

Inherited IRA — Custodial Account Application — Form 5305-A

Revocation in accordance with the Disclosure Statement should be mailed or delivered to:

Custodian's Name _____
Address _____
City _____ State ____ Zip _____
Attn: _____ Phone _____

Beneficiary Information (As an Owner)

Name _____ Plan No. _____
Home Address _____
City _____ State ____ Zip _____
County _____ Date of Birth _____
Phone: Home _____ Work _____
SSN _____ or TIN _____
Name of Deceased Accountholder _____

Designation of Beneficiary

Section 1.6 of Article VIII of the Inherited Individual Retirement Custodial Account (Form 5305-A) contains an important discussion of your right to name primary and contingent beneficiary(ies). Your designation will revoke all prior IRA beneficiary designations with respect to the referenced Inherited IRA account. In the event of your death you hereby direct that any balance in your Inherited IRA shall be paid to the following designated beneficiary or beneficiaries. If any primary or contingent beneficiary dies before you, then you wish to have the following result:

- the interest of that deceased beneficiary and his or her heirs shall terminate totally and the percentage share of any surviving beneficiary(ies) shall increase on a pro rata basis; or
- the interest of that deceased beneficiary shall be paid to his or her heirs (or issue) who are alive or who have living issue, such issue will take by right of representation the share the deceased beneficiary would have taken if living and persons of the same class shall share equally.

If you do not make the above designation, then you are deemed to have elected the "pro rata" selection.

If there are more than two primary or contingent beneficiaries, use a beneficiary designation form similar to CWF's Form #61-I.

Primary Beneficiary(ies) — You designate that the following shall be your primary beneficiary or beneficiaries:

Name _____
Address _____
City _____ State ____ Zip _____
SSN _____ Date of Birth _____
Share % _____ Relationship _____

Name _____
Address _____
City _____ State ____ Zip _____
SSN _____ Date of Birth _____
Share % _____ Relationship _____

Contingent Beneficiary(ies) — If none of the primary beneficiaries survive you, you designate that the following shall be your contingent beneficiary or beneficiaries:

Name _____
Address _____
City _____ State ____ Zip _____
SSN _____ Date of Birth _____
Share % _____ Relationship _____

Name _____
Address _____
City _____ State ____ Zip _____
SSN _____ Date of Birth _____
Share % _____ Relationship _____

Type of Contribution

- Transfer in from the IRA of**

(name of deceased accountholder)
- Transfer in from**

(name of other IRA custodian/trustee)

Transfer Information

Date _____
Acct./Inst. No. _____
Transfer Amount _____

Signatures and Revocation Right

You have requested that the Custodian establish an Inherited Individual Retirement Account (IRA) for you. You certify that your tax identification number (social security number) and other information are correct. The rules and conditions governing this Inherited IRA form are contained in this application and the IRS Model Form 5305-A plan agreement as modified. You acknowledge that the Custodian has furnished you with a copy of the application, and the Inherited Individual Retirement Plan and Disclosure Statement. In addition, you have read the disclosure statement and you qualify to make the transfer contribution to this Inherited IRA.

You have the ability to terminate this Inherited IRA which you are establishing if you comply, in a timely fashion, with the revocation provisions as discussed on page 7 of the Inherited Individual Retirement Account (IRA) Plan Agreement and Disclosure Statement. In general, you have seven (7) calendar days in which to revoke this Inherited IRA plan agreement.

Inheriting Beneficiary's
Signature _____

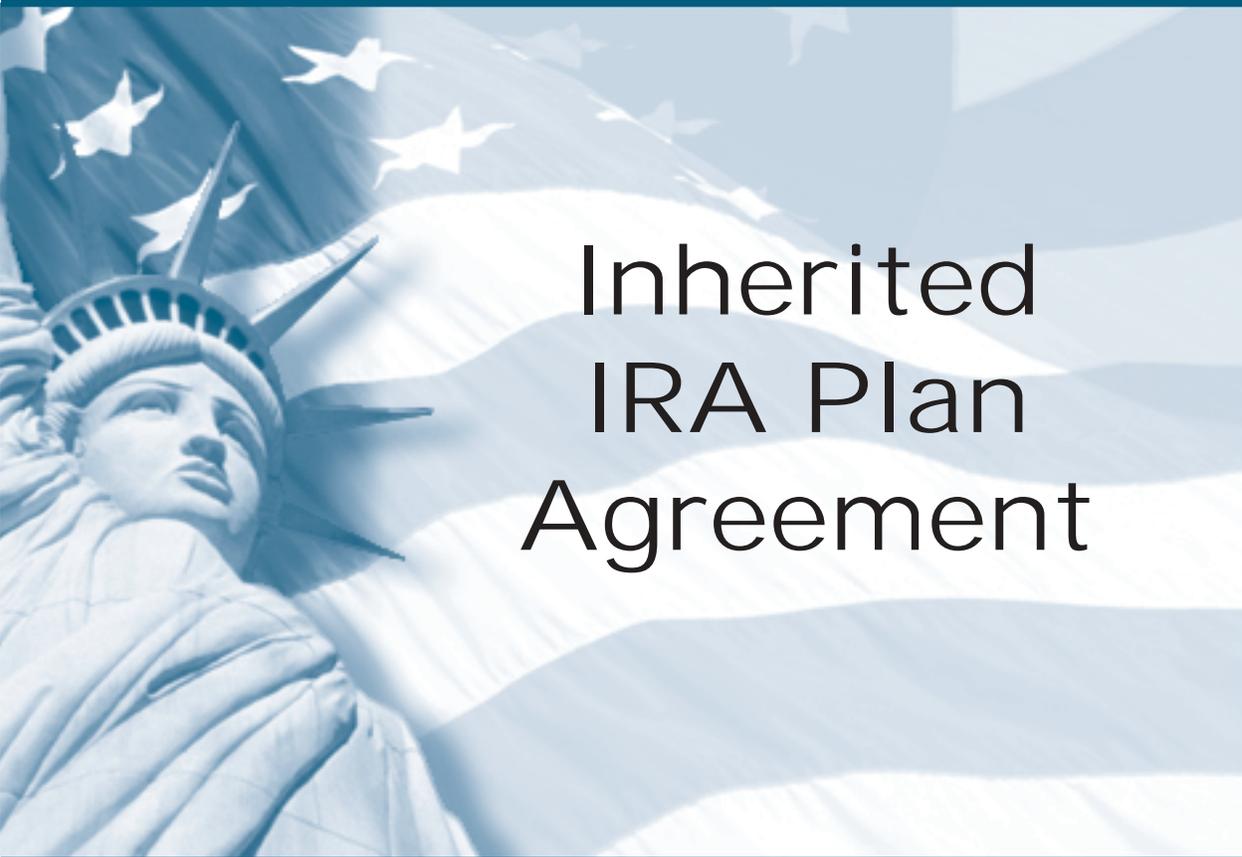
Date _____

Authorized Signature
of Custodian _____

Date _____

Witness _____

Use only if signature of the beneficiary or the custodian is required to be witnessed

The background of the slide features a monochromatic, light blue-tinted image of the Statue of Liberty on the left side, with her crown and torch visible. Behind her is a large, waving American flag. The overall aesthetic is clean and professional.

Inherited IRA Plan Agreement

Disclosure Statement and Financial Disclosure

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Introduction and Instructions

INTRODUCTION

You have elected to establish an Inherited Individual Retirement Custodial Account with us. We appreciate your decision to choose us as your IRA custodian and we look forward to serving you. We hereby furnish you with the following IRA documents: an Inherited IRA application page and this Inherited IRA Plan Agreement, Disclosure Statement and Schedule of Fees, if any. We strongly suggest that you take the time to read these materials. It is important that you understand both the tax and non-tax aspects of your IRA. This IRA is an inherited IRA and special rules apply. You are not allowed to make any contributions to this inherited IRA unless you would transfer in other Inherited IRA funds with respect to the same deceased IRA account holder. That is, you are not allowed to make annual or rollover contributions to this inherited IRA.

