

UNITED STATES DEPARTMENT OF THE TREASURY  
1500 PENNSYLVANIA AVENUE, NW  
WASHINGTON, D.C. 20220

Dear Ladies and Gentlemen:

The company set forth on the signature page hereto (the "*Company*") intends to issue in a private placement the number of shares of a series of its preferred stock set forth on Schedule A hereto (the "*Preferred Shares*") and a warrant to purchase the number of shares of a series of its preferred stock set forth on Schedule A hereto (the "*Warrant*" and, together with the Preferred Shares, the "*Purchased Securities*") and the United States Department of the Treasury (the "*Investor*") intends to purchase from the Company the Purchased Securities.

The purpose of this letter agreement is to confirm the terms and conditions of the purchase by the Investor of the Purchased Securities. Except to the extent supplemented or superseded by the terms set forth herein or in the Schedules hereto, the provisions contained in the Securities Purchase Agreement – Standard Terms attached hereto as Exhibit A (the "*Securities Purchase Agreement*") are incorporated by reference herein. Terms that are defined in the Securities Purchase Agreement are used in this letter agreement as so defined. In the event of any inconsistency between this letter agreement and the Securities Purchase Agreement, the terms of this letter agreement shall govern.

Each of the Company and the Investor hereby confirms its agreement with the other party with respect to the issuance by the Company of the Purchased Securities and the purchase by the Investor of the Purchased Securities pursuant to this letter agreement and the Securities Purchase Agreement on the terms specified on Schedule A hereto.

This letter agreement (including the Schedules hereto), the Securities Purchase Agreement (including the Annexes thereto), the Disclosure Schedules and the Warrant constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties, both written and oral, between the parties, with respect to the subject matter hereof. This letter agreement constitutes the "Letter Agreement" referred to in the Securities Purchase Agreement.

This letter agreement may be executed in any number of separate counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts will together constitute the same agreement. Executed signature pages to this letter agreement may be delivered by facsimile and such facsimiles will be deemed as sufficient as if actual signature pages had been delivered.

\* \* \*

UST # 625

In witness whereof, this letter agreement has been duly executed and delivered by the duly authorized representatives of the parties hereto as of the date written below.

UNITED STATES DEPARTMENT OF THE  
TREASURY

By:  \_\_\_\_\_

Name: **Neel Kashkari**  
Title: **Interim Assistant Secretary  
For Financial Stability**

COMPANY: FIRST BANK OF CHARLESTON,  
INC.

By:  \_\_\_\_\_

Name: Percy Osborne  
Title: President and Chief Executive Officer

Date: February 6, 2009

UST # 625

**EXHIBIT A**

**SECURITIES PURCHASE AGREEMENT**

**EXHIBIT A**  
(Non-Exchange-Traded QFIs, excluding S Corps  
and Mutual Organizations)

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**SECURITIES PURCHASE AGREEMENT**  
**STANDARD TERMS**

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## SECURITIES PURCHASE AGREEMENT – STANDARD TERMS

### Recitals:

WHEREAS, the United States Department of the Treasury (the “*Investor*”) may from time to time agree to purchase shares of preferred stock and warrants from eligible financial institutions which elect to participate in the Troubled Asset Relief Program Capital Purchase Program (“*CPP*”);

WHEREAS, an eligible financial institution electing to participate in the CPP and issue securities to the Investor (referred to herein as the “*Company*”) shall enter into a letter agreement (the “*Letter Agreement*”) with the Investor which incorporates this Securities Purchase Agreement – Standard Terms;

WHEREAS, the Company agrees to expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy;

WHEREAS, the Company agrees to work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market;

WHEREAS, the Company intends to issue in a private placement the number of shares of the series of its Preferred Stock (“*Preferred Stock*”) set forth on Schedule A to the Letter Agreement (the “*Preferred Shares*”) and a warrant to purchase the number of shares of the series of its Preferred Stock (“*Warrant Preferred Stock*”) set forth on Schedule A to the Letter Agreement (the “*Warrant*” and, together with the Preferred Shares, the “*Purchased Securities*”) and the Investor intends to purchase (the “*Purchase*”) from the Company the Purchased Securities; and

WHEREAS, the Purchase will be governed by this Securities Purchase Agreement – Standard Terms and the Letter Agreement, including the schedules thereto (the “*Schedules*”), specifying additional terms of the Purchase. This Securities Purchase Agreement – Standard Terms (including the Annexes hereto) and the Letter Agreement (including the Schedules thereto) are together referred to as this “*Agreement*”. All references in this Securities Purchase Agreement – Standard Terms to “*Schedules*” are to the Schedules attached to the Letter Agreement.

**NOW, THEREFORE**, in consideration of the premises, and of the representations, warranties, covenants and agreements set forth herein, the parties agree as follows:

### Article I Purchase; Closing

1.1 Purchase. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to sell to the Investor, and the Investor agrees to purchase from the Company, at the Closing (as hereinafter defined), the Purchased Securities for the price set forth on Schedule A (the “*Purchase Price*”).

1.2 Closing.

(a) On the terms and subject to the conditions set forth in this Agreement, the closing of the Purchase (the "*Closing*") will take place at the location specified in Schedule A, at the time and on the date set forth in Schedule A or as soon as practicable thereafter, or at such other place, time and date as shall be agreed between the Company and the Investor. The time and date on which the Closing occurs is referred to in this Agreement as the "*Closing Date*".

(b) Subject to the fulfillment or waiver of the conditions to the Closing in this Section 1.2, at the Closing the Company will deliver the Preferred Shares and the Warrant, in each case as evidenced by one or more certificates dated the Closing Date and bearing appropriate legends as hereinafter provided for, in exchange for payment in full of the Purchase Price by wire transfer of immediately available United States funds to a bank account designated by the Company on Schedule A.

(c) The respective obligations of each of the Investor and the Company to consummate the Purchase are subject to the fulfillment (or waiver by the Investor and the Company, as applicable) prior to the Closing of the conditions that (i) any approvals or authorizations of all United States and other governmental, regulatory or judicial authorities (collectively, "*Governmental Entities*") required for the consummation of the Purchase shall have been obtained or made in form and substance reasonably satisfactory to each party and shall be in full force and effect and all waiting periods required by United States and other applicable law, if any, shall have expired and (ii) no provision of any applicable United States or other law and no judgment, injunction, order or decree of any Governmental Entity shall prohibit the purchase and sale of the Purchased Securities as contemplated by this Agreement.

(d) The obligation of the Investor to consummate the Purchase is also subject to the fulfillment (or waiver by the Investor) at or prior to the Closing of each of the following conditions:

(i) (A) the representations and warranties of the Company set forth in (x) Section 2.2(g) of this Agreement shall be true and correct in all respects as though made on and as of the Closing Date, (y) Sections 2.2(a) through (f) shall be true and correct in all material respects as though made on and as of the Closing Date (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct in all material respects as of such other date) and (z) Sections 2.2(h) through (v) (disregarding all qualifications or limitations set forth in such representations and warranties as to "materiality", "Company Material Adverse Effect" and words of similar import) shall be true and correct as though made on and as of the Closing Date (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct as of such other date), except to the extent that the failure of such representations and warranties referred to in this Section 1.2(d)(i)(A)(z) to be so true and correct, individually or in the aggregate, does not have and would not reasonably be expected to have a Company Material Adverse Effect and (B) the Company shall have

performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing;

(ii) the Investor shall have received a certificate signed on behalf of the Company by a senior executive officer certifying to the effect that the conditions set forth in Section 1.2(d)(i) have been satisfied;

(iii) the Company shall have duly adopted and filed with the Secretary of State of its jurisdiction of organization or other applicable Governmental Entity the amendments to its certificate or articles of incorporation, articles of association, or similar organizational document ("*Charter*") in substantially the forms attached hereto as Annex A and Annex B (the "*Certificates of Designations*") and such filing shall have been accepted;

(iv) (A) the Company shall have effected such changes to its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "*Benefit Plans*") with respect to its Senior Executive Officers (and to the extent necessary for such changes to be legally enforceable, each of its Senior Executive Officers shall have duly consented in writing to such changes), as may be necessary, during the period that the Investor owns any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, in order to comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("*EESA*") as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date, and (B) the Investor shall have received a certificate signed on behalf of the Company by a senior executive officer certifying to the effect that the condition set forth in Section 1.2(d)(iv)(A) has been satisfied;

(v) each of the Company's Senior Executive Officers shall have delivered to the Investor a written waiver in the form attached hereto as Annex C releasing the Investor from any claims that such Senior Executive Officers may otherwise have as a result of the issuance, on or prior to the Closing Date, of any regulations which require the modification of, and the agreement of the Company hereunder to modify, the terms of any Benefit Plans with respect to its Senior Executive Officers to eliminate any provisions of such Benefit Plans that would not be in compliance with the requirements of Section 111(b) of the EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date;

(vi) the Company shall have delivered to the Investor a written opinion from counsel to the Company (which may be internal counsel), addressed to the Investor and dated as of the Closing Date, in substantially the form attached hereto as Annex D;

(vii) the Company shall have delivered certificates in proper form or, with the prior consent of the Investor, evidence of shares in book-entry form, evidencing the Preferred Shares to Investor or its designee(s); and

(viii) the Company shall have duly executed the Warrant in substantially the form attached hereto as Annex E and delivered such executed Warrant to the Investor or its designee(s).

1.3 Interpretation. When a reference is made in this Agreement to “Recitals,” “Articles,” “Sections,” or “Annexes” such reference shall be to a Recital, Article or Section of, or Annex to, this Securities Purchase Agreement – Standard Terms, and a reference to “Schedules” shall be to a Schedule to the Letter Agreement, in each case, unless otherwise indicated. The terms defined in the singular have a comparable meaning when used in the plural, and vice versa. References to “herein”, “hereof”, “hereunder” and the like refer to this Agreement as a whole and not to any particular section or provision, unless the context requires otherwise. The table of contents and headings contained in this Agreement are for reference purposes only and are not part of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed followed by the words “without limitation.” No rule of construction against the draftsman shall be applied in connection with the interpretation or enforcement of this Agreement, as this Agreement is the product of negotiation between sophisticated parties advised by counsel. All references to “\$” or “dollars” mean the lawful currency of the United States of America. Except as expressly stated in this Agreement, all references to any statute, rule or regulation are to the statute, rule or regulation as amended, modified, supplemented or replaced from time to time (and, in the case of statutes, include any rules and regulations promulgated under the statute) and to any section of any statute, rule or regulation include any successor to the section. References to a “*business day*” shall mean any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

## Article II Representations and Warranties

### 2.1 Disclosure.

(a) On or prior to the Signing Date, the Company delivered to the Investor a schedule (“*Disclosure Schedule*”) setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in Section 2.2.

(b) “*Company Material Adverse Effect*” means a material adverse effect on (i) the business, results of operation or financial condition of the Company and its consolidated subsidiaries taken as a whole; *provided, however*, that *Company Material Adverse Effect* shall not be deemed to include the effects of (A) changes after the date of the Letter Agreement (the “*Signing Date*”) in general business, economic or market conditions (including changes generally in prevailing interest rates, credit availability and liquidity, currency exchange rates and price levels or trading volumes in the United States or foreign securities or credit markets), or any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, in

each case generally affecting the industries in which the Company and its subsidiaries operate, (B) changes or proposed changes after the Signing Date in generally accepted accounting principles in the United States (“GAAP”) or regulatory accounting requirements, or authoritative interpretations thereof, or (C) changes or proposed changes after the Signing Date in securities, banking and other laws of general applicability or related policies or interpretations of Governmental Entities (in the case of each of these clauses (A), (B) and (C), other than changes or occurrences to the extent that such changes or occurrences have or would reasonably be expected to have a materially disproportionate adverse effect on the Company and its consolidated subsidiaries taken as a whole relative to comparable U.S. banking or financial services organizations); or (ii) the ability of the Company to consummate the Purchase and other transactions contemplated by this Agreement and the Warrant and perform its obligations hereunder or thereunder on a timely basis.

(c) “*Previously Disclosed*” means information set forth on the Disclosure Schedule, provided, however, that disclosure in any section of such Disclosure Schedule shall apply only to the indicated section of this Agreement except to the extent that it is reasonably apparent from the face of such disclosure that such disclosure is relevant to another section of this Agreement.

2.2 Representations and Warranties of the Company. Except as Previously Disclosed, the Company represents and warrants to the Investor that as of the Signing Date and as of the Closing Date (or such other date specified herein):

(a) Organization, Authority and Significant Subsidiaries. The Company has been duly incorporated and is validly existing and in good standing under the laws of its jurisdiction of organization, with the necessary power and authority to own its properties and conduct its business in all material respects as currently conducted, and except as has not, individually or in the aggregate, had and would not reasonably be expected to have a Company Material Adverse Effect, has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification; each subsidiary of the Company that would be considered a “significant subsidiary” within the meaning of Rule 1-02(w) of Regulation S-X under the Securities Act of 1933 (the “*Securities Act*”), has been duly organized and is validly existing in good standing under the laws of its jurisdiction of organization. The Charter and bylaws of the Company, copies of which have been provided to the Investor prior to the Signing Date, are true, complete and correct copies of such documents as in full force and effect as of the Signing Date.

(b) Capitalization. The authorized capital stock of the Company, and the outstanding capital stock of the Company (including securities convertible into, or exercisable or exchangeable for, capital stock of the Company) as of the most recent fiscal month-end preceding the Signing Date (the “*Capitalization Date*”) is set forth on Schedule B. The outstanding shares of capital stock of the Company have been duly authorized and are validly issued and outstanding, fully paid and nonassessable, and subject to no preemptive rights (and were not issued in violation of any preemptive rights). As of the Signing Date, the Company does not have outstanding any securities or other obligations providing the holder the right to

acquire its Common Stock ("*Common Stock*") that is not reserved for issuance as specified on Schedule B, and the Company has not made any other commitment to authorize, issue or sell any Common Stock. Since the Capitalization Date, the Company has not issued any shares of Common Stock, other than (i) shares issued upon the exercise of stock options or delivered under other equity-based awards or other convertible securities or warrants which were issued and outstanding on the Capitalization Date and disclosed on Schedule B and (ii) shares disclosed on Schedule B. Each holder of 5% or more of any class of capital stock of the Company and such holder's primary address are set forth on Schedule B.

(c) Preferred Shares. The Preferred Shares have been duly and validly authorized, and, when issued and delivered pursuant to this Agreement, such Preferred Shares will be duly and validly issued and fully paid and non-assessable, will not be issued in violation of any preemptive rights, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(d) The Warrant and Warrant Shares. The Warrant has been duly authorized and, when executed and delivered as contemplated hereby, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity ("*Bankruptcy Exceptions*"). The shares of Warrant Preferred Stock issuable upon exercise of the Warrant (the "*Warrant Shares*") have been duly authorized and reserved for issuance upon exercise of the Warrant and when so issued in accordance with the terms of the Warrant will be validly issued, fully paid and non-assessable, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(e) Authorization, Enforceability.

(i) The Company has the corporate power and authority to execute and deliver this Agreement and the Warrant and to carry out its obligations hereunder and thereunder (which includes the issuance of the Preferred Shares, Warrant and Warrant Shares). The execution, delivery and performance by the Company of this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company. This Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to the Bankruptcy Exceptions.

(ii) The execution, delivery and performance by the Company of this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby and compliance by the Company with the provisions hereof and thereof, will not (A) violate, conflict with, or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration of, or result in the creation of, any lien, security interest, charge or encumbrance upon any of the properties or assets of the Company or any subsidiary of the Company (each a "*Company Subsidiary*" and, collectively, the "*Company Subsidiaries*") under any of the terms, conditions or provisions of (i) its organizational documents or (ii) any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which the Company or any Company Subsidiary is a party or by which it or any Company Subsidiary may be bound, or to which the Company or any Company Subsidiary or any of the properties or assets of the Company or any Company Subsidiary may be subject, or (B) subject to compliance with the statutes and regulations referred to in the next paragraph, violate any statute, rule or regulation or any judgment, ruling, order, writ, injunction or decree applicable to the Company or any Company Subsidiary or any of their respective properties or assets except, in the case of clauses (A)(ii) and (B), for those occurrences that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect.

(iii) Other than the filing of the Certificates of Designations with the Secretary of State of its jurisdiction of organization or other applicable Governmental Entity, such filings and approvals as are required to be made or obtained under any state "blue sky" laws and such as have been made or obtained, no notice to, filing with, exemption or review by, or authorization, consent or approval of, any Governmental Entity is required to be made or obtained by the Company in connection with the consummation by the Company of the Purchase except for any such notices, filings, exemptions, reviews, authorizations, consents and approvals the failure of which to make or obtain would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(f) Anti-takeover Provisions and Rights Plan. The Board of Directors of the Company (the "*Board of Directors*") has taken all necessary action to ensure that the transactions contemplated by this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby, including the exercise of the Warrant in accordance with its terms, will be exempt from any anti-takeover or similar provisions of the Company's Charter and bylaws, and any other provisions of any applicable "moratorium", "control share", "fair price", "interested stockholder" or other anti-takeover laws and regulations of any jurisdiction.

(g) No Company Material Adverse Effect. Since the last day of the last completed fiscal period for which financial statements are included in the Company Financial Statements (as defined below), no fact, circumstance, event, change, occurrence, condition or development



has occurred that, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect.

(h) Company Financial Statements. The Company has Previously Disclosed each of the consolidated financial statements of the Company and its consolidated subsidiaries for each of the last three completed fiscal years of the Company (which shall be audited to the extent audited financial statements are available prior to the Signing Date) and each completed quarterly period since the last completed fiscal year (collectively the "*Company Financial Statements*"). The Company Financial Statements present fairly in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates indicated therein and the consolidated results of their operations for the periods specified therein; and except as stated therein, such financial statements (A) were prepared in conformity with GAAP applied on a consistent basis (except as may be noted therein) and (B) have been prepared from, and are in accordance with, the books and records of the Company and the Company Subsidiaries.

(i) Reports.

(i) Since December 31, 2006, the Company and each Company Subsidiary has filed all reports, registrations, documents, filings, statements and submissions, together with any amendments thereto, that it was required to file with any Governmental Entity (the foregoing, collectively, the "*Company Reports*") and has paid all fees and assessments due and payable in connection therewith, except, in each case, as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. As of their respective dates of filing, the Company Reports complied in all material respects with all statutes and applicable rules and regulations of the applicable Governmental Entities.

(ii) The records, systems, controls, data and information of the Company and the Company Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of the Company or the Company Subsidiaries or their accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not reasonably be expected to have a material adverse effect on the system of internal accounting controls described below in this Section 2.2(i)(ii). The Company (A) has implemented and maintains adequate disclosure controls and procedures to ensure that material information relating to the Company, including the consolidated Company Subsidiaries, is made known to the chief executive officer and the chief financial officer of the Company by others within those entities, and (B) has disclosed, based on its most recent evaluation prior to the Signing Date, to the Company's outside auditors and the audit committee of the Board of Directors (x) any significant deficiencies and material weaknesses in the design or operation of internal controls that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (y) any fraud, whether or not material, that involves management or

other employees who have a significant role in the Company's internal controls over financial reporting.

(j) No Undisclosed Liabilities. Neither the Company nor any of the Company Subsidiaries has any liabilities or obligations of any nature (absolute, accrued, contingent or otherwise) which are not properly reflected or reserved against in the Company Financial Statements to the extent required to be so reflected or reserved against in accordance with GAAP, except for (A) liabilities that have arisen since the last fiscal year end in the ordinary and usual course of business and consistent with past practice and (B) liabilities that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect.

(k) Offering of Securities. Neither the Company nor any person acting on its behalf has taken any action (including any offering of any securities of the Company under circumstances which would require the integration of such offering with the offering of any of the Purchased Securities under the Securities Act, and the rules and regulations of the Securities and Exchange Commission (the "SEC") promulgated thereunder), which might subject the offering, issuance or sale of any of the Purchased Securities to Investor pursuant to this Agreement to the registration requirements of the Securities Act.

