclosure by us or our Representatives in violation of this Agreement), (ii) was available to us on a non-confidential basis from a source other than you, or (iii) has been independently acquired or developed by us without violating any of our obligations under this Agreement.

Required Disclosure

In the event that we or any of our Representatives are requested pursuant to or required by applicable law, regulation or legal process to disclose any of the Confidential Information, we will notify you promptly so that you may seek a protective order or other appropriate remedy or, in your sole discretion, waive compliance with the terms of this Agreement. In the event that no such protective order or other remedy is obtained, or that you waive compliance with the terms of this Agreement, we will furnish only that portion of the Confidential Information which we are advised by counsel is legally required and will exercise all reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Confidential Information.

Electronic Transmission of Information

Because standard e-mail is not a confidential communication mechanism, S&B strongly recommends that all Confidential Information transmitted from you to us and all Confidential Information, as well as any other information, you request to have transmitted from us to you be sent utilizing our web-based secure file upload utility. This utility will improve the security of such transmissions. For more information about our file upload utility or to begin using it to send us Confidential Information, please contact our team by phone or email or utilize the “Contact Us” section of our website. If you choose to communicate with us and/or receive information or data from us via standard e-mail and without the use of our secure file upload utility, you may do so. In any event, however, it is understood and agreed by both you and S&B that S&B cannot be and is not responsible for any breach of confidentiality because of the unauthorized access to electronic communications by others.



**Capital Planning
Confidentiality Agreement**

Please provide your communication preference by initialing one of the options below:

____ Web-Based Secure File Upload Utility

____ E-mail

Seifried & Brew LLC

Signature

Name: _____

Title: _____

Date: _____