If you have any questions, you may certainly contact our personal banking staff, but we strongly recommend that you consult with your tax or legal advisor for most questions.

Set forth in this booklet are the Inherited IRA Plan Agreement and the Disclosure Statement.

GENERAL INSTRUCTIONS

(Section references are to the Internal Revenue Code unless otherwise noted.)

PURPOSE OF FORM

Form 5305-A is a model custodial account agreement that meets the requirements of section 408(a) and has been pre-approved by the IRS. A traditional individual retirement account (traditional Inherited IRA) is established after the form is fully executed by both the individual and the custodian. This account must be created in the United States for the exclusive benefit of an IRA beneficiary who has inherited an IRA because the IRA owner died and designated you as his or her beneficiary.

Do not file Form 5305-A with the IRS. Instead, keep it with your records.

For more information on Inherited IRAs, including the required disclosures the custodian must give, see **Pub. 590**, Individual Retirement Arrangements (IRAs).

DEFINITIONS

Custodian—The Custodian must be a bank or savings and loan association, as defined in section 408(n), or any person who has the approval of the IRS to act as custodian.

Owner—The Owner is the beneficiary who has succeeded to ownership because the person for whom the original IRA was established has died.

IDENTIFYING NUMBER

The owner's social security number will serve as the identification number of his or her Inherited IRA. An employer identification number (EIN) is required only for an Inherited IRA for which a return is filed to report unrelated business taxable income. An EIN is required for a common fund created for Inherited IRAs.

SPECIFIC INSTRUCTIONS

Article IV.—Distributions made under this article may be made in a single sum, periodic payment, or a combination of both.

Article VIII.—Article VIII and any that follow it may incorporate additional provisions that are agreed to by the depositor and custodian to complete the agreement. They may include, for example, definitions, investment powers, voting rights, exculpatory provisions, amendment and termination, removal of the custodian, custodian's fees, state law requirements, beginning date of distributions, accepting only cash, treatment of excess contributions, prohibited transactions with the depositor, etc. Attach additional pages if necessary.

Individual Retirement Inherited Custodial Account

Special Note. This is an inherited traditional IRA. An inherited IRA is different from a traditional IRA established for an accountholder, in the following ways: (1) annual contributions are no longer permissible; (2) a nonspouse beneficiary does not have the right to roll over a distribution from this inherited IRA to his or her own IRA or to another inherited IRA; (3) special required distribution rules apply to this inherited IRA; and (4) an inheriting IRA beneficiary may not convert the traditional IRA to be a Roth IRA. Therefore, it is desirable to have an IRA plan agreement form which clearly states the special rules which apply to an inherited IRA. The IRS has not written such a special form. Set forth below is the IRS Model Form 5305-A which is written primarily from the viewpoint that the depositor/acountholder will make additional contributions. Be aware that those provisions describing the rights of the depositor are no longer applicable, since the Depositor has died. The Disclosure Statement has been written to discuss only those rules which apply to you as a beneficiary, and to your beneficiary(ies) after your death.

FORM

This is Form 5305-A as revised by the Department of Treasury, Internal Revenue Service in March of 2002. Do not file with the IRS. This IRA account is under section 408(a) of the Internal Revenue Code.

NOTICE OF AGREEMENT

Since your name appears on the application, you understand that you are establishing an Individual Retirement Account (IRA) (under section 408(a) of the Internal Revenue Code) to provide for your retirement and for the support of your beneficiaries after your death. The Custodian named on the application has given you the disclosure statement under the Income Tax Regulations under section 408(i) of the Code. You have deposited with the Custodian the sum indicated on the application in cash. You and the Custodian make the following agreement with the following terms:

ARTICLE I

Except in the case of a rollover contribution described in section 402(c), 403(a)(4), 403(b)(8), 408(d)(3), or 457(e)(16) an employer contribution to a simplified employee pension plan as described in section

408(k), or a recharacterized contribution described in section 408A(d)(6), the custodian will accept only cash contributions up to \$3,000 per year for tax years 2002 through 2004. That contribution limit is increased to \$4,000 for tax years 2005 through 2007 and \$5,000 for 2008 and thereafter. For individuals who have reached the age of 50 before the close of the tax year, the contribution limit is increased to \$3,500 per year for tax years 2002 through 2004, \$4,500 for 2005, \$5,000 for 2006 and 2007, and \$6,000 for 2008 and thereafter. For tax years after 2008, the above limits will be increased to reflect a cost-of-living adjustment, if any.

ARTICLE II

The depositor's interest in the balance in the custodial account is nonforfeitable.

ARTICLE III

1. No part of the custodial funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).
2. No part of the custodial funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3) which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state and certain bullion.

ARTICLE IV

1. If the Depositor dies before his or her entire interest is distributed to him or her, the remaining interest will be distributed as follows:
 - (a) if the depositor dies on or after the required beginning date and:
 - (i) the designated beneficiary is the depositor's surviving spouse, the remaining interest will be distributed over the surviving spouse's life expectancy as determined each year until such spouse's death, or over the period in paragraph (a)(iii) below if longer. Any interest remaining after the spouse's death will be distributed over such spouse's remaining life expectancy as determined in the year of the spouse's death and reduced by 1 for each subsequent year, or, if distributions are being made over the period in paragraph (a) (iii) below, over such period.
 - (ii) the designated beneficiary is not the depositor's surviving spouse, the remaining interest will be distributed over the beneficiary's remaining life expectancy as determined in the year following the death of the depositor and reduced by 1 for each subsequent year, or over the period in paragraph (a)(iii) below if longer.
 - (iii) there is no designated beneficiary, the remaining interest will be distributed over the remaining life expectancy of the depositor as determined in the year of the depositor's death and reduced by 1 for each subsequent year.
2. If the Depositor dies before the required beginning date, the remaining interest will be distributed in accordance with (i) below, or, if elected or there is no designated beneficiary, in accordance with (ii) below:
 - (i) The remaining interest will be distributed in accordance with paragraphs (a)(i) and (a)(ii) above (but not over the period in paragraph (a)(iii), even if longer), starting by the end of the calendar year following the year of the depositor's death. If, however, the designated beneficiary is the depositor's surviving spouse, then this distribution is not required to begin before the end of the calendar year in which the depositor would have reached age 70½. But, in such case, if the depositor's surviving spouse dies before distributions are required to begin, then the remaining interest will be distributed in accordance with (a)(ii) above (but not over the period in paragraph (a)(ii), even if longer), over such spouse's designated beneficiary's life expectancy, or in accordance with (ii) below if there is no such designated beneficiary.
 - (ii) The remaining interest will be distributed by the end of the calendar year containing the fifth anniversary of the depositor's death.

- (ii) the designated beneficiary is not the depositor's surviving spouse, the remaining interest will be distributed over the beneficiary's remaining life expectancy as determined in the year following the death of the depositor and reduced by 1 for each subsequent year, or over the period in paragraph (a)(iii) below if longer.
 - (iii) there is no designated beneficiary, the remaining interest will be distributed over the remaining life expectancy of the depositor as determined in the year of the depositor's death and reduced by 1 for each subsequent year.
- (b) If the depositor dies before the required beginning date, the remaining interest will be distributed in accordance with (i) below, or, if elected or there is no designated beneficiary, in accordance with (ii) below:
 - (i) The remaining interest will be distributed in accordance with paragraphs (a)(i) and (a)(ii) above (but not over the period in paragraph (a)(iii), even if longer), starting by the end of the calendar year following the year of the depositor's death. If, however, the designated beneficiary is the depositor's surviving spouse, then this distribution is not required to begin before the end of the calendar year in which the depositor would have reached age 70½. But, in such case, if the depositor's surviving spouse dies before distributions are required to begin, then the remaining interest will be distributed in accordance with (a)(ii) above (but not over the period in paragraph (a)(ii), even if longer), over such spouse's designated beneficiary's life expectancy, or in accordance with (ii) below if there is no such designated beneficiary.
 - (ii) The remaining interest will be distributed by the end of the calendar year containing the fifth anniversary of the depositor's death.
 2. If the Depositor dies before his or her entire interest has been distributed, and if the beneficiary is not the depositor's surviving spouse, no additional contributions may be accepted in the account.

