



INVESTMENT PHILOSOPHY

Allocation of assets among bonds, equities and cash equivalents, depending on risk tolerance, economic and market conditions, and other factors as noted below. Careful review is given to selecting the correct objective – see breakdown of assets to be held in an account for each objective choice.

- CASH EQUIVALENTS:** For liquidity / buying opportunities; defensive posturing
- BONDS (FIXED INCOME):** For income and stability; laddered maturities to reduce interest rate risk
- EQUITIES:** For growth / appreciation and increasing income

INVESTMENT OBJECTIVES – ASSET ALLOCATION MODELS

<u>Investment Objective</u>	<u>Allocation Parameters</u>	<u>Fixed Income Duration</u>
<input type="checkbox"/> <u>PRESERVATION:</u> Emphasis on principal stability and a high degree of current income. Principal growth is not a consideration.	Cash 0-100% Fixed Income 0-100% Equity 0%	less than 1½ years
<input type="checkbox"/> <u>CONSERVATIVE:</u> Above average degree of current income with a modest commitment to equities for principal growth. Very low risk portfolio.	Cash 0-30% Fixed Income 70-100% Equity 0-30%	1½ - 3½ years
<input type="checkbox"/> <u>MODERATE:</u> Equal emphasis on income and growth of principal, although principal growth may not be sufficient to preserve purchasing power.	Cash 0-25% Fixed Income 50-75% Equity 25-50%	1½ - 5½ years
<input type="checkbox"/> <u>BALANCED:</u> A portfolio designed to provide growth sufficient to retain purchasing power as well as a modest level of current income.	Cash 0-25% Fixed Income 40-65% Equity 35-60%	1½ - 7 years

- GROWTH:** Emphasis on capital appreciation with little consideration given to current income. The portfolio strives to keep purchasing power and the income stream ahead of inflation over the long term. Income is often reinvested.

Cash	0-25%	
Fixed Income	30-55%	1½ - 7 years
Equity	45-70%	

- AGGRESSIVE:** Complete emphasis on capital appreciation. Income is of no consideration. Returns well in excess of inflation are desired over the long term.

Cash	0-40%	
Fixed Income	0-40%	0 - 7 years
Equity	60-100%	

- SPECIAL:** Parameters are provided by the client or set due to special circumstances such as holding specific assets, liquidating following death of owner, etc.: _____

TYPES OF ACCOUNTS AND INVESTMENT AUTHORITY

TYPES OF ACCOUNTS:

- Investment Management Account (Trust/Fiduciary or Agency)
- Custody Account
- IRA

INVESTMENT AUTHORITY:

- Full
- Courtesy Consult
- With Approval
- None

ASSET CATEGORIES

CASH EQUIVALENTS: Cash reserves will be determined by liquidity needs and by the cash reserve policy set forth by PSB based on the relative attractiveness of the equity and fixed income markets. Cash reserve policy will be determined by liquidity needs only.

FIXED INCOME: The fixed income portion of the account will be managed through a selection of high quality bonds which will be actively managed and consistent with our forecast of interest rates, inflation and valuation levels. Bonds will be taxable or tax exempt depending upon the client's tax situation. Measurement will be against appropriate duration benchmarks. Duration, in its modified form, is used to measure of the price volatility of fixed income instruments.

EQUITIES: The equity portion of the account will include a diversified blend of the common stocks of companies with strong fundamental characteristics, sustainable earnings growth and attractive relative valuations. Mutual funds may be used to assure adequate diversification. The performance benchmark will be the S&P 500. Where risk parameters allow, the portfolio will include representation in the small-cap, mid-cap and international markets to broaden diversification and return prospects. This representation will be accomplished through the use of mutual funds.

Considerations in developing Objectives and Account Relationship:

Risk Tolerance:

- | | |
|---------------------------------------|---------------------------|
| A) capital preservation; minimal risk | D) market risk |
| B) low risk | E) high risk |
| C) moderate risk | F) aggressive/speculative |

Time Horizon: A) short term
B) intermediate term
C) long term; greater than one investment cycle

Income Needs: A) income not a consideration
B) low
C) moderate
D) high

Liquidity Requirement: A) none
B) minimal
C) occasional
D) periodic
E) frequent
F) continual

Legal Issues: Type of account, i.e. Investment Management, IRA, Revocable Trust, Irrevocable Trust, Agent for Trustees. Define limitations and concerns: Prudent Investment Rule, ERISA, trust language.

Tax Issues: Tax status of the account
State of residence
Marginal tax bracket
Unrealized capital gains and client's sensitivity

Unique Issues: Anything not included above that would be pertinent to the effective management of the portfolio. Included would be particular issues or industries to be held or not held, age, health, children, desire to invest "socially" etc.

Asset Allocation Targets: Must be consistent with objective.

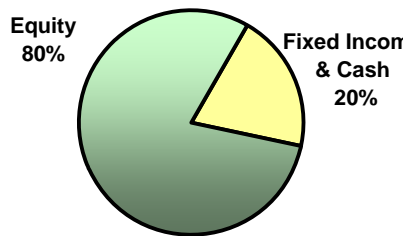
Communication: The appropriate or desired level of communication with the client including meetings, letters, and phone conversations.

NOTE: Some or all of the assets in the Account will be invested in financial instruments which are not guaranteed by the Bank, the FDIC or any other Federal or State governmental agency and all such financial instruments may experience a loss of principal.

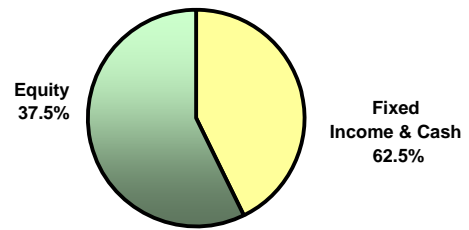
STRATEGIC ASSET ALLOCATION POLICIES

Investments in Equities & Fixed Income and Cash

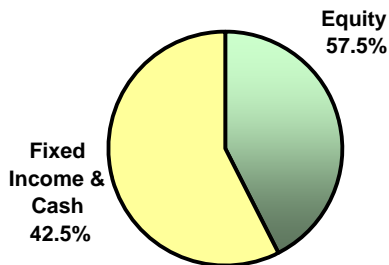
Aggressive



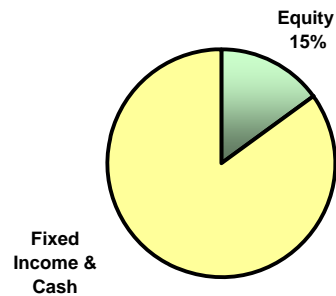
Moderate



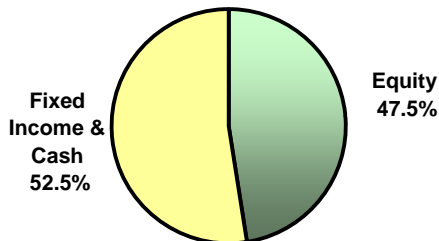
Growth



Conservative



Balanced



Preservation

