



# FARMERS BANK

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Richard J. Holland, Jr.  
President / CEO

March 4, 2009

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Mr. Neil M. Barofsky  
Special Inspector General-TARP  
1500 Pennsylvania Avenue, N.W., Suite 1064  
Washington, D.C. 20220

Dear Mr. Barofsky,

Thank you for the opportunity to report on our current and anticipated uses of the Capital Purchase Program (CPP) proceeds. Our decision to accept these funds was motivated by our desire to continue to serve our community's lending needs. Throughout 2008 we were able to serve the credit markets as evidenced by our 19% growth in loans from 2007 to 2008. We also continued to purchase investment securities during this period of financial turmoil increasing investment securities by approximately 50%. This growth put some pressure on our capital ratios and without the CPP it would have been difficult to maintain our strategy to budget and execute a plan to expand lending activity in 2009.

I have included for your review, our 2009 budget (Exhibit A) which shows a (b) (4) [REDACTED] When coupled with our 19% loan growth from 2007 to 2008 and the current economic climate, we believe this is a challenging goal but one that is attainable given the Treasury's support under the CPP. (b) (4) [REDACTED]

(b) (4) [REDACTED] We have noticed a decrease in lending demand early in 2009 but instructed our loan officers to diligently pursue lending opportunities in our community and have been successful in closing more than \$3.2MM or 36.7% of our CPP proceeds since receiving the funds on January 23, 2009.

We have remained consistent in our lending philosophy and standards during this challenging period and I am pleased to report that our pipeline of loans for which we have issued commitment letters or loans that are in our underwriting phase is currently \$13.5MM or 155% of our CPP proceeds. This figure combined with those loans already closed since receiving the funds from Treasury represents 191% of the CPP proceeds.

(b) (4)

*Community  
Banking  
Since 1919*

The CPP proceeds were not segregated upon receipt from Treasury because we believed that we could generate sufficient lending activity to use those funds in a relatively short period of time. We are however, keeping a detailed record of loans that have and will be made since we received the CPP proceeds. I have attached that report to this letter as Exhibit B.

Our Compensation Committee takes very seriously its responsibility to ensure compliance with the limitations and guidelines set forth by Treasury for those institutions that received CPP proceeds. The Bank's historical executive compensation is such that it would have been compliant with the Treasury's executive compensation requirements had they been previously in effect, and we fully anticipate that ongoing compliance will not present any difficulties within our Bank. The Compensation Committee met to discuss these requirements at its February meeting. A meeting is tentatively scheduled for later this month in which the committee will review the contracts and compensation agreements of the designated SEOs which include the President, the CFO and the next three highest paid executives. A certification will be filed with our Federal Banking Regulator following that meeting to satisfy the certification requirements of the Compensation Committee's responsibilities.

The Compensation Committee has supported the Bank's conservative culture and does not reward or promote risk taking activities that could have a negative impact upon the Bank.

(b) (4) (b) (4)

During its upcoming meeting, the Compensation Committee will meet with all five SEOs to reinforce this tenet.

I again thank you for the opportunity to inform you about our strategy and actions related to our participation in the CPP. In completing and signing this letter, I acknowledge and certify the accuracy of the statements and supporting exhibits subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001. Should you have any questions I may be contacted at

(b) (6)

Very truly yours,



Douglas C. Haskett II  
Chief Financial Officer

**Farmers Bank  
Variance - Balance Sheet  
EOM Balance**

**Date to Date**

|                                        | Budget        | Actual         | Variance |         |
|----------------------------------------|---------------|----------------|----------|---------|
|                                        | 2009-<br>2009 | 2008-<br>2008  | Value    | Percent |
| <b>Assets</b>                          |               |                |          |         |
| Cash & Due                             | (b) (4)       | 5,589          | (b) (4)  | (b) (4) |
| Fed Funds Sold                         |               | 62             |          |         |
| Securities                             |               | 73,180         |          |         |
| Loans                                  |               | 290,280        |          |         |
| Loan Loss Reserve                      |               | (3,848)        |          |         |
| Fixed Assets                           |               | 5,292          |          |         |
| OREO                                   |               | 916            |          |         |
| Other Assets                           |               | 3,875          |          |         |
| <b>Total Assets</b>                    |               | <b>375,349</b> |          |         |
| <b>Liabilities &amp; Capital</b>       |               |                |          |         |
| <b>Liabilities</b>                     |               |                |          |         |
| Demand Deposits                        |               | 37,005         |          |         |
| Interest Bearing Deposits              |               | 267,011        |          |         |
| Total Deposits                         |               | 304,016        |          |         |
| Fed Funds Purchased                    |               | 1,281          |          |         |
| Borrowed Funds                         |               | 37,000         |          |         |
| Other Liabilities                      |               | 3,205          |          |         |
| <b>Total Liabilities</b>               |               | <b>345,503</b> |          |         |
| <b>Capital</b>                         |               |                |          |         |
| Capital Stock                          |               | 377            |          |         |
| Surplus                                |               | 2,434          |          |         |
| Undivided Profit                       |               | 25,372         |          |         |
| Current Earnings                       |               | 1,106          |          |         |
| Net Unrealized AFS G/L                 |               | 557            |          |         |
| <b>Total Capital</b>                   |               | <b>29,846</b>  |          |         |
| <b>Total Liabilities &amp; Capital</b> |               | <b>375,349</b> |          |         |