3. The minimum amount that must be distributed each year, beginning with the year containing the depositor's required beginning date, is known as the "required minimum distribution" and is determined as follows:

(a) The required minimum distribution under paragraph 2(b) for any year, beginning with the year the depositor reaches age 70½, is the depositor's account value at the close of business on December 31 of the preceding year divided by the distribution period in the uniform lifetime table in Regulations section 1.401(a)(9)-9. However, if the depositor's designated beneficiary is his or her surviving spouse, the required minimum distribution for a year shall not be more than the depositor's account value at the close of business on December 31 of the preceding year divided by the number in the joint and last survivor table in Regulations section 1.401(a)(9)-9. The required minimum distribution for a year under this paragraph (a) is determined using the depositor's (or, if applicable, the depositor and spouse's) attained age (or ages) in the year.

(b) The required minimum distribution under paragraphs 3(a) and 3(b)(i) for a year, beginning with the year following the year of the depositor's death (or the year the depositor would have reached age 70½, if applicable under paragraph 3(b)(i)) is the account value at the close of business on December 31 of the preceding year divided by the life expectancy (in the single life table in Regulations section 1.401(a)(9)-9) of the individual specified in such paragraphs 3(a) and 3(b)(i).

(c) The required minimum distribution for the year the depositor reaches age 70½ can be made as late as April 1 of the following year. The required minimum distribution for any other year must be made by the end of such year.

4. The owner of two or more traditional IRAs may satisfy the minimum distribution requirements described above by taking from one traditional IRA the amount required to satisfy the requirement for another in accordance with the regulations under section 408(a)(6).

ARTICLE V

1. The Depositor agrees to provide the Custodian with all information neces-

sary to prepare any reports required by section 408(i) and Regulations sections 1.408-5 and 1.408-6.

2. The Custodian agrees to submit to the Internal Revenue Service (IRS) and Depositor the reports prescribed by the IRS.

ARTICLE VI

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III and this sentence will be controlling. Any additional articles inconsistent with section 408(a) and the related regulations will be invalid.

ARTICLE VII

This agreement will be amended as necessary to comply with the provisions of the Code and the related regulations. Other amendments may be made with the consent of the persons whose signatures appear on the application page.

ARTICLE VIII

Article VIII may be used for any additional provisions. If other provisions are added, they must comply with applicable requirements of State law and the Internal Revenue Code.

Introduction

In this Article, the words "you" and "your" mean the person for whose benefit the Inherited IRA has been established. The words, "we," "us," and "our" mean the Custodian of your Inherited IRA. In addition to the provisions of Articles I-VII, you and we agree that your Inherited IRA will be governed by these terms.

1. Your Duties and Rights

1.1 Notice and Address Change. You and your beneficiaries must deliver or mail any required information to our office unless we ask that you send it elsewhere. Any notice or election is effective only upon actual receipt. You or your beneficiaries must notify us of any change in address.

1.2 Tax Consequences. Because Inherited IRAs are so influenced by tax laws, you expressly acknowledge that you should consult with your tax advisor before making almost any Inherited IRA transaction. You are responsible for the tax consequences of any distributions or transfers, as well as any prohibited transactions. You acknowledge that you have not relied upon us for any advice concerning such tax consequences.

1.3 Investments. You may instruct us in writing to invest your Inherited IRA funds into one or more of the savings or time instruments which we are offering at that time. We will inform you what these instruments are. If you do not instruct us, we will

invest the assets on your behalf. The terms of any such savings or time deposit purchased under this Inherited IRA are incorporated by reference into this agreement.

1.4 Withdrawals/Termination. You may withdraw any amount of money from your Inherited IRA at any time. You must, however, complete our distribution form and furnish us with the reason for your distribution. Unless you instruct us in writing otherwise, we must withhold income tax on any Inherited IRA distribution for federal and state income tax purposes, if applicable. The amount to be withheld would be the amount then required by the applicable tax laws. With any distribution, including transfers, you will be required to pay from your Inherited IRA funds, if applicable, the interest penalty for the early surrender of a time deposit(s) and/or any fees related to the distribution.

1.5 Special Distribution Rules to Ensure Compliance with Beneficiary RMD Rules. You are required to establish a periodic distribution schedule so that you are paid a distribution amount which equals or exceeds the required minimum distribution amount. We have forms available which can be used to establish this schedule. Alternatively, you may elect to use the alternative certification method. You must furnish us a written notice of your intent to use the alternative certification method. Upon your request we will furnish you a form which you can use to make this election.

Unless you instruct us otherwise in writing, you hereby authorize us to issue you a check from your Inherited IRA funds for the amount of your annual distribution as determined above, or deposit such amount into any non-IRA checking or savings account which you maintain with us. We shall have the authority but not the duty to distribute this annual distribution amount from your Inherited IRA. You are solely responsible to make sure that your required minimum distributions take place on a timely basis.

1.6 Naming Beneficiaries and Method of Payment. You may name one or more beneficiaries to receive your Inherited IRA assets after your death. We require that you use our beneficiary form to designate your beneficiary or beneficiaries and that you sign this form and file it with us during your lifetime. You are deemed to have furnished us with your beneficiary designation if you furnished such a form to an entity with respect to which we are considered to be a successor custodian and we have such designation in our files. You may change your beneficiaries at any time, and

the consent of a beneficiary is not required unless you reside in a state with community or marital property laws. When you sign a new beneficiary form, you revoke all prior beneficiary designations. If you do not name a beneficiary, or if none of the named beneficiaries are alive on the date of your death, your Inherited IRA assets will be paid to your estate. As the beneficial owner of the Inherited IRA assets, you can instruct how and when these assets will be paid to the beneficiaries. If you don't instruct, your beneficiaries will have the right to choose how and when the assets will be paid. Any method of payment must satisfy the provisions of Article IV and other governing law.

After your death, each primary beneficiary who acquires an interest in your Inherited IRA shall have the right to designate his or her own beneficiary(ies) with respect to his or her share. The procedures for designating a beneficiary(ies) which apply to you as the account holder shall also apply to your beneficiary. When a beneficiary signs a new or revised beneficiary designation form, your beneficiary revokes all of his or her prior beneficiary designations. If the beneficiary does not designate his other beneficiary(ies), or if a designated beneficiary is not alive when the beneficiary dies, then the remaining Inherited IRA assets will be paid to such beneficiary's estate. Any method of payment must satisfy the provisions of Article IV and other governing law.

1.7 Special Distribution Rules to Ensure Compliance with Required Minimum Distribution Rules by Beneficiaries and Special Provisions for an Inherited IRA(s). You agree to inform any person who is your beneficiary that he or she is your beneficiary, and he or she must inform us of your death. We have the right to require that your beneficiary(ies) furnish us with a certified copy of your death certificate or other documentation, as we feel appropriate, to verify your death.

After your death, there are rules which mandate that your Inherited IRA funds be distributed to your beneficiary(ies) on or before certain time deadlines. The time deadlines which will apply will depend upon various factors. These deadlines are explained in the Disclosure Statement portion of this Inherited IRA booklet.

Upon your death, your Inherited IRA will be converted into one or more inherited IRAs. The number of inherited IRAs to be created depends upon the number of your primary beneficiaries alive as of the date of your death. There will be an inherited

IRA created for each such beneficiary. The following rules will govern such inherited IRAs. These rules are in addition to the other rules of this agreement and will govern if there is a conflict.