(l) Litigation and Other Proceedings. Except (i) as set forth on Schedule C or (ii) as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, there is no (A) pending or, to the knowledge of the Company, threatened, claim, action, suit, investigation or proceeding, against the Company or any Company Subsidiary or to which any of their assets are subject nor is the Company or any Company Subsidiary subject to any order, judgment or decree or (B) unresolved violation, criticism or exception by any Governmental Entity with respect to any report or relating to any examinations or inspections of the Company or any Company Subsidiaries.

(m) Compliance with Laws. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries have all permits, licenses, franchises, authorizations, orders and approvals of, and have made all filings, applications and registrations with, Governmental Entities that are required in order to permit them to own or lease their properties and assets and to carry on their business as presently conducted and that are material to the business of the Company or such Company Subsidiary. Except as set forth on Schedule D, the Company and the Company Subsidiaries have complied in all respects and are not in default or violation of, and none of them is, to the knowledge of the Company, under investigation with respect to or, to the knowledge of the Company, have been threatened to be charged with or given notice of any violation of, any applicable domestic (federal, state or local) or foreign law, statute, ordinance, license, rule, regulation, policy or guideline, order, demand, writ, injunction, decree or judgment of any Governmental Entity, other than such noncompliance, defaults or violations that would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Except for statutory or regulatory restrictions of general application or as set forth on Schedule D, no Governmental Entity has placed any restriction on the business or properties of

the Company or any Company Subsidiary that would, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(n) Employee Benefit Matters. Except as would not reasonably be expected to have, either individually or in the aggregate, a Company Material Adverse Effect: (A) each “employee benefit plan” (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”)) providing benefits to any current or former employee, officer or director of the Company or any member of its “Controlled Group” (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the “Code”)) that is sponsored, maintained or contributed to by the Company or any member of its Controlled Group and for which the Company or any member of its Controlled Group would have any liability, whether actual or contingent (each, a “Plan”) has been maintained in compliance with its terms and with the requirements of all applicable statutes, rules and regulations, including ERISA and the Code; (B) with respect to each Plan subject to Title IV of ERISA (including, for purposes of this clause (B), any plan subject to Title IV of ERISA that the Company or any member of its Controlled Group previously maintained or contributed to in the six years prior to the Signing Date), (1) no “reportable event” (within the meaning of Section 4043(c) of ERISA), other than a reportable event for which the notice period referred to in Section 4043(c) of ERISA has been waived, has occurred in the three years prior to the Signing Date or is reasonably expected to occur, (2) no “accumulated funding deficiency” (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred in the three years prior to the Signing Date or is reasonably expected to occur, (3) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on the assumptions used to fund such Plan) and (4) neither the Company nor any member of its Controlled Group has incurred in the six years prior to the Signing Date, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the PBGC in the ordinary course and without default) in respect of a Plan (including any Plan that is a “multiemployer plan”, within the meaning of Section 4001(c)(3) of ERISA); and (C) each Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service with respect to its qualified status that has not been revoked, or such a determination letter has been timely applied for but not received by the Signing Date, and nothing has occurred, whether by action or by failure to act, which could reasonably be expected to cause the loss, revocation or denial of such qualified status or favorable determination letter.

(o) Taxes. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company and the Company Subsidiaries have filed all federal, state, local and foreign income and franchise Tax returns required to be filed through the Signing Date, subject to permitted extensions, and have paid all Taxes due thereon, and (ii) no Tax deficiency has been determined adversely to the Company or any of the Company Subsidiaries, nor does the Company have any knowledge of any Tax deficiencies. “Tax” or “Taxes” means any federal, state, local or foreign income, gross receipts, property, sales, use, license, excise, franchise, employment, payroll, withholding, alternative or add on minimum, ad valorem, transfer or excise tax, or any other tax, custom, duty,

governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or penalty, imposed by any Governmental Entity.

(p) Properties and Leases. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries have good and marketable title to all real properties and all other properties and assets owned by them, in each case free from liens, encumbrances, claims and defects that would affect the value thereof or interfere with the use made or to be made thereof by them. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries hold all leased real or personal property under valid and enforceable leases with no exceptions that would interfere with the use made or to be made thereof by them.

(q) Environmental Liability. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect:

(i) there is no legal, administrative, or other proceeding, claim or action of any nature seeking to impose, or that would reasonably be expected to result in the imposition of, on the Company or any Company Subsidiary, any liability relating to the release of hazardous substances as defined under any local, state or federal environmental statute, regulation or ordinance, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, pending or, to the Company's knowledge, threatened against the Company or any Company Subsidiary;

(ii) to the Company's knowledge, there is no reasonable basis for any such proceeding, claim or action; and

(iii) neither the Company nor any Company Subsidiary is subject to any agreement, order, judgment or decree by or with any court, Governmental Entity or third party imposing any such environmental liability.

(r) Risk Management Instruments. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, all derivative instruments, including, swaps, caps, floors and option agreements, whether entered into for the Company's own account, or for the account of one or more of the Company Subsidiaries or its or their customers, were entered into (i) only in the ordinary course of business, (ii) in accordance with prudent practices and in all material respects with all applicable laws, rules, regulations and regulatory policies and (iii) with counterparties believed to be financially responsible at the time; and each of such instruments constitutes the valid and legally binding obligation of the Company or one of the Company Subsidiaries, enforceable in accordance with its terms, except as may be limited by the Bankruptcy Exceptions. Neither the Company or the Company Subsidiaries, nor, to the knowledge of the Company, any other party thereto, is in breach of any of its obligations under any such agreement or arrangement other than such breaches that would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(s) Agreements with Regulatory Agencies. Except as set forth on Schedule E, neither the Company nor any Company Subsidiary is subject to any material cease-and-desist or other similar order or enforcement action issued by, or is a party to any material written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any capital directive by, or since December 31, 2006, has adopted any board resolutions at the request of, any Governmental Entity (other than the Appropriate Federal Banking Agencies with jurisdiction over the Company and the Company Subsidiaries) that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its liquidity and funding policies and practices, its ability to pay dividends, its credit, risk management or compliance policies or procedures, its internal controls, its management or its operations or business (each item in this sentence, a "*Regulatory Agreement*"), nor has the Company or any Company Subsidiary been advised since December 31, 2006 by any such Governmental Entity that it is considering issuing, initiating, ordering, or requesting any such Regulatory Agreement. The Company and each Company Subsidiary are in compliance in all material respects with each Regulatory Agreement to which it is party or subject, and neither the Company nor any Company Subsidiary has received any notice from any Governmental Entity indicating that either the Company or any Company Subsidiary is not in compliance in all material respects with any such Regulatory Agreement. "*Appropriate Federal Banking Agency*" means the "appropriate Federal banking agency" with respect to the Company or such Company Subsidiaries, as applicable, as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)).

(t) Insurance. The Company and the Company Subsidiaries are insured with reputable insurers against such risks and in such amounts as the management of the Company reasonably has determined to be prudent and consistent with industry practice. The Company and the Company Subsidiaries are in material compliance with their insurance policies and are not in default under any of the material terms thereof, each such policy is outstanding and in full force and effect, all premiums and other payments due under any material policy have been paid, and all claims thereunder have been filed in due and timely fashion, except, in each case, as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(u) Intellectual Property. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company and each Company Subsidiary owns or otherwise has the right to use, all intellectual property rights, including all trademarks, trade dress, trade names, service marks, domain names, patents, inventions, trade secrets, know-how, works of authorship and copyrights therein, that are used in the conduct of their existing businesses and all rights relating to the plans, design and specifications of any of its branch facilities ("*Proprietary Rights*") free and clear of all liens and any claims of ownership by current or former employees, contractors, designers or others and (ii) neither the Company nor any of the Company Subsidiaries is materially infringing, diluting, misappropriating or violating, nor has the Company or any or the Company Subsidiaries received any written (or, to the knowledge of the Company, oral) communications alleging that any of them has materially infringed, diluted, misappropriated or violated, any of the Proprietary Rights owned by any other person. Except as would not, individually or in the aggregate, reasonably be

expected to have a Company Material Adverse Effect, to the Company's knowledge, no other person is infringing, diluting, misappropriating or violating, nor has the Company or any of the Company Subsidiaries sent any written communications since January 1, 2006 alleging that any person has infringed, diluted, misappropriated or violated, any of the Proprietary Rights owned by the Company and the Company Subsidiaries.

(v) Brokers and Finders. No broker, finder or investment banker is entitled to any financial advisory, brokerage, finder's or other fee or commission in connection with this Agreement or the Warrant or the transactions contemplated hereby or thereby based upon arrangements made by or on behalf of the Company or any Company Subsidiary for which the Investor could have any liability.

### Article III Covenants

3.1 Commercially Reasonable Efforts. Subject to the terms and conditions of this Agreement, each of the parties will use its commercially reasonable efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or desirable, or advisable under applicable laws, so as to permit consummation of the Purchase as promptly as practicable and otherwise to enable consummation of the transactions contemplated hereby and shall use commercially reasonable efforts to cooperate with the other party to that end.

3.2 Expenses. Unless otherwise provided in this Agreement or the Warrant, each of the parties hereto will bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated under this Agreement and the Warrant, including fees and expenses of its own financial or other consultants, investment bankers, accountants and counsel.

3.3 Sufficiency of Authorized Warrant Preferred Stock; Exchange Listing.

(a) During the period from the Closing Date until the date on which the Warrant has been fully exercised, the Company shall at all times have reserved for issuance, free of preemptive or similar rights, a sufficient number of authorized and unissued Warrant Shares to effectuate such exercise.

(b) If the Company lists its Common Stock on any national securities exchange, the Company shall, if requested by the Investor, promptly use its reasonable best efforts to cause the Preferred Shares and Warrant Shares to be approved for listing on a national securities exchange as promptly as practicable following such request.

3.4 Certain Notifications Until Closing. From the Signing Date until the Closing, the Company shall promptly notify the Investor of (i) any fact, event or circumstance of which it is aware and which would reasonably be expected to cause any representation or warranty of the Company contained in this Agreement to be untrue or inaccurate in any material respect or to

cause any covenant or agreement of the Company contained in this Agreement not to be complied with or satisfied in any material respect and (ii) except as Previously Disclosed, any fact, circumstance, event, change, occurrence, condition or development of which the Company is aware and which, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect; *provided, however*, that delivery of any notice pursuant to this Section 3.4 shall not limit or affect any rights of or remedies available to the Investor; *provided, further*, that a failure to comply with this Section 3.4 shall not constitute a breach of this Agreement or the failure of any condition set forth in Section 1.2 to be satisfied unless the underlying Company Material Adverse Effect or material breach would independently result in the failure of a condition set forth in Section 1.2 to be satisfied.

### 3.5 Access, Information and Confidentiality.

(a) From the Signing Date until the date when the Investor holds an amount of Preferred Shares having an aggregate liquidation value of less than 10% of the Purchase Price, the Company will permit the Investor and its agents, consultants, contractors and advisors (x) acting through the Appropriate Federal Banking Agency, or otherwise to the extent necessary to evaluate, manage, or transfer its investment in the Company, to examine the corporate books and make copies thereof and to discuss the affairs, finances and accounts of the Company and the Company Subsidiaries with the principal officers of the Company, all upon reasonable notice and at such reasonable times and as often as the Investor may reasonably request and (y) to review any information material to the Investor's investment in the Company provided by the Company to its Appropriate Federal Banking Agency. Any investigation pursuant to this Section 3.5 shall be conducted during normal business hours and in such manner as not to interfere unreasonably with the conduct of the business of the Company, and nothing herein shall require the Company or any Company Subsidiary to disclose any information to the Investor to the extent (i) prohibited by applicable law or regulation, or (ii) that such disclosure would reasonably be expected to cause a violation of any agreement to which the Company or any Company Subsidiary is a party or would cause a risk of a loss of privilege to the Company or any Company Subsidiary (*provided* that the Company shall use commercially reasonable efforts to make appropriate substitute disclosure arrangements under circumstances where the restrictions in this clause (ii) apply).

(b) From the Signing Date until the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole, the Company will deliver, or will cause to be delivered, to the Investor:

(i) as soon as available after the end of each fiscal year of the Company, and in any event within 90 days thereafter, a consolidated balance sheet of the Company as of the end of such fiscal year, and consolidated statements of income, retained earnings and cash flows of the Company for such year, in each case prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year of the Company, and which shall be audited to the extent audited financial statements are available; and

(ii) as soon as available after the end of the first, second and third quarterly periods in each fiscal year of the Company, a copy of any quarterly reports provided to other stockholders of the Company or Company management.

(c) The Investor will use reasonable best efforts to hold, and will use reasonable best efforts to cause its agents, consultants, contractors and advisors to hold, in confidence all non-public records, books, contracts, instruments, computer data and other data and information (collectively, "*Information*") concerning the Company furnished or made available to it by the Company or its representatives pursuant to this Agreement (except to the extent that such information can be shown to have been (i) previously known by such party on a non-confidential basis, (ii) in the public domain through no fault of such party or (iii) later lawfully acquired from other sources by the party to which it was furnished (and without violation of any other confidentiality obligation)); *provided* that nothing herein shall prevent the Investor from disclosing any Information to the extent required by applicable laws or regulations or by any subpoena or similar legal process.

(d) The Investor's information rights pursuant to Section 3.5(b) may be assigned by the Investor to a transferee or assignee of the Purchased Securities or the Warrant Shares or with a liquidation preference or, in the case of the Warrant, the liquidation preference of the underlying shares of Warrant Preferred Stock, no less than an amount equal to 2% of the initial aggregate liquidation preference of the Preferred Shares.

#### Article IV Additional Agreements

4.1 Purchase for Investment. The Investor acknowledges that the Purchased Securities and the Warrant Shares have not been registered under the Securities Act or under any state securities laws. The Investor (a) is acquiring the Purchased Securities pursuant to an exemption from registration under the Securities Act solely for investment with no present intention to distribute them to any person in violation of the Securities Act or any applicable U.S. state securities laws, (b) will not sell or otherwise dispose of any of the Purchased Securities or the Warrant Shares, except in compliance with the registration requirements or exemption provisions of the Securities Act and any applicable U.S. state securities laws, and (c) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of the Purchase and of making an informed investment decision.

4.2 Legends.

(a) The Investor agrees that all certificates or other instruments representing the Warrant will bear a legend substantially to the following effect:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD



OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS.

THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.”

(b) In addition, the Investor agrees that all certificates or other instruments representing the Preferred Shares and the Warrant Shares will bear a legend substantially to the following effect:

“THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE NOT SAVINGS ACCOUNTS, DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY.

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS. EACH PURCHASER OF THE SECURITIES REPRESENTED BY THIS INSTRUMENT IS NOTIFIED THAT THE SELLER MAY BE RELYING ON THE EXEMPTION FROM SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. ANY TRANSFEREE OF THE SECURITIES REPRESENTED BY THIS INSTRUMENT BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (2) AGREES THAT IT WILL NOT OFFER, SELL OR OTHERWISE TRANSFER THE SECURITIES REPRESENTED BY THIS INSTRUMENT EXCEPT (A) PURSUANT TO A REGISTRATION STATEMENT WHICH IS THEN EFFECTIVE UNDER THE SECURITIES ACT, (B) FOR SO LONG AS THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER

TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO THE ISSUER OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.”

(c) In the event that any Purchased Securities or Warrant Shares (i) become registered under the Securities Act or (ii) are eligible to be transferred without restriction in accordance with Rule 144 or another exemption from registration under the Securities Act (other than Rule 144A), the Company shall issue new certificates or other instruments representing such Purchased Securities or Warrant Shares, which shall not contain the applicable legends in Sections 4.2(a) and (b) above; *provided* that the Investor surrenders to the Company the previously issued certificates or other instruments.

4.3 Certain Transactions. The Company will not merge or consolidate with, or sell, transfer or lease all or substantially all of its property or assets to, any other party unless the successor, transferee or lessee party (or its ultimate parent entity), as the case may be (if not the Company), expressly assumes the due and punctual performance and observance of each and every covenant, agreement and condition of this Agreement to be performed and observed by the Company.

4.4 Transfer of Purchased Securities and Warrant Shares; Restrictions on Exercise of the Warrant. Subject to compliance with applicable securities laws, the Investor shall be permitted to transfer, sell, assign or otherwise dispose of (“*Transfer*”) all or a portion of the Purchased Securities or Warrant Shares at any time, and the Company shall take all steps as may be reasonably requested by the Investor to facilitate the Transfer of the Purchased Securities and the Warrant Shares; *provided* that the Investor shall not Transfer any Purchased Securities or Warrant Shares if such transfer would require the Company to be subject to the periodic reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 (the “*Exchange Act*”). In furtherance of the foregoing, the Company shall provide reasonable cooperation to facilitate any Transfers of the Purchased Securities or Warrant Shares, including, as is reasonable under the circumstances, by furnishing such information concerning the Company and its business as a proposed transferee may reasonably request (including such information as is required by Section 4.5(k)) and making management of the Company

reasonably available to respond to questions of a proposed transferee in accordance with customary practice, subject in all cases to the proposed transferee agreeing to a customary confidentiality agreement.

4.5 Registration Rights.

(a) Unless and until the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall have no obligation to comply with the provisions of this Section 4.5 (other than Section 4.5(b)(iv)-(vi)); *provided* that the Company covenants and agrees that it shall comply with this Section 4.5 as soon as practicable after the date that it becomes subject to such reporting requirements.

(b) Registration.

(i) Subject to the terms and conditions of this Agreement, the Company covenants and agrees that as promptly as practicable after the date that the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act (and in any event no later than 30 days thereafter), the Company shall prepare and file with the SEC a Shelf Registration Statement covering all Registrable Securities (or otherwise designate an existing Shelf Registration Statement filed with the SEC to cover the Registrable Securities), and, to the extent the Shelf Registration Statement has not theretofore been declared effective or is not automatically effective upon such filing, the Company shall use reasonable best efforts to cause such Shelf Registration Statement to be declared or become effective and to keep such Shelf Registration Statement continuously effective and in compliance with the Securities Act and usable for resale of such Registrable Securities for a period from the date of its initial effectiveness until such time as there are no Registrable Securities remaining (including by refiling such Shelf Registration Statement (or a new Shelf Registration Statement) if the initial Shelf Registration Statement expires). Notwithstanding the foregoing, if the Company is not eligible to file a registration statement on Form S-3, then the Company shall not be obligated to file a Shelf Registration Statement unless and until requested to do so in writing by the Investor.

(ii) Any registration pursuant to Section 4.5(b)(i) shall be effected by means of a shelf registration on an appropriate form under Rule 415 under the Securities Act (a "*Shelf Registration Statement*"). If the Investor or any other Holder intends to distribute any Registrable Securities by means of an underwritten offering it shall promptly so advise the Company and the Company shall take all reasonable steps to facilitate such distribution, including the actions required pursuant to Section 4.5(d); *provided* that the Company shall not be required to facilitate an underwritten offering of Registrable Securities unless the expected gross proceeds from such offering exceed (i) 2% of the initial aggregate liquidation preference of the Preferred Shares if such initial aggregate liquidation preference is less than \$2 billion and (ii) \$200 million if the initial aggregate liquidation preference of the Preferred Shares is equal to or greater than \$2 billion. The lead underwriters in any such distribution shall be selected by the Holders of a majority

of the Registrable Securities to be distributed; *provided* that to the extent appropriate and permitted under applicable law, such Holders shall consider the qualifications of any broker-dealer Affiliate of the Company in selecting the lead underwriters in any such distribution.

(iii) The Company shall not be required to effect a registration (including a resale of Registrable Securities from an effective Shelf Registration Statement) or an underwritten offering pursuant to Section 4.5(b): (A) with respect to securities that are not Registrable Securities; or (B) if the Company has notified the Investor and all other Holders that in the good faith judgment of the Board of Directors, it would be materially detrimental to the Company or its securityholders for such registration or underwritten offering to be effected at such time, in which event the Company shall have the right to defer such registration for a period of not more than 45 days after receipt of the request of the Investor or any other Holder; *provided* that such right to delay a registration or underwritten offering shall be exercised by the Company (1) only if the Company has generally exercised (or is concurrently exercising) similar black-out rights against holders of similar securities that have registration rights and (2) not more than three times in any 12-month period and not more than 90 days in the aggregate in any 12-month period.

