

CPP ANNUAL USE OF CAPITAL SURVEY - 2012

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Farmers Bank, Windsor, VA

Person to be contacted regarding this report:	Kristy DeJarnette	RSSD: (For Bank Holding Companies)	
UST Sequence Number:	406	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	8,752,000	FDIC Certificate Number: (For Depository Institutions)	2429
CPP/CDCI Funds Repaid to Date:	3,063,000	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	Jan 23, 2009	City:	Windsor
Date Repaid ¹ :	Jan 9, 2013	State:	Virginia

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	Farmers Bank originated new loans totaling more than \$40mm in 2012. We were also able to renew loans totaling more than \$48mm to our customers.
<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	We were able to support lending in commercial and consumer loans during 2012. The largest growth was in our commercial real estate and non-real estate and agricultural land and production loans.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Our initial projections for use of the funding included increased loan demand as we were hopeful that the economic downturn would be shorter in duration. The lack of loan demand in our market afforded us an opportunity to purchase municipal securities, CMO and MBS.

<input checked="" type="checkbox"/>	Make other investments	Upon notification from the Treasury Department that we were approved for the CPP, we successfully invested \$500,000 into a program to support our community reinvestment act responsibilities which was channeled into a local nursing home facility to support a safer environment for residents.
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	The economic downturn has had a significant impact upon our community and as a result, our loan portfolio saw a material increase in past due and non performing loans. During 2010 and 2011, we set aside more than \$12.5mm and \$3.9mm for reserves, respectively .
<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	The CPP provided our Bank with a higher capital base allowing us to work through problem loans without affecting our capital status. Proactively managing our credit quality from 2009-2011 allowed us to start 2012 with a healthier bank, which proved profitable long term.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	While we did deploy a majority of the capital we received into our loan and investment portfolios, we retained a portion in a non leveraged position to increase capital ratios for future economic uncertainty.

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

In the lending portfolio, while total loan balances declined during 2012 as a result of increases in non performing assets, liquidations and increased repayments of outstanding balances, we closed more than \$88mm (the combination of new and renewed loans) in loan volume which is more than ten times the amount of CPP funds that the bank received from the Treasury's investment. Without the CPP investment, it is possible that some of the credit we provided would have been reduced to protect declining capital ratios.

As noted above, the CPP provided our Bank with a higher capital base allowing us to work through problem loans and non-performing assets without affecting our capital status. Efficiently and proactively managing our credit quality from 2009-2011 allowed us to start 2012 with a much healthier bank and helped to position us for higher profits in the current and future years .

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Beginning in 2008, we saw significant increases in deposit growth from consumers and businesses in our local communities seeking safety from a very tumultuous market environment. Our capital ratios, because of this increase in deposits, had become stretched thin and our election to take CPP funding in late 2008 allowed us to take on these deposits that may have otherwise been avoided to protect capital ratios. In fact, between the end of 2008 and 2011 the Bank's deposits increased by more than 12%. Although we saw deposit runoff during 2012, in an effort to reduce our cost of funds, more importantly, non-interest bearing deposits have increased by over 55% since 2008 and over 13.5% in just 2012. This trend will continue to positively affect the Bank's profitability in future years.

The Bank opened an additional branch in late 2009 to better serve one of our market areas and to expand our coverage of that market. This new location has allowed the bank to reach more customers and within that new branch we have funded new commitments of approximately \$34mm since its opening. In late 2012, we applied and were approved to open a branch in an additional new market. We have already funded commitments to this area and are welcoming the opportunity to now service their deposit needs.

The cascading effect of Treasury's investment in Farmers Bank was to allow us to provide a safe haven to depositors during the unprecedented credit crisis, allowed us to keep our lending channels open to serve our community and enhance earnings through the purchase of investment securities. To date we have paid more than \$1.7mm in dividends to the Treasury and have remained current on all dividend payments. We believe this program has benefitted our community both directly and indirectly and are proud of our ability to contribute positively as a result of our inclusion in the CPP.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

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According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.