You agree that we have the right to establish an inherited IRA account for each beneficiary on our data processing system, even before a beneficiary instructs us how he or she will take withdrawals. We will have the authority to move the funds from your Inherited IRA to one or more new inherited IRA accounts. We will have the right, if necessary, because of data processing or administrative requirements, to surrender the savings and time deposits which comprised your account and establish new ones for the inherited IRAs.

We will transfer an inherited IRA to another Inherited IRA custodian or trustee, but only if the requesting beneficiary and the receiving Inherited IRA custodian/trustee will furnish us with a special "transfer of inherited IRA" administrative form so it is clearly acknowledged that it is an "inherited IRA" which is being transferred. Inherited IRAs are not eligible to be rolled over unless the beneficiary is a spouse who is the sole beneficiary.

Each beneficiary will be required to instruct us in writing as to how he or she will withdraw funds from his or her inherited IRA so that the required minimum distributions rules will be satisfied.

We have forms available which can be used by your beneficiary to instruct us which option he or she elects, and to establish a distribution schedule. Alternatively, the beneficiary may elect to use the alternative certification method. The beneficiary must furnish us a written notice of his or her intent to use the alternative certification method. We will furnish the beneficiary a form which can be used to make this election, upon his or her request.

We shall have the authority but not the duty to distribute any required minimum distribution to your beneficiary(ies). Any beneficiary shall be solely responsible to make sure that the required minimum distributions take place on a timely basis.

1.8 Assignment Rights. You, your beneficiaries, or anyone else may not borrow from your Inherited IRA, or pledge any portion of it as security or otherwise assign or create a lien on any part of your Inherited IRA account.

1.9 Indemnification. You hereby agree to release us from any and all liability with respect to your Inherited IRA except if such liability arises from our intentional misconduct or gross negligence.

1.10 Sale of Custodian-Successor Custodian. If another institution should purchase this, the custodian institution, or any of our Inherited IRA deposits, or we elect to change our corporate structure via a merger, consolidation or name change, then you hereby consent that the purchasing entity or the resulting corporate entity will be the successor custodian of your Inherited IRA funds with all duties and rights as listed in section 2.

1.11 Insurance on Deposits. Since we are an insured bank or savings and loan or similar entity, your Inherited IRA funds are insured separately from other deposit accounts, pursuant to the Federal Deposit Insurance Act, up to \$250,000. Any Inherited IRA, Roth Inherited IRA, most eligible deferred compensation plans described in section 457 of the Internal Code, a Keogh plan as described in Code section 401(d) and any individual account plan as defined in section 3(34) of ERISA shall be aggregated and insured in an amount not to exceed \$250,000. This aggregation requirement applies to a Keogh plan or an individual account plan only when you have the right to direct the investment of your account. Amounts in excess of \$250,000 are not insured.

You expressly agree that we do not have the responsibility of notifying you that your Inherited IRA fund and other accounts required to be aggregated may be or are in excess of the maximum insurance protection for such deposits.

1.12 Special Agreement Regarding Prohibited Transactions. You acknowledge that the prohibited transaction rules set forth in Code section 4975 are complex and can result in harsh tax consequences. Generally, if you or your beneficiary engages in a prohibited transaction in connection with your traditional IRA account at any time during the year, the account stops being an IRA as of the first day of that year. Therefore, you expressly agree that you will consult with your attorney or tax advisor prior to any proposed transaction which might be a prohibited transaction. You shall furnish us with an attorney's written opinion that a prohibited transaction will not occur on account of the proposed transaction. You agree to hold us harmless for any prohibited transaction which occurs unless we would be principally at fault.

Generally, a prohibited transaction is any improper use of your traditional IRA account or annuity by you, your beneficiary, or any disqualified person.

Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendant, and any spouse of a lineal descendant).

The following are examples of prohibited IRA transactions.

- Borrowing money from it.
- Selling property to it.
- Receiving unreasonable compensation for managing it.
- Using it as security for a loan.
- Buying property for personal use (present or future) with IRA funds.

Fiduciary. For these purposes, a fiduciary includes anyone who does any of the following.

- Exercises any discretionary authority or discretionary control in managing your IRA or exercises any authority or control in managing or disposing of its assets.
- Provides investment advice to your IRA for a fee, or has any authority or responsibility to do so.
- Has any discretionary authority or discretionary responsibility in administering your IRA.

1.13 Withholding of State Income Tax. If you are a resident of a state which has income tax laws, then we will withhold income tax for such state if we are required by law to do so or if we choose to do so. In general, we will withhold income tax for a state only if we have the minimal contacts with such state so we are required to do so.

2. Our Duties and Rights

2.1 Reports. Each year we will provide you or your beneficiary with one or more reports showing the activity in your IRA for the preceding year as required by IRS regulations.

2.2 Reporting Errors. You or your beneficiary must carefully review each report for any errors. You are to notify us immediately if there are any errors. If you do not tell us of any errors within 90 days after the date we mailed the report, we are relieved of any responsibility for the error.

2.3 Agents. We may use agents to assist us in fulfilling our duties under this agreement.

2.4 Contribution Limitations. Since this is an Inherited IRA, the only permissible contribution is a transfer contribution. No other contributions are permitted.

2.5 Fees. You agree to pay us the fees specified in our current schedule of fees, if any, for establishing and maintaining your Inherited IRA. We may replace or change our fee schedule at any time, upon giving you 30-days' written notice. You hereby authorize us to deduct these fees from your Inherited IRA assets and to surrender or sell such Inherited IRA assets at our

discretion to pay any fee of which you have been notified, and which remains unpaid 30 days thereafter. However, in the case of an administrative fee, we will allow you to pay such fee with non-Inherited IRA funds, but we have no duty to inform you of this option other than herein.

2.6 Termination and Resignation as Custodian. We may resign or terminate our position as custodian of your Inherited IRA at any time by giving you written notice. You may then instruct us in writing to transfer your Inherited IRA assets to you or to another Inherited IRA custodian if done within 30 days of our written notice. If you fail to so instruct us in writing within 30 days of our written notice, the Inherited IRA assets will be paid to you.

2.7 Amendments. We may amend this agreement at any time in order to meet the requirements of the tax laws or regulations. We will send you a copy of any such amendment. You also agree that we may amend any provision of Article VIII and it will become effective 30 days after it is mailed to you or your beneficiary.

2.8 Good Faith Payments. We are not liable for any payments we make in good faith. We can rely fully on any information or direction you give us or on any document which we believe sufficient to determine a person's identity. We can rely on the latest beneficiary form in our possession. We may presume that a beneficiary is fully competent until we are told otherwise. If a beneficiary is a minor or is incompetent, we may make payments to the beneficiary's legal representative, or to the person with whom the beneficiary resides or to the beneficiary directly, notwithstanding state law to the contrary.

2.9 Withholding Payments and Resolution of Disputes. We shall have the right to withhold payments from your Inherited IRA assets if there is any dispute or uncertainty with respect to these assets. For example, disputes could arise in a divorce situation, or different individuals could claim that they were entitled to be paid as your beneficiaries. This right of ours to withhold payment is expressly authorized until the dispute or uncertainty is settled to our satisfaction by all of the parties. We shall have the right (but not the duty) to request a judicial determination as to ownership of the assets at any time from a Court of law. The Court's determination shall be binding upon us, you and all persons claiming an interest in the assets. You expressly authorize and agree that we have the right to be paid (i.e. deduct) from your Inherited IRA assets any fees and expenses including but not limited to legal

and accounting fees, whether internal or external, associated with resolving any dispute.

2.10 Notices. We may give a notice or report to you or your beneficiary by mailing it to you or your beneficiary at the address last furnished to us. The notice or report is considered given when it is mailed by either an agent or us.

2.11 Transfers. We may request certification acceptable to us before we will accept any transfer contribution. We reserve total discretion whether or not we will transfer your Inherited IRA assets to another custodian or trustee. You assume sole responsibility for complying with this requirement.