(iv) If during any period when an effective Shelf Registration Statement is not available, the Company proposes to register any of its equity securities, other than a registration pursuant to Section 4.5(b)(i) or a Special Registration, and the registration form to be filed may be used for the registration or qualification for distribution of Registrable Securities, the Company will give prompt written notice to the Investor and all other Holders of its intention to effect such a registration (but in no event less than ten days prior to the anticipated filing date) and will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within ten business days after the date of the Company's notice (a "*Piggyback Registration*"). Any such person that has made such a written request may withdraw its Registrable Securities from such Piggyback Registration by giving written notice to the Company and the managing underwriter, if any, on or before the fifth business day prior to the planned effective date of such Piggyback Registration. The Company may terminate or withdraw any registration under this Section 4.5(b)(iv) prior to the effectiveness of such registration, whether or not Investor or any other Holders have elected to include Registrable Securities in such registration.

(v) If the registration referred to in Section 4.5(b)(iv) is proposed to be underwritten, the Company will so advise Investor and all other Holders as a part of the written notice given pursuant to Section 4.5(b)(iv). In such event, the right of Investor and all other Holders to registration pursuant to Section 4.5(b) will be conditioned upon such persons' participation in such underwriting and the inclusion of such person's Registrable Securities in the underwriting if such securities are of the same class of securities as the securities to be offered in the underwritten offering, and each such person will (together with the Company and the other persons distributing their securities through such underwriting) enter into an underwriting agreement in customary form with

the underwriter or underwriters selected for such underwriting by the Company; *provided* that the Investor (as opposed to other Holders) shall not be required to indemnify any person in connection with any registration. If any participating person disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, the managing underwriters and the Investor (if the Investor is participating in the underwriting).

(vi) If either (x) the Company grants “piggyback” registration rights to one or more third parties to include their securities in an underwritten offering under the Shelf Registration Statement pursuant to Section 4.5(b)(ii) or (y) a Piggyback Registration under Section 4.5(b)(iv) relates to an underwritten offering on behalf of the Company, and in either case the managing underwriters advise the Company that in their reasonable opinion the number of securities requested to be included in such offering exceeds the number which can be sold without adversely affecting the marketability of such offering (including an adverse effect on the per share offering price), the Company will include in such offering only such number of securities that in the reasonable opinion of such managing underwriters can be sold without adversely affecting the marketability of the offering (including an adverse effect on the per share offering price), which securities will be so included in the following order of priority: (A) first, in the case of a Piggyback Registration under Section 4.5(b)(iv), the securities the Company proposes to sell, (B) then the Registrable Securities of the Investor and all other Holders who have requested inclusion of Registrable Securities pursuant to Section 4.5(b)(ii) or Section 4.5(b)(iv), as applicable, *pro rata* on the basis of the aggregate number of such securities or shares owned by each such person and (C) lastly, any other securities of the Company that have been requested to be so included, subject to the terms of this Agreement; *provided, however,* that if the Company has, prior to the Signing Date, entered into an agreement with respect to its securities that is inconsistent with the order of priority contemplated hereby then it shall apply the order of priority in such conflicting agreement to the extent that it would otherwise result in a breach under such agreement.

(c) Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance hereunder shall be borne by the Company. All Selling Expenses incurred in connection with any registrations hereunder shall be borne by the holders of the securities so registered *pro rata* on the basis of the aggregate offering or sale price of the securities so registered.

(d) Obligations of the Company. Whenever required to effect the registration of any Registrable Securities or facilitate the distribution of Registrable Securities pursuant to an effective Shelf Registration Statement, the Company shall, as expeditiously as reasonably practicable:

(i) Prepare and file with the SEC a prospectus supplement or post-effective amendment with respect to a proposed offering of Registrable Securities pursuant to an effective registration statement, subject to Section 4.5(d), keep such registration

statement effective and keep such prospectus supplement current until the securities described therein are no longer Registrable Securities.

(ii) Prepare and file with the SEC such amendments and supplements to the applicable registration statement and the prospectus or prospectus supplement used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(iii) Furnish to the Holders and any underwriters such number of copies of the applicable registration statement and each such amendment and supplement thereto (including in each case all exhibits) and of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned or to be distributed by them.

(iv) Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders or any managing underwriter(s), to keep such registration or qualification in effect for so long as such registration statement remains in effect, and to take any other action which may be reasonably necessary to enable such seller to consummate the disposition in such jurisdictions of the securities owned by such Holder; *provided* that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(v) Notify each Holder of Registrable Securities at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the applicable prospectus, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

(vi) Give written notice to the Holders:

(A) when any registration statement filed pursuant to Section 4.5(a) or any amendment thereto has been filed with the SEC (except for any amendment effected by the filing of a document with the SEC pursuant to the Exchange Act) and when such registration statement or any post-effective amendment thereto has become effective;

(B) of any request by the SEC for amendments or supplements to any registration statement or the prospectus included therein or for additional information;

(C) of the issuance by the SEC of any stop order suspending the effectiveness of any registration statement or the initiation of any proceedings for that purpose;

(D) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the applicable Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(E) of the happening of any event that requires the Company to make changes in any effective registration statement or the prospectus related to the registration statement in order to make the statements therein not misleading (which notice shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made); and

(F) if at any time the representations and warranties of the Company contained in any underwriting agreement contemplated by Section 4.5(d)(x) cease to be true and correct.

(vii) Use its reasonable best efforts to prevent the issuance or obtain the withdrawal of any order suspending the effectiveness of any registration statement referred to in Section 4.5(d)(vi)(C) at the earliest practicable time.

(viii) Upon the occurrence of any event contemplated by Section 4.5(d)(v) or 4.5(d)(vi)(E), promptly prepare a post-effective amendment to such registration statement or a supplement to the related prospectus or file any other required document so that, as thereafter delivered to the Holders and any underwriters, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Holders in accordance with Section 4.5(d)(vi)(E) to suspend the use of the prospectus until the requisite changes to the prospectus have been made, then the Holders and any underwriters shall suspend use of such prospectus and use their reasonable best efforts to return to the Company all copies of such prospectus (at the Company's expense) other than permanent file copies then in such Holders' or underwriters' possession. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days.

(ix) Use reasonable best efforts to procure the cooperation of the Company's transfer agent in settling any offering or sale of Registrable Securities, including with respect to the transfer of physical stock certificates into book-entry form in accordance with any procedures reasonably requested by the Holders or any managing underwriter(s).

(x) If an underwritten offering is requested pursuant to Section 4.5(b)(ii), enter into an underwriting agreement in customary form, scope and substance and take all

such other actions reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith or by the managing underwriter(s), if any, to expedite or facilitate the underwritten disposition of such Registrable Securities, and in connection therewith in any underwritten offering (including making members of management and executives of the Company available to participate in "road shows", similar sales events and other marketing activities), (A) make such representations and warranties to the Holders that are selling stockholders and the managing underwriter(s), if any, with respect to the business of the Company and its subsidiaries, and the Shelf Registration Statement, prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, in customary form, substance and scope, and, if true, confirm the same if and when requested, (B) use its reasonable best efforts to furnish the underwriters with opinions of counsel to the Company, addressed to the managing underwriter(s), if any, covering the matters customarily covered in such opinions requested in underwritten offerings, (C) use its reasonable best efforts to obtain "cold comfort" letters from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any business acquired by the Company for which financial statements and financial data are included in the Shelf Registration Statement) who have certified the financial statements included in such Shelf Registration Statement, addressed to each of the managing underwriter(s), if any, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters, (D) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures customary in underwritten offerings (provided that the Investor shall not be obligated to provide any indemnity), and (E) deliver such documents and certificates as may be reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith, their counsel and the managing underwriter(s), if any, to evidence the continued validity of the representations and warranties made pursuant to clause (i) above and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

(xi) Make available for inspection by a representative of Holders that are selling stockholders, the managing underwriter(s), if any, and any attorneys or accountants retained by such Holders or managing underwriter(s), at the offices where normally kept, during reasonable business hours, financial and other records, pertinent corporate documents and properties of the Company, and cause the officers, directors and employees of the Company to supply all information in each case reasonably requested (and of the type customarily provided in connection with due diligence conducted in connection with a registered public offering of securities) by any such representative, managing underwriter(s), attorney or accountant in connection with such Shelf Registration Statement.

(xii) Use reasonable best efforts to cause all such Registrable Securities to be listed on each national securities exchange on which similar securities issued by the Company are then listed or, if no similar securities issued by the Company are then listed on any national securities exchange, use its reasonable best efforts to cause all such



Registrable Securities to be listed on such securities exchange as the Investor may designate.

(xiii) If requested by Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith, or the managing underwriter(s), if any, promptly include in a prospectus supplement or amendment such information as the Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith or managing underwriter(s), if any, may reasonably request in order to permit the intended method of distribution of such securities and make all required filings of such prospectus supplement or such amendment as soon as practicable after the Company has received such request.

(xiv) Timely provide to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

(e) Suspension of Sales. Upon receipt of written notice from the Company that a registration statement, prospectus or prospectus supplement contains or may contain an untrue statement of a material fact or omits or may omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that circumstances exist that make inadvisable use of such registration statement, prospectus or prospectus supplement, the Investor and each Holder of Registrable Securities shall forthwith discontinue disposition of Registrable Securities until the Investor and/or Holder has received copies of a supplemented or amended prospectus or prospectus supplement, or until the Investor and/or such Holder is advised in writing by the Company that the use of the prospectus and, if applicable, prospectus supplement may be resumed, and, if so directed by the Company, the Investor and/or such Holder shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in the Investor and/or such Holder's possession, of the prospectus and, if applicable, prospectus supplement covering such Registrable Securities current at the time of receipt of such notice. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days.

(f) Termination of Registration Rights. A Holder's registration rights as to any securities held by such Holder (and its Affiliates, partners, members and former members) shall not be available unless such securities are Registrable Securities.

(g) Furnishing Information.

(i) Neither the Investor nor any Holder shall use any free writing prospectus (as defined in Rule 405) in connection with the sale of Registrable Securities without the prior written consent of the Company.

(ii) It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 4.5(d) that Investor and/or the selling Holders and the underwriters, if any, shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of

disposition of such securities as shall be required to effect the registered offering of their Registrable Securities.

(h) Indemnification.

(i) The Company agrees to indemnify each Holder and, if a Holder is a person other than an individual, such Holder's officers, directors, employees, agents, representatives and Affiliates, and each Person, if any, that controls a Holder within the meaning of the Securities Act (each, an "Indemnitee"), against any and all losses, claims, damages, actions, liabilities, costs and expenses (including reasonable fees, expenses and disbursements of attorneys and other professionals incurred in connection with investigating, defending, settling, compromising or paying any such losses, claims, damages, actions, liabilities, costs and expenses), joint or several, arising out of or based upon any untrue statement or alleged untrue statement of material fact contained in any registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto or any documents incorporated therein by reference or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto); or any omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided*, that the Company shall not be liable to such Indemnitee in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon (A) an untrue statement or omission made in such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto), in reliance upon and in conformity with information regarding such Indemnitee or its plan of distribution or ownership interests which was furnished in writing to the Company by such Indemnitee for use in connection with such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto, or (B) offers or sales effected by or on behalf of such Indemnitee "by means of" (as defined in Rule 159A) a "free writing prospectus" (as defined in Rule 405) that was not authorized in writing by the Company.

(ii) If the indemnification provided for in Section 4.5(h)(i) is unavailable to an Indemnitee with respect to any losses, claims, damages, actions, liabilities, costs or expenses referred to therein or is insufficient to hold the Indemnitee harmless as contemplated therein, then the Company, in lieu of indemnifying such Indemnitee, shall contribute to the amount paid or payable by such Indemnitee as a result of such losses, claims, damages, actions, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative fault of the Indemnitee, on the one hand, and the Company, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, actions, liabilities, costs or expenses as well as any other relevant

equitable considerations. The relative fault of the Company, on the one hand, and of the Indemnitee, on the other hand, shall be determined by reference to, among other factors, whether the untrue statement of a material fact or omission to state a material fact relates to information supplied by the Company or by the Indemnitee and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; the Company and each Holder agree that it would not be just and equitable if contribution pursuant to this Section 4.5(h)(ii) were determined by *pro rata* allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 4.5(h)(i). No Indemnitee guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from the Company if the Company was not guilty of such fraudulent misrepresentation.

(i) Assignment of Registration Rights. The rights of the Investor to registration of Registrable Securities pursuant to Section 4.5(b) may be assigned by the Investor to a transferee or assignee of Registrable Securities with a liquidation preference or, in the case of the Warrant, the liquidation preference of the underlying shares of Warrant Preferred Stock, no less than an amount equal to (i) 2% of the initial aggregate liquidation preference of the Preferred Shares if such initial aggregate liquidation preference is less than \$2 billion and (ii) \$200 million if the initial aggregate liquidation preference of the Preferred Shares is equal to or greater than \$2 billion; *provided, however*, the transferor shall, within ten days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the number and type of Registrable Securities that are being assigned.

(j) Clear Market. With respect to any underwritten offering of Registrable Securities by the Investor or other Holders pursuant to this Section 4.5, the Company agrees not to effect (other than pursuant to such registration or pursuant to a Special Registration) any public sale or distribution, or to file any Shelf Registration Statement (other than such registration or a Special Registration) covering any preferred stock of the Company or any securities convertible into or exchangeable or exercisable for preferred stock of the Company, during the period not to exceed ten days prior and 60 days following the effective date of such offering or such longer period up to 90 days as may be requested by the managing underwriter for such underwritten offering. The Company also agrees to cause such of its directors and senior executive officers to execute and deliver customary lock-up agreements in such form and for such time period up to 90 days as may be requested by the managing underwriter. "*Special Registration*" means the registration of (A) equity securities and/or options or other rights in respect thereof solely registered on Form S-4 or Form S-8 (or successor form) or (B) shares of equity securities and/or options or other rights in respect thereof to be offered to directors, members of management, employees, consultants, customers, lenders or vendors of the Company or Company Subsidiaries or in connection with dividend reinvestment plans.

(k) Rule 144; Rule 144A. With a view to making available to the Investor and Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its reasonable best efforts to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144(c)(1) or any similar or analogous rule promulgated under the Securities Act, at all times after the Signing Date;

(ii) (A) file with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act, and (B) if at any time the Company is not required to file such reports, make available, upon the request of any Holder, such information necessary to permit sales pursuant to Rule 144A (including the information required by Rule 144A(d)(4) under the Securities Act);

(iii) so long as the Investor or a Holder owns any Registrable Securities, furnish to the Investor or such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of Rule 144 under the Securities Act, and of the Exchange Act; a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as the Investor or Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities to the public without registration; and

(iv) take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act.

(l) As used in this Section 4.5, the following terms shall have the following respective meanings:

(i) “*Holder*” means the Investor and any other holder of Registrable Securities to whom the registration rights conferred by this Agreement have been transferred in compliance with Section 4.5(h) hereof.

(ii) “*Holders’ Counsel*” means one counsel for the selling Holders chosen by Holders holding a majority interest in the Registrable Securities being registered.

(iii) “*Register*,” “*registered*,” and “*registration*” shall refer to a registration effected by preparing and (A) filing a registration statement or amendment thereto in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of effectiveness of such registration statement or amendment thereto or (B) filing a prospectus and/or prospectus supplement in respect of an appropriate effective registration statement on Form S-3.

(iv) “*Registrable Securities*” means (A) all Preferred Shares, (B) the Warrant (subject to Section 4.5(q)) and (C) any equity securities issued or issuable directly or indirectly with respect to the securities referred to in the foregoing clauses (A) or (B) by way of conversion, exercise or exchange thereof, including the Warrant Shares, or share dividend or share split or in connection with a combination of shares, recapitalization, reclassification, merger, amalgamation, arrangement, consolidation or other

reorganization, *provided* that, once issued, such securities will not be Registrable Securities when (1) they are sold pursuant to an effective registration statement under the Securities Act, (2) except as provided below in Section 4.5(p), they may be sold pursuant to Rule 144 without limitation thereunder on volume or manner of sale, (3) they shall have ceased to be outstanding or (4) they have been sold in a private transaction in which the transferor's rights under this Agreement are not assigned to the transferee of the securities. No Registrable Securities may be registered under more than one registration statement at any one time.

(v) “*Registration Expenses*” mean all expenses incurred by the Company in effecting any registration pursuant to this Agreement (whether or not any registration or prospectus becomes effective or final) or otherwise complying with its obligations under this Section 4.5, including all registration, filing and listing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses, expenses incurred in connection with any “road show”, the reasonable fees and disbursements of Holders’ Counsel, and expenses of the Company’s independent accountants in connection with any regular or special reviews or audits incident to or required by any such registration, but shall not include Selling Expenses.

(vi) “*Rule 144*”, “*Rule 144A*”, “*Rule 159A*”, “*Rule 405*” and “*Rule 415*” mean, in each case, such rule promulgated under the Securities Act (or any successor provision), as the same shall be amended from time to time.

(vii) “*Selling Expenses*” mean all discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of counsel for any Holder (other than the fees and disbursements of Holders’ Counsel included in Registration Expenses).

(m) At any time, any holder of Securities (including any Holder) may elect to forfeit its rights set forth in this Section 4.5 from that date forward; *provided*, that a Holder forfeiting such rights shall nonetheless be entitled to participate under Section 4.5(b)(iv) – (vi) in any Pending Underwritten Offering to the same extent that such Holder would have been entitled to if the holder had not withdrawn; and *provided, further*, that no such forfeiture shall terminate a Holder’s rights or obligations under Section 4.5(g) with respect to any prior registration or Pending Underwritten Offering. “*Pending Underwritten Offering*” means, with respect to any Holder forfeiting its rights pursuant to this Section 4.5(m), any underwritten offering of Registrable Securities in which such Holder has advised the Company of its intent to register its Registrable Securities either pursuant to Section 4.5(b)(ii) or 4.5(b)(iv) prior to the date of such Holder’s forfeiture.

(n) Specific Performance. The parties hereto acknowledge that there would be no adequate remedy at law if the Company fails to perform any of its obligations under this Section 4.5 and that the Investor and the Holders from time to time may be irreparably harmed by any such failure, and accordingly agree that the Investor and such Holders, in addition to any other remedy to which they may be entitled at law or in equity, to the fullest extent permitted and

enforceable under applicable law shall be entitled to compel specific performance of the obligations of the Company under this Section 4.5 in accordance with the terms and conditions of this Section 4.5.

(o) No Inconsistent Agreements. The Company shall not, on or after the Signing Date, enter into any agreement with respect to its securities that may impair the rights granted to the Investor and the Holders under this Section 4.5 or that otherwise conflicts with the provisions hereof in any manner that may impair the rights granted to the Investor and the Holders under this Section 4.5. In the event the Company has, prior to the Signing Date, entered into any agreement with respect to its securities that is inconsistent with the rights granted to the Investor and the Holders under this Section 4.5 (including agreements that are inconsistent with the order of priority contemplated by Section 4.5(b)(vi)) or that may otherwise conflict with the provisions hereof, the Company shall use its reasonable best efforts to amend such agreements to ensure they are consistent with the provisions of this Section 4.5.

(p) Certain Offerings by the Investor. In the case of any securities held by the Investor that cease to be Registrable Securities solely by reason of clause (2) in the definition of "Registrable Securities," the provisions of Sections 4.5(b)(ii), clauses (iv), (ix) and (x)-(xii) of Section 4.5(d), Section 4.5(h) and Section 4.5(j) shall continue to apply until such securities otherwise cease to be Registrable Securities. In any such case, an "underwritten" offering or other disposition shall include any distribution of such securities on behalf of the Investor by one or more broker-dealers, an "underwriting agreement" shall include any purchase agreement entered into by such broker-dealers, and any "registration statement" or "prospectus" shall include any offering document approved by the Company and used in connection with such distribution.