TARP

| Date Opened | Customer Name | Loan Number | Loan Amount  | Loan Purpose | Class Code |
|-------------|---------------|-------------|--------------|--------------|------------|
| 1/26/2009   | b(4), b(6)    | TOTAL       | \$65,000.00  | (b) (4)      | 4          |
| 1/26/2009   |               |             | \$200,000.00 |              | 4          |
| 1/26/2009   |               |             | \$33,000.00  |              | 3          |
|             |               |             | \$298,000.00 |              |            |
| 1/27/2009   | b(4), b(6)    | TOTAL       | \$4,000.00   | (b) (4)      | 4          |
|             |               |             | \$4,000.00   |              |            |
| 1/30/2009   | b(4), b(6)    | TOTAL       | \$135,600.00 | (b) (4)      | 3          |
|             |               |             | \$135,600.00 |              |            |
| 2/3/2009    | b(4), b(6)    | TOTAL       | \$5,500.00   | (b) (4)      | 4          |
|             |               |             | \$5,500.00   |              |            |
| 2/4/2009    | b(4), b(6)    | TOTAL       | \$5,000.00   | (b) (4)      | 4          |
| 2/4/2009    |               |             | \$250,000.00 |              | 4          |
| 2/4/2009    |               |             | \$7,000.00   |              | 2          |
|             |               |             | \$262,000.00 |              |            |
| 2/5/2009    | b(4), b(6)    | TOTAL       | \$900.00     | (b) (4)      | 4          |
|             |               |             | \$900.00     |              |            |
| 2/6/2009    | b(4), b(6)    | TOTAL       | \$59,000.00  | (b) (4)      | 3          |
|             |               |             | \$59,000.00  |              |            |
| 2/10/2009   | b(4), b(6)    | TOTAL       | \$12,000.00  | (b) (4)      | 3          |
|             |               |             | \$12,000.00  |              |            |
| 2/11/2009   | b(4), b(6)    | TOTAL       | \$250,000.00 | (b) (4)      | 6          |
|             |               |             | \$250,000.00 |              |            |
| 2/12/2009   | b(4), b(6)    | TOTAL       | \$290,000.00 | (b) (4)      | 18         |
| 2/12/2009   |               |             | \$250,000.00 |              | 4          |
|             |               |             | \$540,000.00 |              |            |

TARP

| Date Opened | Customer Name | Loan Number | Loan Amount  | Loan Purpose | Class Code |
|-------------|---------------|-------------|--------------|--------------|------------|
| 2/13/2009   | b(4), b(6)    | b(6)        | \$500,000.00 | (b) (4)      | 3          |
| 2/13/2009   |               |             | \$3,000.00   |              | 4          |
| 2/13/2009   |               |             | \$4,000.00   |              | 4          |
| 2/13/2009   |               |             | \$150,000.00 |              | 6          |
| 2/13/2009   |               |             | \$20,000.00  |              | 6          |
|             | TOTAL         |             | \$677,000.00 |              |            |
| 2/17/2009   | b(4), b(6)    | b(6)        | \$3,300.00   | (b) (4)      | 4          |
| 2/17/2009   |               |             | \$45,000.00  |              | 6          |
|             | TOTAL         |             | \$48,300.00  |              |            |
| 2/18/2009   | b(4), b(6)    | b(6)        | \$1,300.00   | (b) (4)      | 4          |
| 2/18/2009   |               |             | \$32,000.00  |              | 28         |
|             |               |             | \$33,300.00  |              |            |
|             | TOTAL         |             | \$33,300.00  |              |            |
| 2/19/2009   | b(4), b(6)    | b(6)        | \$100,000.00 | (b) (4)      | 15         |
|             |               |             | \$100,000.00 |              |            |
|             | TOTAL         |             | \$100,000.00 |              |            |
| 2/20/2009   | b(4), b(6)    | b(6)        | \$158,047.78 | (b) (4)      | 3          |
| 2/20/2009   |               |             | \$80,000.00  |              | 12         |
|             |               |             | \$238,047.78 |              |            |
|             | TOTAL         |             | \$238,047.78 |              |            |
| 2/26/2009   | b(4), b(6)    | b(6)        | \$4,500.00   | (b) (4)      | 4          |
| 2/26/2009   |               |             | \$50,000.00  |              | 15         |
|             | TOTAL         |             | \$54,500.00  |              |            |
| 2/27/2009   | b(4), b(6)    | b(6)        | \$10,000.00  | (b) (4)      | 10         |
| 2/27/2009   |               |             | \$205,200.00 |              | 10         |
| 2/27/2009   |               |             | \$146,800.00 |              | 18         |
|             |               |             | \$362,000.00 |              |            |
|             | TOTAL         |             | \$362,000.00 |              |            |
| 3/2/2009    | b(4), b(6)    | b(6)        | \$50,000.00  | (b) (4)      | 6          |
| 3/2/2009    |               |             | \$75,000.00  |              | 15         |
|             | TOTAL         |             | \$125,000.00 |              |            |

TARP

| Date Opened | Customer Name | Loan Number | Loan Amount    | Loan Purpose | Class Code |
|-------------|---------------|-------------|----------------|--------------|------------|
| 3/4/2009    | b(4), b(6)    |             | \$8,000.00     | (b) (4)      | 4          |
| 3/4/2009    |               |             | \$25,000.00    |              | 6          |
|             | TOTAL         |             | \$33,000.00    |              |            |
| 3/5/2009    | b(4), b(6)    |             | \$6,250.00     | (b) (4)      | 4          |
|             | TOTAL         |             | \$6,250.00     |              |            |
|             | GRAND TOTAL   |             | \$3,244,397.78 |              |            |