2.12 Authority to Deduct Taxes. In our sole discretion, you authorize us to deduct and pay from your Inherited IRA assets the amount necessary to pay any and all taxes which relate to this Inherited IRA for which it may be liable.

2.13 Corrections of Errors. We shall have the right to correct any error we make with respect to your IRA unless IRS rules and procedures would not permit us to do so. Such errors include both reporting errors and non-reporting errors.

3. General Provisions

3.1 Entire Agreement/Reproductions. This agreement is made up of two documents: (1) the application form and (2) the IRS model Form 5305-A plan agreement along with Article VIII. You and we have received or retained a copy of these documents. You also acknowledge the fact that we have given you an Inherited IRA disclosure statement. A copy of these documents shall be admissible in evidence in any judicial or administrative proceeding as if they were originals. This agreement contains the entire agreement of the parties. It may not be changed orally; you and we must agree to any changes according to the procedure set forth in section 2.7.

3.2 Controlling Law. The laws of the state in which our principal office is located will govern this agreement for purposes of the relationship between us (i.e. the traditional Inherited IRA custodian and the traditional Inherited IRA accountholder or the inheriting beneficiary). However, if controlling law must be determined for another reason, then the laws of the state of the accountholder's domicile shall govern this agreement.

3.3 Waiver of a Breach and Severability. Your waiver or our waiver of a breach of any provision of this agreement by the other party shall not operate or be construed as a waiver of any subsequent breach. If any provision of this agreement is held to be illegal or nonenforceable, the remaining

provisions shall be construed as if that provision had not been included.

3.4 Special Plan Agreement Changes Authorizing Tax-Free Charitable Distributions as Set Forth in the Pension Protection Act of 2006. To the extent necessary, the previous provisions are modified to authorize the special IRA tax benefits relating to tax-free charitable distributions. These changes are discussed in the Disclosure Statement.

3.5 Special Plan Agreement Changes Authorizing a New Type of Inherited IRA as Set Forth in the Pension Protection Act of 2006. To the extent necessary, the previous provisions are modified to authorize the special IRA tax benefits relating to the new type of inherited IRA arising from direct rollovers of the accounts of nonspouse beneficiaries. These changes are discussed in the Disclosure Statement.

Disclosure Statement

Introduction

This Inherited IRA Disclosure Statement is an explanation of the rules which govern the traditional IRA, because that is the type of IRA which you have inherited.

You have not established an inherited Roth IRA, SIMPLE-IRA or a Coverdell Education Savings Account.

This summary or explanation of the inherited traditional IRA is intended to be a non-technical explanation. However, as with any plan or program created by the Internal Revenue Code, these rules are complicated. Note that this is a summary, and you may well wish to conduct additional research. You are advised to always seek professional tax advice.

Revocation Procedure

You are entitled to revoke or cancel your Inherited IRA for any reason within seven (7) calendar days of the day you established it. You revoke your Inherited IRA by mailing or delivering a written notice to the Custodian's representative as shown on the application page. If you mail your notice, it is deemed mailed on the postmark date if you deposited it, properly addressed, in the United States mail with first class postage. Your timely revocation within the first seven days will mean your original contribution will be returned to you without any adjustment.

Statutory Requirements of an Inherited IRA

1. Cash Contributions. A beneficiary is not permitted to make any additional contributions to this inherited IRA.

2. Custodian/Trustee Requirements. The custodian or trustee of your traditional Inherited IRA must be a bank, trust company, savings and loan association, a federally insured credit union, or other person approved by the Secretary of the Treasury.

3. No Life Insurance. Funds in your Inherited IRA cannot be invested in life insurance to any extent.

4. Nonforfeitable. Your Inherited IRA funds are nonforfeitable.

5. Segregated Funds. Your Inherited IRA funds must be kept separate from other property, although these assets may be combined with other property in a common Inherited IRA trust fund.

6. Distributions which Must Be Taken by you as an inheriting beneficiary.

The following discussion is presented in question and answer format.

When an IRA accountholder dies, who inherits these funds? The beneficiary of the IRA, as named by the accountholder on the IRA plan application document or most recent IRA beneficiary document, inherits the IRA funds. If no beneficiaries are named, applicable state law rules, usually naming the estate of the IRA accountholder as the beneficiary.

Can the now-deceased accountholder dictate how the money is to be distributed after his or her death? Yes! If the distribution instructions are in writing and call for an amount to be distributed, (not less than the amount required by the federal tax laws), the deceased accountholder has the right to dictate the manner of distributions. Most accountholders allow the beneficiary to decide when he or she will take the required distributions.

Do the federal income tax laws mandate that I, as an IRA beneficiary, must be distributed funds from the decedent's IRA? Yes. If certain minimum amounts are not distributed to you, then you will owe a 50% excise tax. This tax amount is calculated as follows: 50% times the amount required to be withdrawn but which was not withdrawn. This is determined annually.

As a beneficiary, may I transfer my inherited IRA funds to a different IRA custodian/trustee? Yes. If certain information is furnished and acknowledged by both IRA custodians, then you should be able to transfer the IRA you have inherited to a different IRA custodian.

Am I eligible to roll over inherited traditional IRA funds to another traditional IRA? No. Inherited IRAs are not eligible to be rolled over.

Am I eligible to roll over or convert inherited traditional IRA funds to a Roth IRA? No. Inherited traditional IRA funds are not eligible to be converted into a Roth IRA.

What are the beneficiary options upon the death of the IRA accountholder? If the IRA accountholder has not specified the distribution method, the beneficiary options are numerous, and vary depending on whether it is a traditional IRA or a Roth IRA, and are further differentiated by whether the IRA accountholder dies before or after the Required Beginning Date. Also, spouse beneficiary options differ from nonspouse beneficiary options.

What date is used to determine a beneficiary(ies') RMD? In order to be an inheriting IRA beneficiary for RMD purposes, you must have been a designated beneficiary as of the time of the accountholder's death, and also as of September 30 of the year after the year the accountholder died.

What if more than one beneficiary is named? The IRA will generally be divided into separate inherited beneficiary accounts, with each account under the control of the individual beneficiary. Each beneficiary can generally make their own choice of payout options unless the decedent mandated the form and timing of payment.

What must I do to begin distributions? Bring a certified copy of the deceased's death certificate to the financial institution. They will give you the forms to complete to choose your election and payment schedule.

Are there revised RMD Rules

which apply to me as the inheriting beneficiary(ies)? Yes. These rules continue to depend upon whether the accountholder died before or after the required beginning date. You, as a beneficiary, will want to understand the following situations. In addition, the IRS has made clear that even though a spouse beneficiary does not have the right to elect to treat the inherited IRA as his or her own because he or she is not the sole beneficiary or for some other reason, a spouse may still roll over a distribution as long as the standard rollover rules are satisfied.

Situation #1. If you are the spouse and sole beneficiary, and the accountholder dies before the required beginning date, then you may choose from three options:

Five-Year Payout – Under this option, you must remove all funds from the IRA by December 31 of the year that contains the fifth anniversary of the accountholder's death. As much or as little as you desire can be removed each year, as long as the entire IRA balance is distributed by the deadline.

Election as Own – You will still be able to elect to treat this inherited IRA as your own IRA. This is true even if distribution has commenced to you. The effect of this election is that all standard distribution rules will apply to your new IRA.

You make such an election when you re-designate the IRA to be your own IRA as an owner rather than as a beneficiary. Such election is also deemed made when, if at any time, you fail to take an RMD within an appropriate time period or contribute any additional amounts to this inherited IRA.

You are eligible to make this election only if you are the sole beneficiary of the decedent's IRA; you must have an unlimited right to withdraw funds from the decedent's IRA.

Life-Distribution Rule. If you are the sole beneficiary of the IRA, then you are required to commence distributions over your life expectancy – no later than December 31 of the year the accountholder would have attained age 70½, or December 31 of the following year if the accountholder would die in the year he/she would have attained age 70½.