(q) Registered Sales of the Warrant. The Holders agree to sell the Warrant or any portion thereof under the Shelf Registration Statement only beginning 30 days after notifying the Company of any such sale, during which 30-day period the Investor and all Holders of the Warrant shall take reasonable steps to agree to revisions to the Warrant to permit a public distribution of the Warrant, including entering into a warrant agreement and appointing a warrant agent.

4.6 Depository Shares. Upon request by the Investor at any time following the Closing Date, the Company shall promptly enter into a depository arrangement, pursuant to customary agreements reasonably satisfactory to the Investor and with a depository reasonably acceptable to the Investor, pursuant to which the Preferred Shares or the Warrant Shares may be deposited and depository shares, each representing a fraction of a Preferred Share or Warrant Share, as applicable, as specified by the Investor, may be issued. From and after the execution of any such depository arrangement, and the deposit of any Preferred Shares or Warrant Shares, as applicable, pursuant thereto, the depository shares issued pursuant thereto shall be deemed "Preferred Shares", "Warrant Shares" and, as applicable, "Registrable Securities" for purposes of this Agreement.

4.7 Restriction on Dividends and Repurchases.

(a) Prior to the earlier of (x) the third anniversary of the Closing Date and (y) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, declare or pay any dividend or make any distribution on capital stock or other equity securities of any kind of the Company or any Company Subsidiary (other than (i) regular quarterly cash dividends of not more than the amount of the last quarterly cash dividend per share declared or, if lower, announced to its holders of Common Stock an intention to declare, on the Common Stock prior to November 17, 2008, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (ii) dividends payable solely in shares of Common Stock, (iii) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, (iv) dividends or distributions by any wholly-owned Company Subsidiary or (v) dividends or distributions by any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008).

(b) During the period beginning on the third anniversary of the Closing Date and ending on the earlier of (i) the tenth anniversary of the Closing Date and (ii) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, (A) pay any per share dividend or distribution on capital stock or other equity securities of any kind of the Company at a per annum rate that is in excess of 103% of the aggregate per share dividends and distributions for the immediately prior fiscal year (other than regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares); *provided* that no increase in the aggregate amount of dividends or distributions on Common Stock shall be permitted as a result of any dividends or distributions paid in shares of Common Stock, any stock split or any similar transaction or (B) pay aggregate dividends or distributions on capital stock or other equity securities of any kind of any Company Subsidiary that is in excess of 103% of the aggregate dividends and distributions paid for the immediately prior fiscal year (other than in the case of this clause (B), (1) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, (2) dividends or distributions by any wholly-owned Company Subsidiary, (3) dividends or distributions by any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008) or (4) dividends or distributions on newly issued shares of capital stock for cash or other property.

(c) Prior to the earlier of (x) the tenth anniversary of the Closing Date and (y) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, redeem, purchase or acquire any shares of Common Stock or other capital stock or other equity securities of any kind of the Company or any Company Subsidiary, or any trust preferred securities issued by the Company or any Affiliate of the Company, other

than (i) redemptions, purchases or other acquisitions of the Preferred Shares and Warrant Shares, (ii) in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice, (iii) the acquisition by the Company or any of the Company Subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Company or any other Company Subsidiary), including as trustees or custodians, (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case set forth in this clause (iv), solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock (clauses (ii) and (iii), collectively, the "*Permitted Repurchases*"), (v) redemptions of securities held by the Company or any wholly-owned Company Subsidiary or (vi) redemptions, purchases or other acquisitions of capital stock or other equity securities of any kind of any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008.

(d) Until such time as the Investor ceases to own any Preferred Shares or Warrant Shares, the Company shall not repurchase any Preferred Shares or Warrant Shares from any holder thereof, whether by means of open market purchase, negotiated transaction, or otherwise, other than Permitted Repurchases, unless it offers to repurchase a ratable portion of the Preferred Shares or Warrant Shares, as the case may be, then held by the Investor on the same terms and conditions.

(e) During the period beginning on the tenth anniversary of the Closing and ending on the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, (i) declare or pay any dividend or make any distribution on capital stock or other equity securities of any kind of the Company or any Company Subsidiary; or (ii) redeem, purchase or acquire any shares of Common Stock or other capital stock or other equity securities of any kind of the Company or any Company Subsidiary, or any trust preferred securities issued by the Company or any Affiliate of the Company, other than (A) redemptions, purchases or other acquisitions of the Preferred Shares and Warrant Shares, (B) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, or (C) dividends or distributions by any wholly-owned Company Subsidiary.

(f) "*Junior Stock*" means Common Stock and any other class or series of stock of the Company the terms of which expressly provide that it ranks junior to the Preferred Shares as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Company. "*Parity Stock*" means any class or series of stock of the Company the terms of which do not expressly provide that such class or series will rank senior or junior to the Preferred Shares as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Company (in each case without regard to whether dividends accrue cumulatively or non-cumulatively).



4.8 Executive Compensation. Until such time as the Investor ceases to own any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, the Company shall take all necessary action to ensure that its Benefit Plans with respect to its Senior Executive Officers comply in all respects with Section 111(b) of the EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the Closing Date, and shall not adopt any new Benefit Plan with respect to its Senior Executive Officers that does not comply therewith. “*Senior Executive Officers*” means the Company's "senior executive officers" as defined in subsection 111(b)(3) of the EESA and regulations issued thereunder, including the rules set forth in 31 C.F.R. Part 30.

4.9 Related Party Transactions. Until such time as the Investor ceases to own any Purchased Securities or Warrant Shares, the Company and the Company Subsidiaries shall not enter into transactions with Affiliates or related persons (within the meaning of Item 404 under the SEC's Regulation S-K) unless (i) such transactions are on terms no less favorable to the Company and the Company Subsidiaries than could be obtained from an unaffiliated third party, and (ii) have been approved by the audit committee of the Board of Directors or comparable body of independent directors of the Company.

4.10 Bank and Thrift Holding Company Status. If the Company is a Bank Holding Company or a Savings and Loan Holding Company on the Signing Date, then the Company shall maintain its status as a Bank Holding Company or Savings and Loan Holding Company, as the case may be, for as long as the Investor owns any Purchased Securities or Warrant Shares. The Company shall redeem all Purchased Securities and Warrant Shares held by the Investor prior to terminating its status as a Bank Holding Company or Savings and Loan Holding Company, as applicable. “*Bank Holding Company*” means a company registered as such with the Board of Governors of the Federal Reserve System (the “*Federal Reserve*”) pursuant to 12 U.S.C. §1842 and the regulations of the Federal Reserve promulgated thereunder. “*Savings and Loan Holding Company*” means a company registered as such with the Office of Thrift Supervision pursuant to 12 U.S.C. §1467(a) and the regulations of the Office of Thrift Supervision promulgated thereunder.

4.11 Predominantly Financial. For as long as the Investor owns any Purchased Securities or Warrant Shares, the Company, to the extent it is not itself an insured depository institution, agrees to remain predominantly engaged in financial activities. A company is predominantly engaged in financial activities if the annual gross revenues derived by the company and all subsidiaries of the company (excluding revenues derived from subsidiary depository institutions), on a consolidated basis, from engaging in activities that are financial in nature or are incidental to a financial activity under subsection (k) of Section 4 of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(k)) represent at least 85 percent of the consolidated annual gross revenues of the company.

## Article V Miscellaneous

5.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by either the Investor or the Company if the Closing shall not have occurred by the 30<sup>th</sup> calendar day following the Signing Date; *provided, however*, that in the event the Closing has not occurred by such 30<sup>th</sup> calendar day, the parties will consult in good faith to determine whether to extend the term of this Agreement, it being understood that the parties shall be required to consult only until the fifth day after such 30<sup>th</sup> calendar day and not be under any obligation to extend the term of this Agreement thereafter; *provided, further*, that the right to terminate this Agreement under this Section 5.1(a) shall not be available to any party whose breach of any representation or warranty or failure to perform any obligation under this Agreement shall have caused or resulted in the failure of the Closing to occur on or prior to such date; or

(b) by either the Investor or the Company in the event that any Governmental Entity shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and nonappealable; or

(c) by the mutual written consent of the Investor and the Company.

In the event of termination of this Agreement as provided in this Section 5.1, this Agreement shall forthwith become void and there shall be no liability on the part of either party hereto except that nothing herein shall relieve either party from liability for any breach of this Agreement.

5.2 Survival of Representations and Warranties. All covenants and agreements, other than those which by their terms apply in whole or in part after the Closing, shall terminate as of the Closing. The representations and warranties of the Company made herein or in any certificates delivered in connection with the Closing shall survive the Closing without limitation.

5.3 Amendment. No amendment of any provision of this Agreement will be effective unless made in writing and signed by an officer or a duly authorized representative of each party; *provided* that the Investor may unilaterally amend any provision of this Agreement to the extent required to comply with any changes after the Signing Date in applicable federal statutes. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative of any rights or remedies provided by law.

5.4 Waiver of Conditions. The conditions to each party's obligation to consummate the Purchase are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law. No waiver will be effective unless it is in a writing signed by a duly authorized officer of the waiving party that makes express reference to the provision or provisions subject to such waiver.

5.5 Governing Law: Submission to Jurisdiction, Etc. This Agreement will be governed by and construed in accordance with the federal law of the United States if and to

the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the parties hereto agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia and the United States Court of Federal Claims for any and all civil actions, suits or proceedings arising out of or relating to this Agreement or the Warrant or the transactions contemplated hereby or thereby, and (b) that notice may be served upon (i) the Company at the address and in the manner set forth for notices to the Company in Section 5.6 and (ii) the Investor in accordance with federal law. To the extent permitted by applicable law, each of the parties hereto hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to this Agreement or the Warrant or the transactions contemplated hereby or thereby.

5.6 Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second business day following the date of dispatch if delivered by a recognized next day courier service. All notices to the Company shall be delivered as set forth in Schedule A, or pursuant to such other instruction as may be designated in writing by the Company to the Investor. All notices to the Investor shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the Investor to the Company.

If to the Investor:

United States Department of the Treasury  
1500 Pennsylvania Avenue, NW, Room 2312  
Washington, D.C. 20220  
Attention: Assistant General Counsel (Banking and Finance)  
Facsimile: (202) 622-1974

5.7 Definitions

(a) When a reference is made in this Agreement to a subsidiary of a person, the term “*subsidiary*” means any corporation, partnership, joint venture, limited liability company or other entity (x) of which such person or a subsidiary of such person is a general partner or (y) of which a majority of the voting securities or other voting interests, or a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or persons performing similar functions with respect to such entity, is directly or indirectly owned by such person and/or one or more subsidiaries thereof.

(b) The term “*Affiliate*” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “*control*” (including, with correlative meanings, the terms “*controlled by*” and “*under common control with*”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or

policies of such person, whether through the ownership of voting securities by contract or otherwise.

(c) The terms “*knowledge of the Company*” or “*Company’s knowledge*” mean the actual knowledge after reasonable and due inquiry of the “*officers*” (as such term is defined in Rule 3b-2 under the Exchange Act, but excluding any Vice President or Secretary) of the Company.

5.8 Assignment. Neither this Agreement nor any right, remedy, obligation nor liability arising hereunder or by reason hereof shall be assignable by any party hereto without the prior written consent of the other party, and any attempt to assign any right, remedy, obligation or liability hereunder without such consent shall be void, except (a) an assignment, in the case of a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Company’s stockholders (a “*Business Combination*”) where such party is not the surviving entity, or a sale of substantially all of its assets, to the entity which is the survivor of such Business Combination or the purchaser in such sale and (b) as provided in Sections 3.5 and 4.5.

5.9 Severability. If any provision of this Agreement or the Warrant, or the application thereof to any person or circumstance, is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, will remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

5.10 No Third Party Beneficiaries. Nothing contained in this Agreement, expressed or implied, is intended to confer upon any person or entity other than the Company and the Investor any benefit, right or remedies, except that the provisions of Section 4.5 shall inure to the benefit of the persons referred to in that Section.

\* \* \*

ANNEX A

**FORM OF CERTIFICATE OF DESIGNATIONS FOR PREFERRED STOCK**

[SEE ATTACHED]

**FORM OF [CERTIFICATE OF DESIGNATIONS]**  
**OF**  
**FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]**  
**OF**  
**[●]**

[*Insert name of Issuer*], a [corporation/bank/banking association] organized and existing under the laws of the [*Insert jurisdiction of organization*] (the "Issuer"), in accordance with the provisions of Section[s] [●] of the [*Insert applicable statute*] thereof, does hereby certify:

The board of directors of the Issuer (the "Board of Directors") or an applicable committee of the Board of Directors, in accordance with the [[certificate of incorporation/articles of association] and bylaws] of the Issuer and applicable law, adopted the following resolution on [●] creating a series of [●] shares of Preferred Stock of the Issuer designated as "Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]".

**RESOLVED**, that pursuant to the provisions of the [[certificate of incorporation/articles of association] and the bylaws] of the Issuer and applicable law, a series of Preferred Stock, par value \$[●] per share, of the Issuer be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Part 1. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of preferred stock of the Issuer a series of preferred stock designated as the "Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]" (the "Designated Preferred Stock"). The authorized number of shares of Designated Preferred Stock shall be [●].

Part 2. Standard Provisions. The Standard Provisions contained in Schedule A attached hereto are incorporated herein by reference in their entirety and shall be deemed to be a part of this [Certificate of Designations] to the same extent as if such provisions had been set forth in full herein.

Part 3. Definitions. The following terms are used in this [Certificate of Designations] (including the Standard Provisions in Schedule A hereto) as defined below:

(a) "Common Stock" means the common stock, par value \$[●] per share, of the Issuer.

(b) "Dividend Payment Date" means February 15, May 15, August 15 and November 15 of each year.

(c) “Junior Stock” means the Common Stock, [*Insert titles of any existing Junior Stock*] and any other class or series of stock of the Issuer the terms of which expressly provide that it ranks junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer.

(d) “Liquidation Amount” means \$[1,000]<sup>1</sup> per share of Designated Preferred Stock.

(e) “Minimum Amount” means \$[*Insert \$ amount equal to 25% of the aggregate value of the Designated Preferred Stock issued on the Original Issue Date*].

(f) “Parity Stock” means any class or series of stock of the Issuer (other than Designated Preferred Stock) the terms of which do not expressly provide that such class or series will rank senior or junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer (in each case without regard to whether dividends accrue cumulatively or non-cumulatively). Without limiting the foregoing, Parity Stock shall include the Issuer’s [*Insert title(s) of existing classes or series of Parity Stock*].

(g) “Signing Date” means [*Insert date of applicable securities purchase agreement*].

Part. 4. Certain Voting Matters. [*To be inserted if the Charter provides for voting in proportion to liquidation preferences*: Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Designated Preferred Stock and any Voting Parity Stock has been cast or given on any matter on which the holders of shares of Designated Preferred Stock are entitled to vote shall be determined by the Issuer by reference to the specified liquidation amount of the shares voted or covered by the consent as if the Issuer were liquidated on the record date for such vote or consent, if any, or, in the absence of a record date, on the date for such vote or consent. For purposes of determining the voting rights of the holders of Designated Preferred Stock under Section 7 of the Standard Provisions forming part of this [Certificate of Designations], each holder will be entitled to one vote for each \$1,000 of liquidation preference to which such holder’s shares are entitled.] [*To be inserted if the Charter does not provide for voting in proportion to liquidation preferences*: Holders of shares of Designated Preferred Stock will be entitled to one vote for each such share on any matter on which holders of Designated Preferred Stock are entitled to vote, including any action by written consent.]

[*Remainder of Page Intentionally Left Blank*]

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<sup>1</sup> If Issuer desires to issue shares with a higher dollar amount liquidation preference, liquidation preference references will be modified accordingly. In such case (in accordance with Section 4.6 of the Securities Purchase Agreement), the issuer will be required to enter into a deposit agreement.

IN WITNESS WHEREOF, *[Insert name of Issuer]* has caused this [Certificate of Designations] to be signed by [●], its [●], this [●] day of [●].

*[Insert name of Issuer]*

By: \_\_\_\_\_

Name:

Title:



**STANDARD PROVISIONS**

Section 1. General Matters. Each share of Designated Preferred Stock shall be identical in all respects to every other share of Designated Preferred Stock. The Designated Preferred Stock shall be perpetual, subject to the provisions of Section 5 of these Standard Provisions that form a part of the Certificate of Designations. The Designated Preferred Stock shall rank equally with Parity Stock and shall rank senior to Junior Stock with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Issuer.

Section 2. Standard Definitions. As used herein with respect to Designated Preferred Stock:

(a) “Applicable Dividend Rate” means (i) during the period from the Original Issue Date to, but excluding, the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 5% per annum and (ii) from and after the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 9% per annum.

(b) “Appropriate Federal Banking Agency” means the “appropriate Federal banking agency” with respect to the Issuer as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

(c) “Business Combination” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Issuer’s stockholders.

(d) “Business Day” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

(e) “Bylaws” means the bylaws of the Issuer, as they may be amended from time to time.

(f) “Certificate of Designations” means the Certificate of Designations or comparable instrument relating to the Designated Preferred Stock, of which these Standard Provisions form a part, as it may be amended from time to time.

(g) “Charter” means the Issuer’s certificate or articles of incorporation, articles of association, or similar organizational document.

(h) “Dividend Period” has the meaning set forth in Section 3(a).

(i) “Dividend Record Date” has the meaning set forth in Section 3(a).

(j) “Liquidation Preference” has the meaning set forth in Section 4(a).

(k) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.

(l) “Preferred Director” has the meaning set forth in Section 7(b).

(m) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.

(n) “Qualified Equity Offering” means the sale and issuance for cash by the Issuer to persons other than the Issuer or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Issuer at the time of issuance under the applicable risk-based capital guidelines of the Issuer’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).

(o) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.

(p) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(q) “Voting Parity Stock” means, with regard to any matter as to which the holders of Designated Preferred Stock are entitled to vote as specified in Sections 7(a) and 7(b) of these Standard Provisions that form a part of the Certificate of Designations, any and all series of Parity Stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

### Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, cumulative cash dividends with respect to each Dividend Period (as defined below) at a rate per annum equal to the Applicable Dividend Rate on (i) the Liquidation Amount per share of Designated Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior Dividend Period on such share of Designated Preferred Stock, if any. Such dividends shall begin to accrue and be cumulative from the Original Issue Date, shall compound on each subsequent Dividend Payment Date (*i.e.*, no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date) and shall be payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial

Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

Dividends that are payable on Designated Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on Designated Preferred Stock on any date prior to the end of a Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on Designated Preferred Stock on any Dividend Payment Date will be payable to holders of record of Designated Preferred Stock as they appear on the stock register of the Issuer on the applicable record date, which shall be the 15th calendar day immediately preceding such Dividend Payment Date or such other record date fixed by the Board of Directors or any duly authorized committee of the Board of Directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Holders of Designated Preferred Stock shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on Designated Preferred Stock as specified in this Section 3 (subject to the other provisions of the Certificate of Designations).

(b) Priority of Dividends. So long as any share of Designated Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than dividends payable solely in shares of Common Stock) or Parity Stock, subject to the immediately following paragraph in the case of Parity Stock, and no Common Stock, Junior Stock or Parity Stock shall be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Issuer or any of its subsidiaries unless all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been or are contemporaneously declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set aside for the benefit of the holders of shares of Designated Preferred Stock on the applicable record date). The foregoing limitation shall not apply to (i) redemptions, purchases or other acquisitions of shares of Common Stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice; (ii) the acquisition by the Issuer or any of its subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Issuer or any of its subsidiaries), including as trustees or custodians; and (iii) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period related to such Dividend Payment Date) in full upon Designated Preferred Stock and any shares of Parity Stock, all dividends declared on Designated Preferred Stock and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared *pro rata* so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of Designated Preferred Stock (including, if applicable as provided in Section 3(a) above, dividends on such amount) and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) (subject to their having been declared by the Board of Directors or a duly authorized committee of the Board of Directors out of legally available funds and including, in the case of Parity Stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. If the Board of Directors or a duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Issuer will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or any duly authorized committee of the Board of Directors may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and holders of Designated Preferred Stock shall not be entitled to participate in any such dividends.

#### Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount), whether or not declared, to the date of payment (such amounts collectively, the "Liquidation Preference").

(b) Partial Payment. If in any distribution described in Section 4(a) above the assets of the Issuer or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as

to such distribution, holders of Designated Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such distribution has been paid in full, the holders of other stock of the Issuer shall be entitled to receive all remaining assets of the Issuer (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 4, the merger or consolidation of the Issuer with any other corporation or other entity, including a merger or consolidation in which the holders of Designated Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Issuer, shall not constitute a liquidation, dissolution or winding up of the Issuer.

#### Section 5. Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption.

Notwithstanding the foregoing, prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption; *provided* that (x) the Issuer (or any successor by Business Combination) has received aggregate gross proceeds of not less than the Minimum Amount (plus the "Minimum Amount" as defined in the relevant certificate of designations for each other outstanding series of preferred stock of such successor that was originally issued to the United States Department of the Treasury (the "Successor Preferred Stock") in connection with the Troubled Asset Relief Program Capital Purchase Program) from one or more Qualified Equity Offerings (including Qualified Equity Offerings of such successor), and (y) the aggregate

redemption price of the Designated Preferred Stock (and any Successor Preferred Stock) redeemed pursuant to this paragraph may not exceed the aggregate net cash proceeds received by the Issuer (or any successor by Business Combination) from such Qualified Equity Offerings (including Qualified Equity Offerings of such successor).

The redemption price for any shares of Designated Preferred Stock shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Issuer or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 3 above.

(b) No Sinking Fund. The Designated Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Designated Preferred Stock will have no right to require redemption or repurchase of any shares of Designated Preferred Stock.

(c) Notice of Redemption. Notice of every redemption of shares of Designated Preferred Stock shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Issuer. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Designated Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Designated Preferred Stock. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Designated Preferred Stock at such time and in any manner permitted by such facility. Each notice of redemption given to a holder shall state: (1) the redemption date; (2) the number of shares of Designated Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of part of the shares of Designated Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either *pro rata* or in such other manner as the Board of Directors or a duly authorized committee thereof may determine to be fair and equitable. Subject to the provisions hereof, the Board of Directors or a duly authorized committee thereof shall have full power and authority to prescribe the terms and conditions upon which shares of Designated Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption

have been deposited by the Issuer, in trust for the *pro rata* benefit of the holders of the shares called for redemption, with a bank or trust company doing business in the Borough of Manhattan, The City of New York, and having a capital and surplus of at least \$500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Issuer, after which time the holders of the shares so called for redemption shall look only to the Issuer for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Issuer shall revert to authorized but unissued shares of Preferred Stock (*provided* that any such cancelled shares of Designated Preferred Stock may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7. Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any

termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Issuer ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Issuer;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions



thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole;

*provided, however,* that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Issuer and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Issuer nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Issuer, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

Section 12. Other Rights. The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.

ANNEX B

**FORM OF CERTIFICATE OF DESIGNATIONS  
FOR WARRANT PREFERRED STOCK**

[SEE ATTACHED]

FORM OF [CERTIFICATE OF DESIGNATIONS]

OF

FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]

OF

[●]

[*Insert name of Issuer*], a [corporation/bank/banking association] organized and existing under the laws of the [*Insert jurisdiction of organization*] (the "Issuer"), in accordance with the provisions of Section[s] [●] of the [*Insert applicable statute*] thereof, does hereby certify:

The board of directors of the Issuer (the "Board of Directors") or an applicable committee of the Board of Directors, in accordance with the [[certificate of incorporation/articles of association] and bylaws] of the Issuer and applicable law, adopted the following resolution on [●] creating a series of [●] shares of Preferred Stock of the Issuer designated as "Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]".

**RESOLVED**, that pursuant to the provisions of the [[certificate of incorporation/articles of association] and the bylaws] of the Issuer and applicable law, a series of Preferred Stock, par value \$[●] per share, of the Issuer be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Part 1. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of preferred stock of the Issuer a series of preferred stock designated as the "Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]" (the "Designated Preferred Stock"). The authorized number of shares of Designated Preferred Stock shall be [●].

Part 2. Standard Provisions. The Standard Provisions contained in Schedule A attached hereto are incorporated herein by reference in their entirety and shall be deemed to be a part of this [Certificate of Designations] to the same extent as if such provisions had been set forth in full herein.

Part 3. Definitions. The following terms are used in this [Certificate of Designations] (including the Standard Provisions in Schedule A hereto) as defined below:

(a) "Common Stock" means the common stock, par value \$[●] per share, of the Issuer.

(b) "Dividend Payment Date" means February 15, May 15, August 15 and November 15 of each year.

(c) “Junior Stock” means the Common Stock, *[Insert titles of any existing Junior Stock]* and any other class or series of stock of the Issuer the terms of which expressly provide that it ranks junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer.

(d) “Liquidation Amount” means \$[1,000]<sup>1</sup> per share of Designated Preferred Stock.

(e) “Minimum Amount” means \$*[Insert \$ amount equal to 25% of the aggregate value of the Designated Preferred Stock issued on the Original Issue Date]*.

(f) “Parity Stock” means any class or series of stock of the Issuer (other than Designated Preferred Stock) the terms of which do not expressly provide that such class or series will rank senior or junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer (in each case without regard to whether dividends accrue cumulatively or non-cumulatively). Without limiting the foregoing, Parity Stock shall include the Issuer’s UST Preferred Stock [and] *[Insert title(s) of any other classes or series of Parity Stock]*.

(g) “Signing Date” means *[Insert date of applicable securities purchase agreement]*.

(h) “UST Preferred Stock” means the Issuer’s Fixed Rate Cumulative Perpetual Preferred Stock, Series [●].

Part. 4. Certain Voting Matters. *[To be inserted if the Charter provides for voting in proportion to liquidation preferences:* Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Designated Preferred Stock and any Voting Parity Stock has been cast or given on any matter on which the holders of shares of Designated Preferred Stock are entitled to vote shall be determined by the Issuer by reference to the specified liquidation amount of the shares voted or covered by the consent as if the Issuer were liquidated on the record date for such vote or consent, if any, or, in the absence of a record date, on the date for such vote or consent. For purposes of determining the voting rights of the holders of Designated Preferred Stock under Section 7 of the Standard Provisions forming part of this [Certificate of Designations], each holder will be entitled to one vote for each \$1,000 of liquidation preference to which such holder’s shares are entitled.] *[To be inserted if the Charter does not provide for voting in proportion to liquidation preferences:* Holders of shares of Designated Preferred Stock will be entitled to one vote for each such share on any matter on which holders of Designated Preferred Stock are entitled to vote, including any action by written consent.]

*[Remainder of Page Intentionally Left Blank]*

<sup>1</sup> If Issuer desires to issue shares with a higher dollar amount liquidation preference, liquidation preference references will be modified accordingly. In such case (in accordance with Section 4.6 of the Securities Purchase Agreement), the issuer will be required to enter into a deposit agreement.

IN WITNESS WHEREOF, *[Insert name of Issuer]* has caused this [Certificate of Designations] to be signed by [●], its [●], this [●] day of [●].

*[Insert name of Issuer]*

By: \_\_\_\_\_

Name:

Title:

**STANDARD PROVISIONS**

Section 1. General Matters. Each share of Designated Preferred Stock shall be identical in all respects to every other share of Designated Preferred Stock. The Designated Preferred Stock shall be perpetual, subject to the provisions of Section 5 of these Standard Provisions that form a part of the Certificate of Designations. The Designated Preferred Stock shall rank equally with Parity Stock and shall rank senior to Junior Stock with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Issuer.

Section 2. Standard Definitions. As used herein with respect to Designated Preferred Stock:

(a) “Appropriate Federal Banking Agency” means the “appropriate Federal banking agency” with respect to the Issuer as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

(b) “Business Combination” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Issuer’s stockholders.

(c) “Business Day” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

(d) “Bylaws” means the bylaws of the Issuer, as they may be amended from time to time.

(e) “Certificate of Designations” means the Certificate of Designations or comparable instrument relating to the Designated Preferred Stock, of which these Standard Provisions form a part, as it may be amended from time to time.

(f) “Charter” means the Issuer’s certificate or articles of incorporation, articles of association, or similar organizational document.

(g) “Dividend Period” has the meaning set forth in Section 3(a).

(h) “Dividend Record Date” has the meaning set forth in Section 3(a).

(i) “Liquidation Preference” has the meaning set forth in Section 4(a).

(j) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.

(k) “Preferred Director” has the meaning set forth in Section 7(b).

(l) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.

(m) “Qualified Equity Offering” means the sale and issuance for cash by the Issuer to persons other than the Issuer or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Issuer at the time of issuance under the applicable risk-based capital guidelines of the Issuer’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).

(n) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.

(o) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(p) “Voting Parity Stock” means, with regard to any matter as to which the holders of Designated Preferred Stock are entitled to vote as specified in Sections 7(a) and 7(b) of these Standard Provisions that form a part of the Certificate of Designations, any and all series of Parity Stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

### Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 9.0% on (i) the Liquidation Amount per share of Designated Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior Dividend Period on such share of Designated Preferred Stock, if any. Such dividends shall begin to accrue and be cumulative from the Original Issue Date, shall compound on each subsequent Dividend Payment Date (*i.e.*, no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date) and shall be payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

Dividends that are payable on Designated Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on Designated Preferred Stock on any date prior to the end of a



Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on Designated Preferred Stock on any Dividend Payment Date will be payable to holders of record of Designated Preferred Stock as they appear on the stock register of the Issuer on the applicable record date, which shall be the 15th calendar day immediately preceding such Dividend Payment Date or such other record date fixed by the Board of Directors or any duly authorized committee of the Board of Directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Holders of Designated Preferred Stock shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on Designated Preferred Stock as specified in this Section 3 (subject to the other provisions of the Certificate of Designations).

(b) Priority of Dividends. So long as any share of Designated Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than dividends payable solely in shares of Common Stock) or Parity Stock, subject to the immediately following paragraph in the case of Parity Stock, and no Common Stock, Junior Stock or Parity Stock shall be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Issuer or any of its subsidiaries unless all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been or are contemporaneously declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set aside for the benefit of the holders of shares of Designated Preferred Stock on the applicable record date). The foregoing limitation shall not apply to (i) redemptions, purchases or other acquisitions of shares of Common Stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice; (ii) the acquisition by the Issuer or any of its subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Issuer or any of its subsidiaries), including as trustees or custodians; and (iii) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period related to such Dividend Payment Date) in full upon Designated Preferred Stock and any shares of Parity Stock, all dividends declared on Designated Preferred Stock and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend

payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared *pro rata* so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of Designated Preferred Stock (including, if applicable as provided in Section 3(a) above, dividends on such amount) and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) (subject to their having been declared by the Board of Directors or a duly authorized committee of the Board of Directors out of legally available funds and including, in the case of Parity Stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. If the Board of Directors or a duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Issuer will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or any duly authorized committee of the Board of Directors may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and holders of Designated Preferred Stock shall not be entitled to participate in any such dividends.

#### Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount), whether or not declared, to the date of payment (such amounts collectively, the "Liquidation Preference").

(b) Partial Payment. If in any distribution described in Section 4(a) above the assets of the Issuer or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such distribution, holders of Designated Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such

distribution has been paid in full, the holders of other stock of the Issuer shall be entitled to receive all remaining assets of the Issuer (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 4, the merger or consolidation of the Issuer with any other corporation or other entity, including a merger or consolidation in which the holders of Designated Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Issuer, shall not constitute a liquidation, dissolution or winding up of the Issuer.

#### Section 5. Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the later of (i) first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date; and (ii) the date on which all outstanding shares of UST Preferred Stock have been redeemed, repurchased or otherwise acquired by the Issuer. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption.

Notwithstanding the foregoing, prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency and subject to the requirement that all outstanding shares of UST Preferred Stock shall previously have been redeemed, repurchased or otherwise acquired by the Issuer, may redeem, in whole or in part, at any time and from time to time, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption; *provided* that (x) the Issuer (or any successor by Business Combination) has received aggregate gross proceeds of not less than the Minimum Amount (plus the "Minimum Amount" as defined in the relevant certificate of designations for each other outstanding series of preferred stock of such successor that was originally issued to the United States Department of the Treasury (the "Successor Preferred Stock") in connection with the Troubled Asset Relief Program Capital Purchase Program) from one or more Qualified Equity Offerings (including Qualified Equity Offerings of such successor), and (y) the aggregate redemption price of the Designated Preferred Stock (and any Successor Preferred Stock) redeemed pursuant to this paragraph may not exceed the aggregate net cash proceeds received by the Issuer (or any

successor by Business Combination) from such Qualified Equity Offerings (including Qualified Equity Offerings of such successor).

The redemption price for any shares of Designated Preferred Stock shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Issuer or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 3 above.

(b) No Sinking Fund. The Designated Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Designated Preferred Stock will have no right to require redemption or repurchase of any shares of Designated Preferred Stock.

(c) Notice of Redemption. Notice of every redemption of shares of Designated Preferred Stock shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Issuer. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Designated Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Designated Preferred Stock. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Designated Preferred Stock at such time and in any manner permitted by such facility. Each notice of redemption given to a holder shall state: (1) the redemption date; (2) the number of shares of Designated Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of part of the shares of Designated Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either *pro rata* or in such other manner as the Board of Directors or a duly authorized committee thereof may determine to be fair and equitable. Subject to the provisions hereof, the Board of Directors or a duly authorized committee thereof shall have full power and authority to prescribe the terms and conditions upon which shares of Designated Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been deposited by the Issuer, in trust for the *pro rata* benefit of the holders of the shares called for redemption, with a bank or trust company doing business in the Borough of

Manhattan, The City of New York, and having a capital and surplus of at least \$500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Issuer, after which time the holders of the shares so called for redemption shall look only to the Issuer for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Issuer shall revert to authorized but unissued shares of Preferred Stock (*provided* that any such cancelled shares of Designated Preferred Stock may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7. Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be

qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Issuer ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Issuer;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole;

*provided, however*, that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Issuer and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Issuer nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Issuer, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

Section 12. Other Rights. The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.



**FORM OF WAIVER**

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

FORM OF OPINION

(a) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of its incorporation.

(b) The Preferred Shares have been duly and validly authorized, and, when issued and delivered pursuant to the Agreement, the Preferred Shares will be duly and validly issued and fully paid and non-assessable, will not be issued in violation of any preemptive rights, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock issued on the Closing Date with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(c) The Warrant has been duly authorized and, when executed and delivered as contemplated by the Agreement, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity.

(d) The shares of Warrant Preferred Stock issuable upon exercise of the Warrant have been duly authorized and reserved for issuance upon exercise of the Warrant and when so issued in accordance with the terms of the Warrant will be validly issued, fully paid and non-assessable, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(e) The Company has the corporate power and authority to execute and deliver the Agreement and the Warrant and to carry out its obligations thereunder (which includes the issuance of the Preferred Shares, Warrant and Warrant Shares).

(f) The execution, delivery and performance by the Company of the Agreement and the Warrant and the consummation of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company.

(g) The Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity; *provided, however*, such counsel need express no opinion with respect to Section 4.5(h) or the severability provisions of the Agreement insofar as Section 4.5(h) is concerned.

ANNEX E

**FORM OF WARRANT**

[SEE ATTACHED]

**FORM OF WARRANT TO PURCHASE PREFERRED STOCK**

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS. THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.

**WARRANT  
to purchase**

**\_\_\_\_\_**  
**Shares of Preferred Stock**

**of \_\_\_\_\_**

Issue Date: \_\_\_\_\_

1. Definitions. Unless the context otherwise requires, when used herein the following terms shall have the meanings indicated.

“*Board of Directors*” means the board of directors of the Company, including any duly authorized committee thereof.

“*business day*” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

“*Charter*” means, with respect to any Person, its certificate or articles of incorporation, articles of association, or similar organizational document.

“*Company*” means the Person whose name, corporate or other organizational form and jurisdiction of organization is set forth in Item 1 of Schedule A hereto.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Exercise Price*” means the amount set forth in Item 2 of Schedule A hereto.

“*Expiration Time*” has the meaning set forth in Section 3.

“*Issue Date*” means the date set forth in Item 3 of Schedule A hereto.

“*Liquidation Amount*” means the amount set forth in Item 4 of Schedule A hereto.

“*Original Warrantholder*” means the United States Department of the Treasury. Any actions specified to be taken by the Original Warrantholder hereunder may only be taken by such Person and not by any other Warrantholder.

“*Person*” has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

“*Preferred Stock*” means the series of perpetual preferred stock set forth in Item 5 of Schedule A hereto.

“*Purchase Agreement*” means the Securities Purchase Agreement – Standard Terms incorporated into the Letter Agreement, dated as of the date set forth in Item 6 of Schedule A hereto, as amended from time to time, between the Company and the United States Department of the Treasury (the “*Letter Agreement*”), including all annexes and schedules thereto.

“*Regulatory Approvals*” with respect to the Warrantholder, means, to the extent applicable and required to permit the Warrantholder to exercise this Warrant for shares of Preferred Stock and to own such Preferred Stock without the Warrantholder being in violation of applicable law, rule or regulation, the receipt of any necessary approvals and authorizations of, filings and registrations with, notifications to, or expiration or termination of any applicable waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Shares*” has the meaning set forth in Section 2.

“*Warrantholder*” has the meaning set forth in Section 2.

“*Warrant*” means this Warrant, issued pursuant to the Purchase Agreement.

2. Number of Shares; Exercise Price. This certifies that, for value received, the United States Department of the Treasury or its permitted assigns (the “*Warrantholder*”) is entitled, upon the terms and subject to the conditions hereinafter set forth, to acquire from the

Company, in whole or in part, after the receipt of all applicable Regulatory Approvals, if any, up to an aggregate of the number of fully paid and nonassessable shares of Preferred Stock set forth in Item 7 of Schedule A hereto (the “Shares”), at a purchase price per share of Preferred Stock equal to the Exercise Price.

3. Exercise of Warrant; Term. Subject to Section 2, to the extent permitted by applicable laws and regulations, the right to purchase the Shares represented by this Warrant is exercisable, in whole or in part by the Warrantholder, at any time or from time to time after the execution and delivery of this Warrant by the Company on the date hereof, but in no event later than 5:00 p.m., New York City time on the tenth anniversary of the Issue Date (the “*Expiration Time*”), by (A) the surrender of this Warrant and Notice of Exercise annexed hereto, duly completed and executed on behalf of the Warrantholder, at the principal executive office of the Company located at the address set forth in Item 8 of Schedule A hereto (or such other office or agency of the Company in the United States as it may designate by notice in writing to the Warrantholder at the address of the Warrantholder appearing on the books of the Company), and (B) payment of the Exercise Price for the Shares thereby purchased, by having the Company withhold, from the shares of Preferred Stock that would otherwise be delivered to the Warrantholder upon such exercise, shares of Preferred Stock issuable upon exercise of the Warrant with an aggregate Liquidation Amount equal in value to the aggregate Exercise Price as to which this Warrant is so exercised.

If the Warrantholder does not exercise this Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time, and in any event not exceeding three business days, a new warrant in substantially identical form for the purchase of that number of Shares equal to the difference between the number of Shares subject to this Warrant and the number of Shares as to which this Warrant is so exercised. Notwithstanding anything in this Warrant to the contrary, the Warrantholder hereby acknowledges and agrees that its exercise of this Warrant for Shares is subject to the condition that the Warrantholder will have first received any applicable Regulatory Approvals.