A special rule applies if your spouse is your sole beneficiary and you die before your required beginning date and then your spouse dies before payments commence to him or her. In this case, the 5-year rule or the life-distribution rule will be applied as if your spouse is the IRA accountholder.

Situation #2. If you are the sole spouse beneficiary, and the accountholder dies after the required beginning date, then you may establish a periodic distribution schedule which will be based on your life-expectancy factor as set forth in the Single Life Table as prepared by the Internal Revenue Service – in Internal Revenue Code regulation 1.401(a)(9)-9. Each year's factor is based on your age as of your birthdate for such year. For example, if the accountholder died in 2001 at age 79, and you attained age 71 in 2001, then your factor will be 15.5 (age 72) for 2002, 14.8 (age 73) for 2003, 14.1 (age 74) for 2004, etc.

After you die, there will be a different method of determining the distribution period to govern the required distributions to any subsequent beneficiary(ies) for years after the year you die. This method requires a preliminary factor to be determined from the Single Life Table for the year of your death by using the birthdate you either attained or would have attained for the year of your death. The actual factors to be used for subsequent years are determined by reducing the preliminary factor by one for each subsequent year. For example, if you died in 2004 at age 74, then the factors to be used for subsequent years will be as follows: 13.1 (14.1-1.0) for 2005; 12.1 (14.1-2.0) for 2006; 11.1 (14.1-3.0) for 2007, etc.

You are, of course, permitted to take more than the required distribution amount.

As discussed in situation #1, you may still elect to treat the IRA as your own.

Situation #3. If you are a nonspouse beneficiary or you are a spouse beneficiary but you are not the sole beneficiary, and the accountholder dies before the required beginning date, then you have two options:

Five-Year Payout – All funds must be distributed by December 31 of the year that contains the fifth anniversary of the accountholder's death. As much or as little as

you desire can be removed each year, as long as the entire IRA balance is distributed by the deadline.

Life-Distribution Rule – Under this option, the distribution is based on your (the beneficiary's) life expectancy, using one-year reduction. This is the option which automatically applies unless you elect the five-year payout option on or before 12/31 of the year after the year of death.

If a beneficiary using the life-distribution rule neglects to take a distribution when required, normally a 50% excise tax would be owing on the amount which was required to be withdrawn but was not. The IRS is allowed to waive this excise tax if the beneficiary would agree to a total distribution of the IRA account by 12/31 of the year which includes the fifth anniversary of the accountholder's death. In essence, under this special situation, the inherited account will be treated as though the beneficiary had originally elected the 5-year payout option. However, although the IRS is allowed to waive the 50% excise tax, it is not required to do so.

The IRS also has a special transitional rule which allows a beneficiary who is presently required to use the 5-year payout option to change that election to the life-distribution option. The election to change must be made on or before 12/31/02, if the accountholder died during 1997, or must be made by 12/31/03, if the accountholder died during 1998 or any subsequent year.

Situation #4. If you are a nonspouse beneficiary or you are a spouse beneficiary but you are not the sole beneficiary, and the accountholder dies after the required beginning date, then the applicable distribution period for years after the year of the accountholder's death will be based on your life expectancy. Your remaining life expectancy is calculated using your age in the year following the year of the accountholder's death, reduced by one for each subsequent year.

Situation #5. If the accountholder did not designate a living person as a beneficiary and the accountholder died before the required beginning date, then the estate or other beneficiary will be required to use the 5-year rule.

Situation #6. If the accountholder does not designate a living person as a beneficiary and the accountholder dies on or after the required beginning date, then the applicable distribution period (i.e. the original factor) for years after the year of the accountholder's death is based on the accountholder's age and life expectancy as determined as of December 31 of such year. For subsequent years, the original

factor is reduced by one for each elapsed year.

Special Exception. Under Situation #2 or Situation #4, the distribution period will be based on the remaining life expectancy or the accountholder, as determined under Situation #6, rather than that of the beneficiary, if it results in a longer distribution period.

What life-expectancy table is used to determine the life-expectancy factor which applies to an inheriting IRA beneficiary? The Single Life Table applies.

Single Life Table

Age of Beneficiary	Distribution Period (in yrs)	Age of Beneficiary	Distribution Period (in yrs)	Age of Beneficiary	Distribution Period (in yrs)	Age of Beneficiary	Distribution Period (in yrs)
0	82.4	28	55.3	56	28.7	84	8.1
1	81.6	29	54.3	57	27.9	85	7.6
2	80.6	30	53.3	58	27.0	86	7.1
3	79.7	31	52.4	59	26.1	87	6.7
4	78.7	32	51.4	60	25.2	88	6.3
5	77.7	33	50.4	61	24.4	89	5.9
6	76.7	34	49.4	62	23.5	90	5.5
7	75.8	35	48.5	63	22.7	91	5.2
8	74.8	36	47.5	64	21.8	92	4.9
9	73.8	37	46.5	65	21.0	93	4.6
10	72.8	38	45.6	66	20.2	94	4.3
11	71.8	39	44.6	67	19.4	95	4.1
12	70.8	40	43.6	68	18.6	96	3.8
13	69.9	41	42.7	69	17.8	97	3.6
14	68.9	42	41.7	70	17.0	98	3.4
15	67.9	43	40.7	71	16.3	99	3.1
16	66.9	44	39.8	72	15.5	100	2.9
17	66.0	45	38.8	73	14.8	101	2.7
18	65.0	46	37.9	74	14.1	102	2.5
19	64.0	47	37.0	75	13.4	103	2.3
20	63.0	48	36.0	76	12.7	104	2.1
21	62.1	49	35.1	77	12.1	105	1.9
22	61.1	50	34.2	78	11.4	106	1.7
23	60.1	51	33.3	79	10.8	107	1.5
24	59.1	52	32.3	80	10.2	108	1.4
25	58.2	53	31.4	81	9.7	109	1.2
26	57.2	54	30.5	82	9.1	110	1.1
27	56.2	55	29.6	83	8.6	111+	1.0

If the accountholder designates a trust as the IRA beneficiary, will such trust be entitled to use a distribution period which normally would apply only to a beneficiary who is an individual? Yes. If special rules are met, the beneficiaries of a trust will be treated as if they had been the beneficiaries of the IRA. The effect of this is that the age of such beneficiary(ies) may then be used to determine the distribution period which applies after the accountholder's death. Upon your request, we will inform you of these special rules.

What if I want to take a lump-sum distribution from the IRA? You may take a lump-sum distribution. A beneficiary generally has the right to take more than his or her required distribution.

Can I designate my own beneficiary(ies)? Yes. The governing rules have been changed to allow you, as an inheriting beneficiary, to designate your own beneficiary(ies).

How is the RMD calculated after the first inheriting beneficiary dies? The RMD calculation is determined under the applicable situation (see the six situations previously described). Refer to situations one and two for specific rules which apply if you are a spouse beneficiary.

Understanding the tax consequences of distributions from an Inherited traditional IRA

What are the tax consequences of my being a beneficiary to a traditional IRA?

No taxes will be owed until the money is actually distributed to you. If the accountholder received a deduction when the contributions were made, or the funds came from a pension plan that was funded with pre-tax dollars, then the entire distribution will be taxable to you. If the IRA was funded with after-tax dollars, then only the interest, or funds that have never been taxed, will be taxed when withdrawn.

How do I determine whether or not the IRA was funded with pre-tax dollars?

This information can be found on the deceased accountholder's tax forms. If there are after-tax dollars in the IRA, then a tax Form 8606 will tell what portion of the IRA is taxable and what is not.

At what tax rate will the IRA distribution be taxed? The tax rate for the distribution is determined by the taxable income of the recipient.

What tax benefit do I realize by leaving the funds within the inherited traditional IRA? Taxation of the earnings is deferred until actually distributed, as is taxation of the original contributions.

Federal Income Tax Consequences.