4. Issuance of Shares; Authorization. Certificates for Shares issued upon exercise of this Warrant will be issued in such name or names as the Warrantholder may designate and will be delivered to such named Person or Persons within a reasonable time, not to exceed three business days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant. The Company hereby represents and warrants that any Shares issued upon the exercise of this Warrant in accordance with the provisions of Section 3 will be duly and validly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges (other than liens or charges created by the Warrantholder, income and franchise taxes incurred in connection with the exercise of the Warrant or taxes in respect of any transfer occurring contemporaneously therewith). The Company agrees that the Shares so issued will be deemed to have been issued to the Warrantholder as of the close of business on the date on which this Warrant and payment of the Exercise Price are delivered to the Company in accordance with the terms of this Warrant, notwithstanding that the stock transfer books of the Company may then be closed or certificates representing such Shares may not be actually delivered on such date. The Company will at all times reserve and keep available, out of its authorized but unissued preferred stock, solely for the purpose of providing for the exercise of this Warrant, the aggregate number of shares of Preferred Stock then issuable upon exercise of this Warrant at any

time. The Company will use reasonable best efforts to ensure that the Shares may be issued without violation of any applicable law or regulation or of any requirement of any securities exchange on which the Shares are listed or traded.

5. No Rights as Stockholders; Transfer Books. This Warrant does not entitle the Warrantholder to any voting rights or other rights as a stockholder of the Company prior to the date of exercise hereof. The Company will at no time close its transfer books against transfer of this Warrant in any manner which interferes with the timely exercise of this Warrant.

6. Charges, Taxes and Expenses. Issuance of certificates for Shares to the Warrantholder upon the exercise of this Warrant shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company.

7. Transfer/Assignment.

(A) Subject to compliance with clause (B) of this Section 7, this Warrant and all rights hereunder are transferable, in whole or in part, upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and a new warrant shall be made and delivered by the Company, of the same tenor and date as this Warrant but registered in the name of one or more transferees, upon surrender of this Warrant, duly endorsed, to the office or agency of the Company described in Section 3. All expenses (other than stock transfer taxes) and other charges payable in connection with the preparation, execution and delivery of the new warrants pursuant to this Section 7 shall be paid by the Company.

(B) The transfer of the Warrant and the Shares issued upon exercise of the Warrant are subject to the restrictions set forth in Section 4.4 of the Purchase Agreement. If and for so long as required by the Purchase Agreement, this Warrant shall contain the legends as set forth in Section 4.2(a) of the Purchase Agreement.

8. Exchange and Registry of Warrant. This Warrant is exchangeable, upon the surrender hereof by the Warrantholder to the Company, for a new warrant or warrants of like tenor and representing the right to purchase the same aggregate number of Shares. The Company shall maintain a registry showing the name and address of the Warrantholder as the registered holder of this Warrant. This Warrant may be surrendered for exchange or exercise in accordance with its terms, at the office of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

9. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in the case of any such loss, theft or destruction, upon receipt of a bond, indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Shares as provided for in such lost, stolen, destroyed or mutilated Warrant.

10. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a business day, then such action may be taken or such right may be exercised on the next succeeding day that is a business day.

11. Rule 144 Information. The Company covenants that it will use its reasonable best efforts to timely file all reports and other documents required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations promulgated by the SEC thereunder (or, if the Company is not required to file such reports, it will, upon the request of any Warrantholder, make publicly available such information as necessary to permit sales pursuant to Rule 144 under the Securities Act), and it will use reasonable best efforts to take such further action as any Warrantholder may reasonably request, in each case to the extent required from time to time to enable such holder to, if permitted by the terms of this Warrant and the Purchase Agreement, sell this Warrant without registration under the Securities Act within the limitation of the exemptions provided by (A) Rule 144 under the Securities Act, as such rule may be amended from time to time, or (B) any successor rule or regulation hereafter adopted by the SEC. Upon the written request of any Warrantholder, the Company will deliver to such Warrantholder a written statement that it has complied with such requirements.

12. Adjustments and Other Rights. For so long as the Original Warrantholder holds this Warrant or any portion thereof, if any event occurs that, in the good faith judgment of the Board of Directors of the Company, would require adjustment of the Exercise Price or number of Shares into which this Warrant is exercisable in order to fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of the Purchase Agreement and this Warrant, then the Board of Directors shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of the Board of Directors, to protect such purchase rights as aforesaid.

Whenever the Exercise Price or the number of Shares into which this Warrant is exercisable shall be adjusted as provided in this Section 12, the Company shall forthwith file at the principal office of the Company a statement showing in reasonable detail the facts requiring such adjustment and the Exercise Price that shall be in effect and the number of Shares into which this Warrant shall be exercisable after such adjustment, and the Company shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each Warrantholder at the address appearing in the Company's records.

13. No Impairment. The Company will not, by amendment of its Charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder.

14. Governing Law. This Warrant will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and



to be performed entirely within such State. Each of the Company and the Warrantholder agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia for any civil action, suit or proceeding arising out of or relating to this Warrant or the transactions contemplated hereby, and (b) that notice may be served upon the Company at the address in Section 17 below and upon the Warrantholder at the address for the Warrantholder set forth in the registry maintained by the Company pursuant to Section 8 hereof. To the extent permitted by applicable law, each of the Company and the Warrantholder hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to the Warrant or the transactions contemplated hereby or thereby.

15. Binding Effect. This Warrant shall be binding upon any successors or assigns of the Company.

16. Amendments. This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Warrantholder.

17. Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second business day following the date of dispatch if delivered by a recognized next day courier service. All notices hereunder shall be delivered as set forth in Item 9 of Schedule A hereto, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

18. Entire Agreement. This Warrant, the forms attached hereto and Schedule A hereto (the terms of which are incorporated by reference herein), and the Letter Agreement (including all documents incorporated therein), contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or undertakings with respect thereto.

*[Remainder of page intentionally left blank]*

[Form of Notice of Exercise]

Date: \_\_\_\_\_

TO: [Company]

RE: Election to Purchase Preferred Stock

The undersigned, pursuant to the provisions set forth in the attached Warrant, hereby agrees to subscribe for and purchase such number of shares of Preferred Stock covered by the Warrant such that after giving effect to an exercise pursuant to Section 3(B) of the Warrant, the undersigned will receive the net number of shares of Preferred Stock set forth below. The undersigned, in accordance with Section 3 of the Warrant, hereby agrees to pay the aggregate Exercise Price for such shares of Preferred Stock in the manner set forth in Section 3(B) of the Warrant.

Number of Shares of Preferred Stock:<sup>1</sup> \_\_\_\_\_

The undersigned agrees that it is exercising the attached Warrant in full and that, upon receipt by the undersigned of the number of shares of Preferred Stock set forth above, such Warrant shall be deemed to be cancelled and surrendered to the Company.

Holder: \_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

---

1. Number of shares to be received by the undersigned upon exercise of the attached Warrant pursuant to Section 3(B) thereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by a duly authorized officer.

Dated: \_\_\_\_\_

**COMPANY:** \_\_\_\_\_

By: \_\_\_\_\_  
Name:  
Title:

**Attest:**

By: \_\_\_\_\_  
Name:  
Title:

**[Signature Page to Warrant]**

## SCHEDULE A

### Item 1

Name:

Corporate or other organizational form:

Jurisdiction of organization:

### Item 2

Exercise Price:<sup>2</sup>

### Item 3

Issue Date:

### Item 4

Liquidation Amount:

### Item 5

Series of Perpetual Preferred Stock:

### Item 6

Date of Letter Agreement between the Company and the United States Department of the Treasury:

### Item 7

Number of shares of Preferred Stock:<sup>3</sup>

### Item 8

Company's address:

### Item 9

Notice information:

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<sup>2</sup> \$0.01 per share or such greater amount as the Charter may require as the par value of the Preferred Stock.

<sup>3</sup> The initial number of shares of Preferred Stock for which this Warrant is exercisable shall include the number of shares required to effect the cashless exercise pursuant to Section 3(B) of this Warrant (e.g., such number of shares of Preferred Stock having an aggregate Liquidation Amount equal in value to the aggregate Exercise Price) such that, following exercise of this Warrant and payment of the Exercise Price in accordance with such Section 3(B), the net number of shares of Preferred Stock delivered to the Warranholder (and rounded to the nearest whole share) would have an aggregate Liquidation Amount equal to 5% of the aggregate amount invested by the United States Department of the Treasury on the investment date.

## SCHEDULE A

### ADDITIONAL TERMS AND CONDITIONS

#### Company Information:

Name of the Company:	First Bank of Charleston, Inc.
Corporate or other organizational form:	Corporation
Jurisdiction of Organization:	West Virginia
Appropriate Federal Banking Agency:	FDIC
Notice Information:	Percy Osborne, President and CEO First Bank of Charleston, Inc. 201 Pennsylvania Avenue Charleston, West Virginia 25302 Facsimile Number: (304) 340-3004

#### Terms of the Purchase:

Series of Preferred Stock Purchased:	Cumulative Preferred-Series A
Per Share Liquidation Preference of Preferred Stock:	\$1,000
Number of Shares of Preferred Stock Purchased:	3,345 Shares
Dividend Payment Dates on the Preferred Stock:	February 15, May 15, August 15 and November 15 of each year
Series of Warrant Preferred Stock:	Cumulative Preferred-Series B
Number of Warrant Shares:	167.16717
Number of Net Warrant Shares (after net settlement):	167
Exercise Price of the Warrant:	\$1.00 per share
Purchase Price:	\$3,345,000

#### Closing:

Location of Closing:	To be mutually agreed upon by the Parties
Time of Closing:	9:00 a.m., Eastern Standard Time
Date of Closing:	February 6, 2009

UST#625

**Wire Information for Closing:**

**ABA Number:** [Redacted]  
**Bank:** [Redacted]  
**Account Name:** FIRST BANK OF CHARLESTON  
**Account Number:** [Redacted]  
**Beneficiary:** First Bank of Charleston, Inc.

**Contact for Confirmation of Wire Information:**

**Joslyn Truett**  
**Vice President and Cashier**  
**First Bank of Charleston, Inc.**  
**201 Pennsylvania Avenue**  
**Charleston, WV 25302**  
**[jtruett@fbofc.com](mailto:jtruett@fbofc.com)**  
**304-340-3000**

UST# 625

**SCHEDULE B**

**CAPITALIZATION**

Capitalization Date: January 31, 2009

Common Stock

Par value:	\$1.00 per share
Total Authorized:	1,436,371 shares
Outstanding:	818,732 shares
Subject to warrants, options, convertible securities, etc.:	None
Reserved for benefit plans and other issuances:	40,000 shares
Remaining authorized but unissued:	577,639 shares
Shares issued after Capitalization Date (other than pursuant to warrants, options, convertible securities, etc. as set forth above):	None

Preferred Stock

Par value:	\$1.00 per share
Total Authorized:	10,000 shares
Outstanding (by series):	None
Reserved for issuance:	None
Remaining authorized but unissued:	10,000 shares

UST#625

**Schedule B (cont.)**

Holders of 5% or more of any class of capital stock

Primary Address

Marshall T. Reynolds--46,271 shares

P.O. Box 4040  
Huntington, WV 25729-4040

Marshall T Reynolds Irrevocable Trust--8,064 shares

P.O. Box 4040  
Huntington, WV 25729-4040

Samuel Kapourales—42,208 shares

215 Logan Street, Suite 10  
Williamson, WV 25661



**SCHEDULE C**

**LITIGATION**

List any exceptions to the representations and warranty in Section 2.2(l) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box:

**SCHEDULE D**

**COMPLIANCE WITH LAWS**

List any exceptions to the representation and warranty in the second sentence of Section 2.2(m) of the Securities Purchase Agreement -- Standard Terms.

If none, please so indicate by checking the box:

List any exceptions to the representation and warranty in the last sentence of Section 2.2(m) of the Securities Purchase Agreement -- Standard Terms.

If none, please so indicate by checking the box:

UST#625

**SCHEDULE E**

**REGULATORY AGREEMENTS**

List any exceptions to the representation and warranty in Section 2.2(s) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box:

UST# 625

## SCHEDULE F

### FINANCIAL STATEMENTS

Year Ended December 31, 2005 (Audited)	Attached
Year Ended December 31, 2006 (Audited)	Attached
Year Ended December 31, 2007 (Audited)	Attached
Quarter Ended March 31, 2008 (Unaudited)	Attached
Quarter Ended June 30, 2008 (Unaudited)	Attached
Quarter Ended September 30, 2008 (Unaudited)	Attached
Quarter Ended December 31, 2008 (Unaudited)	Attached

The audited financial statements for the year ended December 31, 2008 are not yet completed. First Bank of Charleston, Inc., will forward the audited financial statements for the year ended December 31, 2008 to the United States Department of Treasury as soon as possible after completion.



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***Financial Report***

***December 31, 2005***

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201 Pennsylvania Avenue Charleston, West Virginia 25302  
P.O. Box 6907 Charleston, West Virginia 25362  
Telephone: (304) 340-3000  
Fax: (304) 340-3003

March 13, 2006

To Our Stockholders:

The Annual Stockholders Meeting for the First Bank of Charleston, Inc. will be held on April 12, 2006 at 1:00 pm. The meeting will be held at the Holiday Inn Charleston House, 600 Kanawha Boulevard Charleston, WV with a buffet lunch beginning at noon. Enclosed are the proxy statement and ballot along with the formal notice and the auditors report with year end financial statements. You may vote your shares at the meeting or by mail by returning the proxy ballot in the enclosed envelope. Even if you plan to attend it will be helpful if you could return the proxy ballot as soon as possible. This will not preclude your acting in person at the meeting should you so desire.

From its beginning on June 2, 2003 the bank has grown to \$91 Million in total assets at the end of 2005. This continued growth is a 44% increase over year end 2004 of \$63 Million in total assets. More importantly 2005 marked a turning point from losses normally associated with a de novo bank to profitability with net income for the year of \$295,000. In the coming year the bank's focus will be on continuing and profitable growth.

Your attendance and participation are welcomed and on behalf of the Board of Directors and Bank Staff we look forward to meeting with you

Sincerely,

A handwritten signature in black ink, appearing to read "Percy Osborne", written over a light-colored background.

Percy Osborne  
President and CEO

First Bank of Charleston, Inc.



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
First Bank of Charleston, Inc.  
Charleston, West Virginia

We have audited the accompanying balance sheets of First Bank of Charleston, Inc., as of December 31, 2005 and 2004, and the related statements of income, shareholders' equity and cash flows for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Bank of Charleston, Inc., as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

ARNETT & FOSTER, P.L.L.C.

*Arnett + Foster, P. L. L. C.*

Charleston, West Virginia  
February 17, 2006, except for the  
last paragraph in Note 11, as to  
which the date is February 27, 2006

### *Innovation With Results*

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www.afnetwork.com



**FIRST BANK OF CHARLESTON, INC.**

**BALANCE SHEETS**  
December 31, 2005 and 2004

<b>ASSETS</b>	<u>2005</u>	<u>2004</u>
Cash and due from banks	\$ 2,638,797	\$ 986,043
Securities available for sale, at fair value	8,493,470	8,035,938
Federal funds sold	2,074,000	617,000
Loans, less allowance for loan losses of \$718,451 and \$505,000, respectively	72,209,060	48,427,055
Bank premises and equipment, net	4,416,992	4,437,363
Accrued interest receivable	352,029	208,156
Other assets	<u>725,803</u>	<u>818,967</u>
<b>Total assets</b>	<b><u>\$ 90,910,151</u></b>	<b><u>\$ 63,530,522</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits:		
Non interest bearing	\$ 7,309,540	\$ 3,297,893
Interest bearing	<u>74,930,376</u>	<u>53,376,315</u>
<b>Total deposits</b>	<b><u>82,239,916</u></b>	<b><u>56,674,208</u></b>
Other liabilities	<u>280,426</u>	<u>233,214</u>
<b>Total liabilities</b>	<b><u>82,520,342</u></b>	<b><u>56,907,422</u></b>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Common stock, \$10 par value, 500,000 shares authorized, 359,093 and 312,255 shares Issued and outstanding, respectively	3,590,930	3,122,550
Capital surplus	5,737,680	4,683,825
Retained deficit	(860,303)	(1,155,338)
Accumulated other comprehensive income	<u>(78,498)</u>	<u>(27,937)</u>
<b>Total shareholders' equity</b>	<b><u>8,389,809</u></b>	<b><u>6,623,100</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 90,910,151</u></b>	<b><u>\$ 63,530,522</u></b>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**

**STATEMENTS OF INCOME**  
**December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Interest income:</b>		
Interest and fees on loans	\$ 4,102,798	\$ 1,915,395
Taxable interest and dividends on securities	251,888	161,476
Interest on Federal funds sold	<u>42,734</u>	<u>65,487</u>
<b>Total interest income</b>	<u>4,397,420</u>	<u>2,142,358</u>
<b>Interest expense:</b>		
Interest on deposits	<u>2,050,316</u>	<u>1,119,681</u>
<b>Total interest expense</b>	<u>2,050,316</u>	<u>1,119,681</u>
<b>Net interest income</b>	2,347,104	1,022,677
Provision for loan losses	<u>265,000</u>	<u>355,000</u>
<b>Net interest income (loss) after provision for loan losses</b>	<u>2,082,104</u>	<u>667,677</u>
<b>Other income:</b>		
Service charges and fees	122,932	74,198
Rental income	<u>112,921</u>	<u>-</u>
	<u>235,853</u>	<u>74,198</u>
<b>Other expenses:</b>		
Salaries and employee benefits	852,240	704,866
Net occupancy expense	230,293	171,325
Equipment rentals, depreciation and maintenance	228,487	208,830
Legal and accounting	49,231	34,300
Data processing	105,482	103,760
Other operating expenses	<u>414,320</u>	<u>382,499</u>
	<u>1,880,053</u>	<u>1,605,580</u>
<b>Income (loss) before income tax expense (benefit)</b>	437,904	(863,705)
Income tax expense (benefit)	<u>142,869</u>	<u>(350,300)</u>
<b>Net income (loss)</b>	<u>\$ 295,035</u>	<u>\$ (513,405)</u>
<b>Basic income (loss) per common share</b>	<u>\$ .93</u>	<u>\$ (1.64)</u>
<b>Average common shares outstanding</b>	<u>317,521</u>	<u>312,255</u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Net income (loss)</b>	\$ 295,035	\$ (513,405)
Other comprehensive income:		
Gross unrealized gains (losses) arising during the period	(84,268)	(46,562)
Adjustments for income tax (expense) benefit	<u>33,707</u>	<u>18,625</u>
Other comprehensive income, net of tax	<u>(50,561)</u>	<u>(27,937)</u>
<b>Comprehensive income (loss)</b>	<u>\$ 244,474</u>	<u>\$ (541,342)</u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**  
**December 31, 2005 and 2004**

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained Deficit</u>	<u>Accum- ulated Other Compre- hensive Income</u>	<u>Total</u>
<b>Balance, December 31, 2003</b>	\$ 3,122,550	\$ 4,683,825	\$ (641,933)	\$ -	\$ 7,164,442
Net loss for the year ended December 31, 2004	-	-	(513,405)	-	(513,405)
Change in net unrealized gain (loss) on securities	-	-	-	(27,937)	(27,937)
<b>Balance, December 31, 2004</b>	3,122,550	4,683,825	(1,155,338)	(27,937)	6,623,100
Net income for the year ended December 31, 2005	-	-	295,035	-	295,035
Issuance of common stock	468,380	1,053,855	-	-	1,522,235
Change in net unrealized gain (loss) on securities	-	-	-	(50,561)	(50,561)
<b>Balance, December 31, 2005</b>	<b><u>\$ 3,590,930</u></b>	<b><u>\$ 5,737,680</u></b>	<b><u>\$ (860,303)</u></b>	<b><u>\$ (78,498)</u></b>	<b><u>\$ 8,389,809</u></b>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**

**STATEMENTS OF CASH FLOWS**  
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 295,035	\$ (513,405)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	232,308	233,230
Provision for loan losses	265,000	355,000
Provision for deferred income tax expense (benefit)	142,869	(350,300)
(Increase) decrease in accrued interest receivable	(143,873)	(166,454)
(Increase) decrease in other assets	(15,998)	(51,412)
Increase (decrease) in other liabilities	<u>47,212</u>	<u>(1,919)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>822,553</u>	<u>(495,260)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of securities available for sale	(1,061,300)	(9,072,500)
Proceeds from maturities and calls of securities available for sale	500,000	1,000,000
Proceeds from sales of securities available for sale	19,500	-
Net (increase) decrease in Federal funds sold	(1,457,000)	13,131,000
Principal collected from (loans made to) customers, net	(24,047,005)	(34,578,522)
Purchases of bank premises and equipment	(225,236)	(13,635)
Proceeds from sale of bank premises and equipment	<u>13,299</u>	<u>-</u>
<b>Net cash (used in) investing activities</b>	<u>(26,257,742)</u>	<u>(29,533,657)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in demand deposits, NOW and savings accounts	(4,549,725)	17,771,533
Proceeds from sales of (payments for maturing) time deposits, net	30,115,433	12,648,751
Proceeds from issuance of common stock	<u>1,522,235</u>	<u>-</u>
<b>Net cash provided by financing activities</b>	<u>27,087,943</u>	<u>30,420,284</u>
Increase (decrease) in cash and due from banks	1,652,754	391,367
<b>Cash and due from banks:</b>		
Beginning	<u>986,043</u>	<u>594,676</u>
Ending	<u>\$ 2,638,797</u>	<u>\$ 986,043</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash payments for:		
Interest paid on deposits	<u>\$ 1,904,881</u>	<u>\$ 1,061,320</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Acquisition of bank premises and equipment payable at end of year	<u>\$ -</u>	<u>\$ 124,644</u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.****NOTES TO FINANCIAL STATEMENTS****Note 1. Significant Accounting Policies**

**Nature of business:** First Bank of Charleston, Inc. (the Bank) is a commercial bank with operations in Kanawha County, West Virginia. The Bank provides consumer and commercial loans and deposit services principally to individuals and small businesses in Kanawha County, West Virginia and the surrounding area.