1. Deferred Taxation. Your Inherited IRA funds (whether contributions or related earnings) are not taxed until actual distribution unless (1) you engage in a prohibited transaction, (2) you invest in collectibles, (3) the original contribution was nondeductible, (4) you pledge your Inherited IRA as security, or (5) you engage in a trade or business with these funds so that the unrelated business income tax imposed by Internal Revenue Code section 511 applies. If you engage in a prohibited transaction at any time during the year, your Inherited IRA funds will be treated as if they were distributed on January 1 of that

year. IRC section 4975 names the prohibited transactions. Some examples: (1) borrowing from your Inherited IRA; (2) selling property to your Inherited IRA; (3) using your Inherited IRA as security for a loan; or (4) receiving unreasonable compensation for managing your Inherited IRA. If any of your Inherited IRA funds are invested in collectibles after 1981, the amount invested is considered distributed to you in that year. Collectibles include tangible personal property such as artwork, rugs, antiques, metals, gems, coins, alcoholic beverages, etc. Exception #1: Inherited IRA funds may be invested in certain gold, silver, and platinum coins issued by the United States. Exception #2: Inherited IRA funds may be invested in any coin issued under the laws of any state. Exception #3: After December 31, 1997, an Inherited IRA may purchase certain gold, silver, platinum or palladium bullion. Such bullion must be in the physical possession of the Inherited IRA trustee or custodian. Such bullion must be of a fineness that a contract market requires for metals which may be delivered in satisfaction of a regulated futures contract.

2. Transfers. You are entitled to transfer other traditional Inherited IRA funds or assets into this Inherited IRA, as long as such funds are inherited from the same decedent.

3. RMDs for Beneficiaries of an Inherited IRA Arising from a Direct Rollover from a 401(k) Plan or Other Eligible Employer Plan. On or after January 1, 2007, if you are a nonspouse beneficiary of a deceased plan participant, then you will be able to directly roll over your inherited funds into a new type of inherited IRA, if the plan is amended to authorize such a direct rollover. Prior to 2007, a nonspouse beneficiary of a pension plan participant was unable to roll over such inherited funds. He or she was required to take distributions from the pension plan as the plan stipulated.

What is the benefit of a direct rollover? Receiving distributions will generally be a less complicated process if the inherited funds are within an inherited IRA rather than an employer-sponsored plan. Why? In many cases, plan administrators would rather not have to make a number of distributions to an inheriting beneficiary. They prefer making one distribution, as occurs when a terminating employee requests a direct rollover of their funds into an IRA. Many times an inheriting beneficiary will have more investment options with their own inherited IRA than if the funds stay within the employer-sponsored plan.

Taking distributions from an IRA is generally much easier than taking distributions from an employer-sponsored plan. For example, it is very possible that the employer-sponsored plan would limit a beneficiary to taking a distribution to just once or twice a year. An inherited IRA normally allows more frequent distributions.

What must a nonspouse QP beneficiary do to make a direct rollover? A nonspouse beneficiary must establish an Inherited IRA with an IRA custodian, and inform the qualified plan administrator that they wish to perform a direct rollover of the inherited QP funds to their Inherited IRA. Both the plan administrator and the IRA custodian will normally require the beneficiary to complete a form or forms authorizing this direct rollover distribution from the qualified plan, and certifying that an Inherited IRA has been established with the IRA custodian.

What rules apply to a beneficiary for receiving the required distributions from the Inherited IRA? You will be required to take required distributions from this new type of inherited IRA. The IRS has adopted the approach that the inherited IRA established to receive the direct rollover must apply the same required distribution rules as set forth in the ERP. That is, if the ERP mandated that the 5-year rule applies, then the 5-year rule must be applied by the IRA, unless a special election has been made to use the life-distribution rule. If the ERP mandated the life-distribution rule, then the life-distribution rule must be applied by the IRA.

Special rule and election. If the 5-year rule applies, the nonspouse beneficiary may elect to use the life-distribution rule rather than the 5-year rule. There are two requirements. First, the funds must be directly rolled over before the end of the year following the year of death. Secondly, the life-distribution rule must be determined using the same nonspouse beneficiary. Note that the amount ineligible to be directly rolled over includes the required distribution amount for any prior year to the extent not distributed.

4. Distributions.

A. In General. For Inherited IRA purposes, a distribution is defined to be a removal of funds or property from an Inherited IRA, which is actually paid to you or your beneficiary, or which is transferred to another qualifying Inherited IRA or inherited IRA.

A distribution will either be fully taxable, partially taxable, or not taxable at all depending on the amount of the distribution

which will be required to be included in income for federal income tax purposes.

B. Transfers. A transfer occurs when ownership of the Inherited IRA funds or property is changed from one Inherited IRA custodian/trustee, on behalf of an Inherited IRA depositor or beneficiary, to a subsequent Inherited IRA custodian/trustee on behalf of the same depositor or beneficiary. A transfer is not a reportable event to either the individual or the IRS, because an actual payment has not been made. The following types of transfers may take place with respect to your Inherited IRA: (1) you may transfer funds to another of your Inherited IRAs (but only from the same decedent); (2) your spouse who is your sole beneficiary may elect to treat your Inherited IRA as his or her own Inherited IRA; (3) there may be a transfer of your Inherited IRA funds to your spouse or ex-spouse, if pursuant to a court decree or property settlement or (4) there will be a transfer by operation of law from your Inherited IRA to your beneficiary's inherited IRA.

C. Tax Treatment of Distributions. Any money or property that you receive from your Inherited IRA is a distribution. The **general rule** is that any distribution be included in the gross income of the recipient in the year received. The favorable ten-year averaging or capital gain provisions of IRC section 402 do not apply. If you have made nondeductible contributions, then a portion of the distribution will not be taxable as determined by applying the rules of IRC section 72 as modified by some special Inherited IRA rules. See IRS Publication 590.

Distributions from your traditional Inherited IRA may be fully or partly taxable, depending on whether your Inherited IRA includes any nondeductible contributions.

Fully taxable. If only deductible contributions were made to your traditional Inherited IRA (or Inherited IRAs, if you have more than one), you have no basis in your Inherited IRA. Because you have no basis in your Inherited IRA, any distributions are fully taxable when received.

Partly taxable. If any nondeductible contributions were made to any of your traditional Inherited IRAs, you have a cost basis (investment in the contract) equal to the amount of those taxed contributions. These nondeductible contributions are not taxed when they are distributed to you. They are a return of the decedent's investment in the Inherited IRA.

Only the part of the distribution that represents nondeductible contributions (the cost basis) is tax free. If nondeductible

contributions have been made, distributions consist partly of nondeductible contributions (basis) and partly of deductible contributions, earnings, and gains (if there are any). Until all of the basis has been distributed, each distribution is partly nontaxable and partly taxable.

Form 8606. You must complete Form 8606, and attach it to your return, if you receive a distribution from a traditional Inherited IRA and any nondeductible contributions have ever been made to any of your traditional Inherited IRAs. Using the form, you will figure the nontaxable distributions and the total Inherited IRA basis.

Note. If you are required to file Form 8606, but you are not required to file an income tax return, you still must file Form 8606. Complete Form 8606, sign it, and send it to the IRS at the time and place you would otherwise file an income tax return.

D. Discussion of the Special Rules Applying to Tax-Free Charitable IRA Distributions/Contributions.

What requirements must I meet in order to take advantage of this charitable contribution law? (a) You must be age 70½ or older; (b) You must have a traditional or Roth IRA; (c) You must be allowed to itemize deductions on your Form 1040 income tax return; (d) Your contribution to a qualifying charity must also have been able to qualify as an itemized deduction, but for this special charitable contribution rule under Code section 170 (disregard the percentage limits). **Caution:** You receive the tax-free charitable contribution treatment only if the entire amount would have qualified as a charitable deduction. Thus, if the contribution amount is reduced because of a benefit received by you in exchange, or because the custodian does not obtain sufficient substantiation, the exclusion is not available with respect to any part of the IRA distribution; (e) The distribution, but for this rule, must otherwise have been required to be included in your gross income.