**Basis of presentation:** The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Presentation of cash flows:** For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from demand deposits, money market accounts, NOW accounts, savings accounts, and Federal funds sold are reported net since their original maturities are less than three months. Cash flows from loans, certificates of deposit and other time deposits are reported net.

**Securities:** Debt and equity securities are classified as "held to maturity", "available for sale" or "trading" according to management's intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

**Securities held to maturity** - Debt securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost and adjusted for amortization of premiums and accretion of discounts. There are no securities classified as "held to maturity" in the accompanying financial statements.

**Securities available for sale** - Securities not classified as "held to maturity" or as "trading" are classified as "available for sale". Securities classified as "available for sale" are those securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at fair value, net of unrealized gains or losses, which are adjusted for applicable income taxes and reported as a separate component of shareholders' equity.

**Trading securities** - There are no securities classified as "trading" in the accompanying financial statements.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts is computed using methods which approximate the interest method of accounting.

**Loans and allowance for loan losses:** Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest is accrued daily on the outstanding balance.

## NOTES TO FINANCIAL STATEMENTS

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The Bank makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Loan origination fees and certain direct loan origination costs are deferred and amortized as adjustments of the related loan yield over its contractual life.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Generally, loans are placed on non-accrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on non-accrual status. Impaired loans are placed on non-accrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on non-accrual loans is recognized primarily using the cost-recovery method.

**Concentrations of credit risk:** The Bank predominately grants installment, commercial and residential loans to customers in Kanawha County, West Virginia and the immediate surrounding areas.

**Bank premises and equipment:** Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for Bank premises and equipment over the estimated useful lives of the assets. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

**Other real estate:** Other real estate consists primarily of real estate held for resale which was acquired through foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at the lower of cost or appraised market value with any writedown being charged to the allowance for loan losses. Expenses incurred in connection with operating these properties are charged to operating expenses. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions. There was no other real estate included in ending balances at December 31, 2005 and 2004.

**Advertising:** The Bank expenses advertising costs as incurred.

**Income taxes:** The provision for income taxes includes Federal and state income taxes and is based on pretax income reported in the financial statements, adjusted for transactions that may never enter into the computation of income taxes payable. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to

## NOTES TO FINANCIAL STATEMENTS

affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized within a short term.

**Profit sharing and thrift plan:** The Bank has a contributory profit sharing plan covering substantially all employees. The Bank's contribution is discretionary and is determined by management on a yearly basis.

**Basic and fully dilutive earnings per share:** Basic earnings per common share is computed based upon the weighted average shares outstanding. The weighted average shares outstanding were 317,521 and 312,255 for the years ended December 31, 2005 and 2004, respectively. The Bank did not have any potentially dilutive shares during the years ended December 31, 2005 and 2004.

### Note 2. Cash and Due From Banks

At December 31, 2005 and 2004, the Bank had \$1,963,906 and \$775,213, respectively, in a due from bank account and \$2,074,000 and \$617,000, respectively, in Federal funds sold from a correspondent bank. Federal funds sold are generally unsecured. Also, "due from" bank accounts have limited insurance under current banking regulations.

### Note 3. Securities

The amortized gains, unrealized losses and estimated fair values of securities at December 31, 2005 and 2004, are summarized as follows:

	2005			Carrying Value (Estimated Fair Value)
	Amortized Cost	Unrealized		
		Gains	Losses	
<b>Available for sale:</b>				
<b>Taxable:</b>				
U.S. Government Agencies and Corporation	\$ 8,500,000	\$ -	\$ (130,830)	\$ 8,369,170
Equity securities - FHLB stock	<u>124,300</u>	<u>-</u>	<u>-</u>	<u>124,300</u>
<b>Total securities available             for sale</b>	<u>\$ 8,624,300</u>	<u>\$ -</u>	<u>\$ (130,830)</u>	<u>\$ 8,493,470</u>
	2004			Carrying Value (Estimated Fair Value)
	Amortized Cost	Unrealized		
		Gains	Losses	
<b>Available for sale:</b>				
<b>Taxable:</b>				
U.S. Government Agencies and Corporation	\$ 8,000,000	\$ 313	\$ (46,875)	\$ 7,953,438
Equity securities - FHLB stock	<u>82,500</u>	<u>-</u>	<u>-</u>	<u>82,500</u>
<b>Total securities available             for sale</b>	<u>\$ 8,082,500</u>	<u>\$ 313</u>	<u>\$ (46,875)</u>	<u>\$ 8,035,938</u>



## NOTES TO FINANCIAL STATEMENTS

The maturities, amortized cost and estimated fair values of securities at December 31, 2005, are summarized as follows:

	Available for Sale	
	Amortized Cost	Carrying Value (Estimated Fair Value)
Due within 1 year	\$ 4,500,000	\$ 4,447,188
Due after 1 but within 5 years	4,000,000	3,921,982
Due after 5 but within 10 years	-	-
Due after 10 years	-	-
Equity securities	124,300	124,300
	\$ 8,624,300	\$ 8,493,470

Federal Home Loan Bank stock is an equity security that is included in securities available for sale in the accompanying financial statements. Such securities are carried at cost, since they may only be sold back to the Federal Home Loan Bank or another member at par value.

At December 31, 2005 and 2004, securities carried at estimated fair values of \$3,927,500 and \$1,981,875, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The proceeds from sales, calls and maturities and securities and the related gross gains and losses realized are as follows:

	Proceeds From			Gross Realized	
	Sales	Calls and Maturities	Principal Payments	Gains	Losses
For the Year Ended December 31, 2005 Securities available for sale	\$ 19,500	\$ 500,000	\$ -	\$ -	\$ -
For the Year Ended December 31, 2004 Securities available for sale	\$ -	\$ 1,000,000	\$ -	\$ -	\$ -

Impairment is evaluated considering numerous factors, and their relative significance varies from case to case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than temporary, the security is written down to fair value, and a loss is recognized through earnings.

The Bank has 11 securities in an unrealized loss position as of December 31, 2005. These securities are predominate rated investment grade securities (AA or better) and the unrealized losses are due to overall increases in market interest rates and not due to any underlying credit concerns of the issuers. The Company has the intent and ability to hold such investments until maturity or market price recovery. Accordingly, the Bank has concluded that none of the securities in its investment portfolios are other-than-temporarily impaired at December 31, 2005 and 2004.

## NOTES TO FINANCIAL STATEMENTS

Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2005 and 2004, respectively.

	2005					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale: U.S. Government Agencies and Corporations	\$ 992,607	\$ 7,393	\$ 7,376,562	\$ 123,437	\$ 8,368,169	\$ 130,830

  

	2004					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale: U.S. Government Agencies and Corporations	\$ 6,953,125	\$ 46,875	\$ -	\$ -	\$ 6,953,125	\$ 46,875

### Note 4. Loans

Loans are summarized as follows:

	December 31,	
	2005	2004
Commercial, financial and agricultural	\$ 48,215,031	\$ 27,082,923
Real estate - mortgage	21,967,360	18,639,892
Installment loans	2,839,946	3,280,996
<b>Total loans</b>	<b>73,022,337</b>	<b>49,003,811</b>
Less:		
Allowance for loan losses	(718,451)	(505,000)
Loan origination (fees) costs, net	(94,826)	(71,756)
<b>Loans, net</b>	<b>\$ 72,209,060</b>	<b>\$ 48,427,055</b>

The following presents loan maturities as of December 31, 2005:

	Within 1 Year	After 1 But Within 5 Years	After 5 Years
	Commercial, financial and agricultural	\$ 11,576,903	\$ 35,310,482
Real estate - mortgage	884,602	9,771,631	11,311,127
Installment loans	394,394	2,370,320	75,232
<b>Total loans</b>	<b>\$ 12,855,899</b>	<b>\$ 47,452,433</b>	<b>\$ 12,714,005</b>
Loans due after one year with:			
Variable rates	\$ 51,960,044		
Fixed rates	8,206,394		
	<b>\$ 60,166,438</b>		

In the past the Bank has made loans, in the normal course of business, to its directors, officers and employees and will continue to make such loans in the future. At December 31, 2005 and 2004, outstanding loans of this nature approximated \$2,837,603 and \$2,959,948, respectively.

## NOTES TO FINANCIAL STATEMENTS

The following presents the activity with respect to loans to executive officers and directors aggregating \$60,000 or more during the years ended December 31, 2005 and 2004. Other changes represent additions to and changes in individuals with aggregate loans over \$60,000.

	<b>2005</b>	<b>2004</b>
<b>Balance, beginning</b>	\$ 2,749,267	\$ 536,742
Additions	5,060,684	2,235,345
Amounts collected	(4,891,493)	(233,690)
Other, net	(402,153)	210,870
<b>Balance, ending</b>	<b>\$ 2,516,305</b>	<b>\$ 2,749,267</b>

### Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	<b>2005</b>	<b>2004</b>
<b>Balance, beginning</b>	\$ 505,000	\$ 150,000
<b>Losses:</b>		
Commercial, financial and agricultural	-	-
Real estate - mortgage	-	-
Installment loans	(51,989)	-
<b>Total</b>	<b>(51,989)</b>	<b>-</b>
<b>Recoveries:</b>		
Commercial, financial and agricultural	-	-
Real estate - mortgage	-	-
Installment loans	440	-
<b>Total</b>	<b>440</b>	<b>-</b>
Net losses	(51,549)	-
Provision for loan losses	265,000	355,000
<b>Balance, ending</b>	<b>\$ 718,451</b>	<b>\$ 505,000</b>

At December 31, 2005 and 2004, the Bank did not have any impaired loans. See Note 11 for subsequent event

For purposes of evaluating impairment, the Bank considers groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property, other than those which significantly exceed the bank's typical residential mortgage loan amount (currently those in excess of \$100,000); and installment loans to individuals, exclusive of those loans in excess of \$50,000.

### Note 6. Bank Premises and Equipment

The major categories of bank premises and equipment and accumulated depreciation at December 31, 2005 and 2004, are summarized as follows:

	<b>2005</b>	<b>2004</b>
Land	\$ 1,202,676	\$ 1,202,676
Buildings and improvements	2,893,405	2,707,801
Furniture and equipment	830,664	785,632
Vehicles	-	36,193
	4,926,745	4,732,302
Less accumulated depreciation	(509,753)	(294,939)
<b>Bank premises and equipment, net</b>	<b>\$ 4,416,992</b>	<b>\$ 4,437,363</b>

## NOTES TO FINANCIAL STATEMENTS

Depreciation expense for the years ended December 31, 2005 and 2004, totaled \$232,308 and \$233,230, respectively.

In October 2004 and May 2005, the Bank entered into agreements to lease to outside parties certain office spaces within its building under noncancelable lease agreements to commence on January 1, 2005 and October 1, 2005, respectively. The Bank expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Bank premises and equipment for space relating to the operating leases was \$823,419 and \$381,230 at December 31, 2005 and 2004, with accumulated depreciation of \$44,794 and \$11,418, respectively. Depreciation of assets recorded under operating leases was \$33,376 and \$0 in 2005 and 2004.

Future minimum lease payments under the noncancelable operating leases are as follows for the year ended December 31, 2005:

<u>Year</u>	
2006	\$ 171,740
2007	176,700
2008	<u>66,960</u>
	<u>\$ 415,400</u>

### Note 7. Deposits

The following is a summary of interest bearing deposits by type at December 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Money Market	\$ 4,003,769	\$ 3,560,114
NOW accounts	14,226,322	23,754,041
Savings accounts	1,457,767	935,075
Certificates of deposit	<u>55,242,518</u>	<u>25,127,085</u>
<b>Total</b>	<u>\$ 74,930,376</u>	<u>\$ 53,376,315</u>

Time certificates of deposit in denominations of \$100,000 or more totaled \$25,108,266 and \$9,005,616 at December 31, 2005 and 2004. Interest paid on such certificates totaled \$611,051 and \$193,163 for the years ended December 31, 2005 and 2004.

The following is a summary of the maturity distribution of certificates of deposit in amounts of \$100,000 or more as of December 31, 2005:

	<u>Amount</u>	<u>Percent</u>
Three months or less	\$ 5,052,986	20%
Three through six months	2,745,946	11%
Six through twelve months	5,600,718	22%
Over twelve months	<u>11,708,616</u>	<u>47%</u>
<b>Total</b>	<u>\$ 25,108,266</u>	<u>100%</u>

## NOTES TO FINANCIAL STATEMENTS

At December 31, 2005, the scheduled maturities of certificates of deposit are as follows:

2006		\$ 27,847,038
2007		16,204,761
2008		3,059,341
2009		5,664,531
2010		1,900,891
Thereafter		<u>565,956</u>
		<u>\$ 55,242,518</u>

The Bank has, and expects to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). In management's opinion, these deposits and transactions were on the same terms as those for comparable deposits and transactions with nonrelated parties. Aggregate deposit transactions with related parties approximated \$808,084 and \$829,659 at December 31, 2005 and 2004, respectively.

### Note 8. Borrowings

The Bank is a member of Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank has available funding of \$40,059,000 and \$32,039,000 at December 31, 2005 and 2004, respectively.

### Note 9. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
<b>Current:</b>		
Federal	\$ -	\$ -
State	<u>-</u>	<u>-</u>
		-
<b>Deferred</b>	<u>142,869</u>	<u>(350,300)</u>
<b>Total</b>	<u>\$ 142,869</u>	<u>\$ (350,300)</u>

A reconciliation between the amount of reported income tax benefit and the amount computed by multiplying the statutory income tax rate by book pretax income for the years ended December 31, 2005 and 2004, is as follows:

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Computed tax at applicable statutory rate	\$ 148,887	34.0	\$ (293,660)	(34.0)
Increase (decrease) in taxes resulting from:				
Other, net	<u>(6,018)</u>	<u>(1.4)</u>	<u>(56,640)</u>	<u>(6.6)</u>
<b>Applicable income taxes</b>	<u>\$ 142,869</u>	<u>32.6</u>	<u>\$ (350,300)</u>	<u>(40.6)</u>

## NOTES TO FINANCIAL STATEMENTS

Deferred income taxes for the years ended December 31, 2005 and 2004, reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

The tax effects of temporary differences which give rise to the Bank's deferred tax assets and liabilities as of December 31, 2005 and 2004 are as follows:

	2005	2004
<b>Deferred tax assets:</b>		
Net unrealized loss on securities	\$ 52,332	\$ 18,625
Net operating loss carryforwards	472,979	695,683
Unamortized fees and costs, net	37,874	29,050
Organizational start-up costs	56,529	79,920
Allowance for loan losses	174,558	98,995
	794,272	922,273
<b>Deferred tax liabilities:</b>		
Depreciation	(139,991)	(162,015)
	(139,991)	(162,015)
<b>Net deferred tax asset</b>	<b>\$ 654,281</b>	<b>\$ 760,258</b>

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets.

At December 31, 2005 and 2004, the Bank had Federal net operating loss carryforwards of approximately \$1,103,000 and \$1,750,000, respectively. The net operating loss carryforwards expire in 2024 and 2023, respectively. At December 31, 2005 and 2004, the Bank had state net operating loss carryforwards of approximately \$1,618,000 and \$2,044,000, respectively. The net operating loss carryforwards expire in 2024 and 2023, respectively.

### Note 10. Employee Benefit Plans and Profit Sharing Plans

Under the profit-sharing thrift plan, which includes 401(k) provisions for all employees of the Bank who have attained age twenty and have been credited with 1,000 hours of service per Plan year, employee contributions are limited to the greater of \$11,000 or 10.0 percent of annual compensation. The Company may make three types of contributions to the Plan: (1) Basic Contributions (discretionary contributions made by the Company in order to satisfy nondiscrimination requirements of the Internal Revenue Code as determined by the Board of Directors), (2) Matching Contributions (Company matches, up to a certain percentage, Salary Reduction Contributions made by the participant), and (3) Optional Contributions (additional discretionary contributions made by the Company as determined by the Board of Directors, subject to vesting). The employee may make (1) Salary Reduction Contributions, (2) Voluntary Contributions, and (3) Rollover Contributions. Each participant's account is credited with an allocation of (a) the Company's contribution, (b) Plan earnings and (c) forfeitures of terminated participants' nonvested accounts. The benefit to which a participant is entitled by the benefit that can be provided from the participant's account, subject to vesting provisions. Voluntary Bank matching contributions are limited to 50.0 percent of each employee's contribution up to a maximum of 6.0 percent of total annual compensation.

## NOTES TO FINANCIAL STATEMENTS

Contributions of \$3,667 and \$0 were made to the Plan for the years ended December 31, 2005 and 2004, respectively.

### Note 11. Commitments and Contingencies

The Bank could be involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, these matters will not have a material adverse effect on the financial statements.

#### Financial instruments with off-balance sheet risk:

The Bank is a party of financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

	<b>Contract Amount</b>	
	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Commitments to extend credit	\$ 6,142,636	\$ 6,650,030
Standby letters of credit and financial guarantees written	10,000	-
	<b>\$ 6,152,636</b>	<b>\$ 6,650,030</b>

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Standby letters of credit written are conditional commitments issued by the subsidiary bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans.

On February 24, 2006, the Bank was notified that it was to be named in a lawsuit as a defendant, along with a customer and the customer's related entities. It is alleged the customer, acting as a fiduciary for a retirement plan, made a "prohibited transaction" under ERISA by purchasing certificates of deposit totaling \$600,000 with retirement plan assets at the Bank on behalf of the customer's related entity for the benefit of a retirement plan where the customer served in a fiduciary capacity. It is further alleged the customer then obtained a loan from the Bank in the same amount, using the same certificates of deposits as collateral. The Bank has also been served with a Petition for Injunctive Relief seeking to enjoin the Bank from foreclosing on the certificates of deposit in settlement of the loan, which is in default. The plaintiff seeks compensatory damages in the amount of \$600,000 from the defendants. The Bank, after consultation with legal counsel, believes that the plaintiff's

## NOTES TO FINANCIAL STATEMENTS

claims made against the Bank in this lawsuit are without foundation and that meritorious defense exists as to all the claims. Management, at the present time, is unable to estimate the impact, if any, an adverse decision may have on the results of operations or financial condition of the Bank. As a conservative measure, the Bank has placed the note on non-accrual status.