May I satisfy my required distribution requirement for 2006 and 2007 by making a tax-free charitable IRA contribution to a charity? Yes. See the discussion set forth in Section 4.5.D. If you are age 70½ and older, then you may instruct your IRA custodian to make a direct payment of \$100,000 or less to a charity. Such direct payment is tax free, as it is not taxed, and it also may be used to satisfy your required distribution requirement. There are numerous complex rules which must be met. You will want to consult with your tax advisor.

The withdrawal of basis (i.e. nondeductible contributions) from a traditional IRA is not includable in income, and consequently, such withdrawal does not qualify as a tax-free charitable contribution; and (f) Payment, no matter in what form (electronic transfer, check, etc.), must be made directly from the IRA to the qualifying charitable organization. The instrument used for payment must not be negotiable by the IRA accountholder.

Is there a limit on the amount which can be contributed to a charity each year?

Yes, you may contribute up to a maximum of \$100,000 each year to a qualifying charity for years 2006 and 2007.

E. Withholding. If you receive an Inherited IRA distribution which is payable upon demand, the payer-custodian will withhold Federal income tax at the rate of 10% unless you elect not to have any withholding or instruct to have a greater amount withheld. You use Form W-4P to instruct your custodian that you do not want withholding.

F. Tax Credit for the Elderly. If you are age 65 or older, amounts you receive from your Inherited IRA may qualify for the retirement income credit. See IRS Publication 524.

G. Ten Percent Additional Tax. The general Inherited IRA taxation rule is that the Inherited IRA distribution will be included in income and it will also be subject to an additional tax equal to 10% of the amount required to be included in income, unless an exception applies, as this is an inherited IRA.

H. Effect on Taxation of Social Security and Railroad Retirement Benefits. Commencing with the 1994 tax year (i.e. January 1, 1994), new rules govern when Social Security benefits and Tier 1 Railroad Retirement benefits must be included in a taxpayer's gross income. If you receive such benefits, then you must include a portion of these benefits in your gross income if your provisional income exceeds either of two threshold amounts. Your provisional income includes modified adjusted gross income (adjusted gross income plus tax-exempt interest plus certain foreign-source income) plus 50% of your Social Security or Railroad Retirement benefit.

If your provisional income exceeds the following applicable threshold amount – \$32,000 for married taxpayers filing joint returns, \$25,000 for unmarried taxpayers and \$0 for married taxpayers filing separate returns – then you are required to include in gross income the lesser of (1)

50% of your Social Security or Railroad Retirement benefit or (2) 50% of the excess of your provisional income over the applicable threshold level.

If your provisional income exceeds the following applicable threshold amount – \$44,000 for married taxpayers filing joint returns, \$34,000 for unmarried taxpayers and \$0 for married taxpayers filing separate returns, then you are required to include in gross income the lesser of (1) 85% of your Social Security or Railroad Retirement benefit or (2) the sum of 85% of the excess of your provisional income over the applicable threshold level plus the lesser of: (a) the amount determined using the applicable threshold described in the immediately preceding paragraph or (b) \$4,500 if you are unmarried, \$6,000 if you are married and filing jointly and \$0 if you are married but are filing a separate return.

The consequence of this rule may be that a distribution from your Inherited IRA could result in some of your Social Security benefits being taxable.

5. Transfer Incident to Divorce and/or Election to Treat as Own. When an Inherited IRA is transferred from one spouse to another by a divorce decree or written document relating thereto, or after the death of one spouse, the transfer is not a distribution and is deemed tax free. The Inherited IRA becomes the Inherited IRA of the transferee as of the date of transfer, subject to all rules governing Inherited IRAs.

6. Special Taxes that Apply Even Though No Distribution.

A. Six Percent Excise Tax on Excess Contributions. If the original accountholder had made any excess contributions to your inherited IRA, and these funds are still in the account, you must pay a 6% excise tax each year on the excess amounts that remain in your Inherited IRA. The tax cannot be more than 6% of the value of your Inherited IRA as of the end of the tax year. In general, an excess contribution is an amount paid to an IRA which exceeds the contribution limit (lesser of 100% of compensation or the applicable limit) or which is an improper rollover amount.

B. Fifty Percent Excise Tax on Excess Accumulations.

There is a 50% excise tax on any excess accumulations in your Inherited IRA in the year you attain age 70½ and any subsequent year. An excess accumulation is the difference between the amount actually distributed to you or your beneficiary, and the amount required to be distributed.

7. Form 5329 – Reporting Requirements when an Excise Tax applies.

If you or your beneficiary(ies) owe the 6% excise tax on an excess contribution, or the 50% excise tax for failing to satisfy the minimum distribution requirements, you or your beneficiary(ies) must file IRS Form 5329. See the instructions for Form 5329 for more information. You may be required to file Form 5329 even though your income level would not otherwise require the filing of an income tax return (i.e. Form 1040 or 1040A). If you engaged in a prohibited transaction, then you must report the entire Inherited IRA's value as of such day as being distributed.

8. Converting or Rolling Over this Traditional Inherited IRA to a Roth Inherited IRA.

A beneficiary cannot ever convert funds within an inherited traditional IRA to a Roth Inherited IRA.

9. Recharacterizing a Contribution.

The special rules allowing an accountholder to recharacterize a contribution do not apply to this inherited IRA.

10. Federal Estate and Gift Taxes. IRC sections 2039(c) and 2517 provide limited exceptions so that certain Inherited IRA transactions will not be subject to Federal estate or gift taxes. For example, no Federal gift tax has to be paid when you name a beneficiary or when the funds are paid to a beneficiary after your death. In general, Inherited IRA funds are includable in the computation of Federal estate taxes. Publication 590 should be read for an explanation of the rules.

11. Discussion of the Special Rules Applying to Tax-Free Transfers to Health Savings Accounts. On or after January 1, 2007, a person who is eligible to make an HSA contribution, who has funds within a traditional IRA, including an inherited IRA, (and in limited cases a Roth IRA) may make a special election once during their lifetime to transfer a certain amount from their traditional IRA to their HSA. This type of special transfer is called a qualified HSA funding distribution. Such an election, once made, is irrevocable. The amount transferred in such a direct trustee-to-trustee transfer will be excluded from your income. However, as with the new charitable distribution rules, this tax-free treatment only applies to the extent that the IRA distribution would be taxable. This means that nontaxable IRA basis may not be transferred to an HSA. Funds within SEP-IRAs and SIMPLE-IRAs are ineligible for this special election.

Miscellaneous

1. Approved as to Form. Your Inherited IRA has not been approved as to form for use as an Inherited IRA by the IRS.

2. Further Inherited IRA Information. You may obtain further information about Inherited IRAs from any district office of the IRS. IRS Publication 590 has some discussion of Inherited IRAs.

3. Administrative Fees or Costs. We have the right to charge service fees as indicated in Article VIII.

Summary of Contractual Terms

1. You must refer to your savings or time deposit agreement(s) for the terms which govern the investment of your Inherited IRA deposits, including an early withdrawal penalty or fee for taking a distribution prior to maturity, if applicable.
2. You have the right to designate a beneficiary or beneficiaries to inherit your Inherited IRA account. Refer to Section 1.6 of Article VIII so that you can understand the rules and procedures.
3. You do not have any ability to assign your rights in this Inherited IRA.
4. We may charge fees as set forth in section 2.5 of Article VIII.
5. We may amend the terms of this Inherited IRA from time to time to comply with law changes. If we amend it for any other reason, such amendment becomes effective 30 days after we have sent our notice of amendment to you.
6. You are to refer to Article VIII for the following topics: withdrawals, withholding rules, reporting errors, changes in the Inherited IRA custodian or trustee, good faith payments, termination and resignation of the Inherited IRA custodian or trustee, withholding payments and resolution of disputes, transfer and rollovers, and payment of taxes.