### Note 12. Restrictions on Dividends and Capital and Issuance of Common Stock

Dividends paid by the Bank are subject to restrictions by banking regulations. De Novo banks are prohibited by regulations from paying dividends during their initial years of operations.

During 2005, the Board of Directors of the Bank voted to approve the sale of common stock in order to maintain capital levels at regulatory required amounts. This was necessitated due to the growth the Bank has experienced since its opening in 2003. The approved sale consisted of up to 15% of the outstanding common shares (46,838 shares) at an offering price of \$32.50 per share. Existing shareholders were given preemptive rights to purchase a pro rata number of shares for the first 30 days, after which time new shareholders could acquire the remaining shares available. By year end, the Bank completed the sale of 46,838 common shares, generating total offering proceeds of \$1,522,235.

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulations about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005 and 2004, that the Bank meets all capital adequacy requirements to which it is subject.

The most recent notification from the Bank's primary regulatory agency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are presented in the following table (in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Actions Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2005:</b>						
Total Capital (to Risk-Weighted Assets)	\$ 9,031	13.2%	\$ 5,494	8.0%	\$ 6,867	10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 8,312	12.1%	\$ 2,747	4.0%	\$ 4,120	6.0%
Tier I Capital (to Average Assets)	\$ 8,312	9.6%	\$ 3,471	4.0%	\$ 4,339	5.0%



## NOTES TO FINANCIAL STATEMENTS

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Actions Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2004:</b>						
Total Capital (to Risk-Weighted Assets)	\$ 6,623	15.8%	\$ 3,353	8.0%	\$ 4,192	10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 5,700	13.6%	\$ 1,676	4.0%	\$ 2,515	6.0%
Tier I Capital (to Average Assets)	\$ 5,700	9.6%	\$ 2,375	4.0%	\$ 2,969	5.0%



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***Financial Report***

***December 31, 2006***

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201 Pennsylvania Avenue Charleston, West Virginia 25302  
P.O. Box 6907 Charleston, West Virginia 25362  
Telephone: (304) 340-3000  
Fax: (304) 340-3003

March 2, 2007

To Our Stockholders:

The Annual Stockholders Meeting for the First Bank of Charleston, Inc. will be held on April 11, 2007 at 2:00 pm. The meeting will be held at the Holiday Inn Charleston House, 600 Kanawha Boulevard Charleston, WV with hors d'oeuvres available beginning at 1:15 pm. Enclosed are the proxy statement and ballot along with the formal notice and the auditors report with year end financial statements. You may vote your shares at the meeting or by mail by returning the proxy ballot in the enclosed envelope. Even if you plan to attend it will be helpful if you could return the proxy ballot as soon as possible. This will not preclude your acting in person at the meeting should you so desire.

At year end December 31, 2006 the bank had total assets of \$111 Million. This is a 22% increase over 2005 of \$91 Million in total assets. A principal goal last year was to grow assets and to also increase profits. For the year 2006 net income more than doubled from 2005 to over \$654,000. In the coming year the bank's focus will again be on continuing and profitable growth. Your assistance in this endeavor is most welcome either directly by yourself or by referral of a friend or neighbor to become a customer of First Bank of Charleston, Inc.

On behalf of the Board of Directors and Bank Staff we look forward to meeting with you and thank you for your continued support.

Sincerely,

A handwritten signature in dark ink, appearing to read "Percy Osborne", written in a cursive style.

Percy Osborne  
President and CEO

*First Bank of Charleston, Inc.*



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
First Bank of Charleston, Inc.  
Charleston, West Virginia

We have audited the accompanying balance sheets of First Bank of Charleston, Inc., as of December 31, 2006 and 2005, and the related statements of income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2006. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Bank of Charleston, Inc., as of December 31, 2006 and 2005, and the results of its operations and cash flows for each of the two years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

ARNETT & FOSTER, P.L.L.C.

*Arnett & Foster, P.L.L.C.*

Charleston, West Virginia  
March 2, 2007

*Innovation With Results*

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**FIRST BANK OF CHARLESTON, INC.**

**BALANCE SHEETS**  
**December 31, 2006 and 2005**

<b>ASSETS</b>	<u>2006</u>	<u>2005</u>
Cash and due from banks	\$ 1,195,523	\$ 2,638,797
Federal funds sold	2,916,000	2,074,000
Securities available for sale, at fair value	11,704,447	8,493,470
Loans, less allowance for loan losses of \$973,748 and \$718,451, respectively	90,159,275	72,209,060
Bank premises and equipment, net	4,238,252	4,416,992
Accrued interest receivable	560,663	352,029
Other assets	<u>349,827</u>	<u>725,803</u>
<b>Total assets</b>	<b><u>\$ 111,123,987</u></b>	<b><u>\$ 90,910,151</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing	\$ 9,137,685	\$ 7,309,540
Interest bearing	<u>90,860,048</u>	<u>74,930,376</u>
<b>Total deposits</b>	<b><u>99,997,733</u></b>	<b><u>82,239,916</u></b>
Short-term borrowings	1,502,155	-
Other liabilities	<u>519,688</u>	<u>280,426</u>
<b>Total liabilities</b>	<b><u>102,019,576</u></b>	<b><u>82,520,342</u></b>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Common stock, \$10 par value, 500,000 shares authorized, 359,093 shares issued and outstanding	3,590,930	3,590,930
Capital surplus	5,737,680	5,737,680
Retained deficit	(205,507)	(860,303)
Accumulated other comprehensive income	<u>(18,692)</u>	<u>(78,498)</u>
<b>Total shareholders' equity</b>	<b><u>9,104,411</u></b>	<b><u>8,389,809</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 111,123,987</u></b>	<b><u>\$ 90,910,151</u></b>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**

**STATEMENTS OF INCOME**

**For Each of the Two Years in the Period Ended December 31, 2006**

	<u>2006</u>	<u>2005</u>
<b>Interest income:</b>		
Interest and fees on loans	\$ 6,216,741	\$ 4,102,798
Taxable interest and dividends on securities	343,464	251,888
Interest on Federal funds sold	<u>94,845</u>	<u>42,734</u>
<b>Total interest income</b>	<u>6,655,050</u>	<u>4,397,420</u>
<b>Interest expense:</b>		
Interest on deposits	3,301,411	2,050,316
Interest on other borrowings	<u>58,310</u>	<u>-</u>
<b>Total interest expense</b>	<u>3,359,721</u>	<u>2,050,316</u>
<b>Net interest income</b>	3,295,329	2,347,104
Provision for loan losses	<u>390,000</u>	<u>265,000</u>
<b>Net interest income after provision for loan losses</b>	<u>2,905,329</u>	<u>2,082,104</u>
<b>Other income:</b>		
Service charges and fees	159,044	122,932
Rental income	<u>187,258</u>	<u>112,921</u>
	<u>346,302</u>	<u>235,853</u>
<b>Other expenses:</b>		
Salaries and employee benefits	1,024,539	852,240
Net occupancy expense	244,985	230,293
Equipment rentals, depreciation and maintenance	212,641	228,487
Legal and accounting	92,078	49,231
Data processing	147,636	105,482
Other operating expenses	<u>448,760</u>	<u>414,320</u>
	<u>2,170,639</u>	<u>1,880,053</u>
<b>Income before income tax expense</b>	1,080,992	437,904
Income tax expense	<u>426,196</u>	<u>142,869</u>
<b>Net income</b>	<u>\$ 654,796</u>	<u>\$ 295,035</u>
<b>Basic income per common share</b>	<u>\$ 1.82</u>	<u>\$ .93</u>
<b>Average common shares outstanding</b>	<u>359,093</u>	<u>317,521</u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**

**STATEMENTS OF COMPREHENSIVE INCOME**  
**For Each of the Two Years in the Period Ended December 31, 2006**

	<u>2006</u>	<u>2005</u>
<b>Net income</b>	\$ 654,796	\$ 295,035
Other comprehensive income:		
Gross unrealized gains (losses) arising during the period	99,677	(84,268)
Adjustments for income tax (expense) benefit	<u>(39,871)</u>	<u>33,707</u>
Other comprehensive income, net of tax	<u>59,806</u>	<u>(50,561)</u>
<b>Comprehensive income</b>	<u>\$ 714,602</u>	<u>\$ 244,474</u>

**See Notes to Financial Statements**



**FIRST BANK OF CHARLESTON, INC.**

**STATEMENTS OF SHAREHOLDERS' EQUITY**  
**For Each of the Two Years in the Period Ended December 31, 2006**

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained Deficit</u>	<u>Accum- ulated Other Compre- hensive Income</u>	<u>Total</u>
<b>Balance, December 31, 2004</b>	\$ 3,122,550	\$ 4,683,825	\$(1,155,338)	\$ (27,937)	\$ 6,623,100
Net income for the year ended December 31, 2005	-	-	295,035	-	295,035
Issuance of common stock	468,380	1,053,855	-	-	1,522,235
Change in net unrealized gain (loss) on securities	-	-	-	(50,561)	(50,561)
<b>Balance, December 31, 2005</b>	3,590,930	5,737,680	(860,303)	(78,498)	8,389,809
Net income for the year ended December 31, 2006	-	-	654,796	-	654,796
Change in net unrealized gain (loss) on securities	-	-	-	59,806	59,806
<b>Balance, December 31, 2006</b>	<u>\$ 3,590,930</u>	<u>\$ 5,737,680</u>	<u>\$ (205,507)</u>	<u>\$ (18,692)</u>	<u>\$ 9,104,411</u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**

**STATEMENTS OF CASH FLOWS**  
**For Each of the Two Years in the Period Ended December 31, 2006**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 654,796	\$ 295,035
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	199,206	232,308
Provision for loan losses	390,000	265,000
Provision for deferred income tax expense (benefit)	355,315	142,869
(Increase) decrease in accrued interest receivable	(208,634)	(143,873)
(Increase) decrease in other assets	(19,210)	(15,998)
Increase (decrease) in other liabilities	<u>239,262</u>	<u>47,212</u>
<b>Net cash provided by (used in) operating activities</b>	<u>1,610,735</u>	<u>822,553</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of securities available for sale	(9,621,600)	(1,061,300)
Proceeds from maturities and calls of securities available for sale	6,510,300	500,000
Proceeds from sales of securities available for sale	-	19,500
Net (increase) decrease in Federal funds sold	(842,000)	(1,457,000)
Principal collected from (loans made to) customers, net	(18,340,215)	(24,047,005)
Purchases of bank premises and equipment	(20,466)	(225,236)
Proceeds from sale of bank premises and equipment	<u>-</u>	<u>13,299</u>
<b>Net cash (used in) investing activities</b>	<u>(22,313,981)</u>	<u>(26,257,742)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in demand deposits, NOW and savings accounts	(7,210,380)	(4,549,725)
Proceeds from sales of (payments for maturing) time deposits, net	24,968,197	30,115,433
Net increase (decrease) in short-term borrowings	1,502,155	-
Proceeds from issuance of common stock	<u>-</u>	<u>1,522,235</u>
<b>Net cash provided by financing activities</b>	<u>19,259,972</u>	<u>27,087,943</u>
Increase (decrease) in cash and due from banks	(1,443,274)	1,652,754
<b>Cash and due from banks:</b>		
Beginning	<u>2,638,797</u>	<u>986,043</u>
Ending	<u>\$ 1,195,523</u>	<u>\$ 2,638,797</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash payments for:		
Interest on deposits and borrowings	<u>\$ 3,130,648</u>	<u>\$ 1,904,881</u>
Income taxes	<u>\$ 61,000</u>	<u>\$ -</u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.****NOTES TO FINANCIAL STATEMENTS****Note 1. Significant Accounting Policies**

**Nature of business:** First Bank of Charleston, Inc. (the Bank) is a commercial bank with operations in Kanawha County, West Virginia. The Bank provides consumer and commercial loans and deposit services principally to individuals and small businesses in Kanawha County, West Virginia and the surrounding areas.

**Basis of presentation:** The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Presentation of cash flows:** For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from demand deposits, money market accounts, NOW accounts, savings accounts, and Federal funds sold are reported net since their original maturities are less than three months. Cash flows from loans, certificates of deposit and other time deposits are reported net.

**Securities:** Debt and equity securities are classified as "held to maturity", "available for sale" or "trading" according to management's intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

**Securities held to maturity** - Debt securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost and adjusted for amortization of premiums and accretion of discounts. There are no securities classified as "held to maturity" in the accompanying financial statements.

**Securities available for sale** - Securities not classified as "held to maturity" or as "trading" are classified as "available for sale". Securities classified as "available for sale" are those securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at fair value, net of unrealized gains or losses, which are adjusted for applicable income taxes and reported as a separate component of shareholders' equity.

**Trading securities** - There are no securities classified as "trading" in the accompanying financial statements.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts is computed using methods which approximate the interest method of accounting.

**Loans and allowance for loan losses:** Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest is accrued daily on the outstanding balance.

## NOTES TO FINANCIAL STATEMENTS

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The Bank makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Loan origination fees and certain direct loan origination costs are deferred and amortized as adjustments of the related loan yield over its contractual life.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Generally, loans are placed on non-accrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on non-accrual status. Impaired loans are placed on non-accrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on non-accrual loans is recognized primarily using the cost-recovery method.

**Concentrations of credit risk:** The Bank predominately grants installment, commercial and residential loans to customers in Kanawha County, West Virginia and the immediate surrounding areas.

**Bank premises and equipment:** Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for Bank premises and equipment over the estimated useful lives of the assets. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

**Other real estate:** Other real estate consists primarily of real estate held for resale which was acquired through foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at the lower of cost or appraised market value with any writedown being charged to the allowance for loan losses. Expenses incurred in connection with operating these properties are charged to operating expenses. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions. There was no "other real estate" included in the financial statements at December 31, 2006 and 2005.

**Advertising:** The Bank expenses advertising costs as incurred.

## NOTES TO FINANCIAL STATEMENTS

**Income taxes:** The provision for income taxes includes Federal and state income taxes and is based on pretax income reported in the financial statements, adjusted for transactions that may never enter into the computation of income taxes payable. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized within a short term.

**Profit sharing and thrift plan:** The Bank has a contributory profit sharing plan covering substantially all employees. The Bank's contribution is discretionary and is determined by management on a yearly basis.

**Basic and fully dilutive earnings per share:** Basic earnings per common share is computed based upon the weighted average shares outstanding. The weighted average shares outstanding were 359,093 and 317,521 for the years ended December 31, 2006 and 2005, respectively. The Bank did not have any potentially dilutive shares during the years ended December 31, 2006 and 2005.

### Significant New Accounting Pronouncement

**Uncertainty in Income Taxes:** In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective for years beginning after December 15, 2006. This interpretation is intended to clarify the accounting for uncertainty in income taxes recognized in a company's financial statements, in accordance with FASB 109, *Accounting for Income Taxes*, by prescribing a more-likely-than-not threshold to recognize any benefit of a tax position taken or expected to be taken in a tax return. Tax positions that meet the recognition threshold are reported at the largest amount that is more-likely-than-not to be realized. The adoption of this standard will not have a material impact on the Company's financial condition, results of operations or liquidity.

### Note 2. Cash and Due From Banks

At December 31, 2006 and 2005, the Bank had \$427,398 and \$1,963,906, respectively, in a due from bank account and \$2,916,000 and \$2,074,000, respectively, in Federal funds sold from a correspondent bank. Federal funds sold are generally unsecured. Also, "due from" bank accounts have limited insurance under current banking regulations.

### Note 3. Securities

The amortized gains, unrealized losses and estimated fair values of securities at December 31, 2006 and 2005, are summarized as follows:

	2006			Carrying Value (Estimated Fair Value)
	Amortized Cost	Unrealized		
		Gains	Losses	
<b>Available for sale:</b>				
<b>Taxable:</b>				
U.S. Government Agencies and Corporation	\$11,500,000	\$ 7,500	\$ (38,653)	\$ 11,468,847
Equity securities - FHLB stock	235,600	-	-	235,600
<b>Total securities available     for sale</b>	<u>\$11,735,600</u>	<u>\$ 7,500</u>	<u>\$ (38,653)</u>	<u>\$ 11,704,447</u>

## NOTES TO FINANCIAL STATEMENTS

	2005			Carrying Value (Estimated Fair Value)
	Amortized Cost	Unrealized		
		Gains	Losses	
<b>Available for sale:</b>				
<b>Taxable:</b>				
U.S. Government Agencies and Corporation	\$ 8,500,000	\$ -	\$ (130,830)	\$ 8,369,170
Equity securities - FHLB stock	<u>124,300</u>	<u>-</u>	<u>-</u>	<u>124,300</u>
<b>Total securities available   for sale</b>	<u>\$ 8,624,300</u>	<u>\$ -</u>	<u>\$ (130,830)</u>	<u>\$ 8,493,470</u>

The maturities, amortized cost and estimated fair values of securities at December 31, 2006, are summarized as follows:

	Available for Sale	
	Amortized Cost	Carrying Value (Estimated Fair Value)
Due within 1 year	\$ 4,000,000	\$ 3,966,426
Due after 1 but within 5 years	7,500,000	7,502,421
Due after 5 but within 10 years	-	-
Due after 10 years	-	-
Equity securities	<u>235,600</u>	<u>235,600</u>
	<u>\$ 11,735,600</u>	<u>\$ 11,704,447</u>

Federal Home Loan Bank stock is an equity security that is included in securities available for sale in the accompanying financial statements. Such securities are carried at cost, since they may only be sold back to the Federal Home Loan Bank or another member at par value.

At December 31, 2006 and 2005, securities carried at estimated fair values of \$4,981,112 and \$3,927,500, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes required or permitted by law.

The proceeds from sales, calls and maturities and securities and the related gross gains and losses realized are as follows:

	Proceeds From			Gross Realized	
	Sales	Calls and Maturities	Principal Payments	Gains	Losses
<b>For the Year Ended December 31, 2006 Securities available for sale</b>	<u>\$ -</u>	<u>\$ 6,510,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>For the Year Ended December 31, 2005 Securities available for sale</b>	<u>\$ 19,500</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## NOTES TO FINANCIAL STATEMENTS

Impairment is evaluated considering numerous factors, and their relative significance varies from case to case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than temporary, the security is written down to fair value, and a loss is recognized through earnings.

The Bank has 13 securities in an unrealized loss position as of December 31, 2006. These securities are predominately rated investment grade securities (AA or better) and the unrealized losses are due to overall increases in market interest rates and not due to any underlying credit concerns of the issuers. The Company has the intent and ability to hold such investments until maturity or market price recovery. Accordingly, the Bank has concluded that none of the securities in its investment portfolios are other-than-temporarily impaired at December 31, 2006 and 2005.

Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2006 and 2005, respectively.

	2006					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
U.S. Government Agencies and Corporations	\$ 3,994,921	\$ 5,079	\$ 3,966,426	\$ 33,574	\$ 7,961,347	\$ 38,653

	2005					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
U.S. Government Agencies and Corporations	\$ 992,607	\$ 7,393	\$ 7,376,562	\$ 123,437	\$ 8,368,169	\$ 130,830

#### Note 4. Loans

Loans are summarized as follows:

	December 31,	
	2006	2005
Commercial, financial and agricultural	\$ 59,691,635	\$ 48,215,031
Real estate - mortgage	24,014,666	21,967,360
Installment loans	7,533,769	2,839,946
Total loans	91,240,070	73,022,337
Less:		
Allowance for loan losses	(973,748)	(718,451)
Loan origination (fees) costs, net	(107,047)	(94,826)
<b>Loans, net</b>	<b>\$ 90,159,275</b>	<b>\$ 72,209,060</b>

Included in the balance of net loans are non-accrual loans totaling \$599,797 and \$0 at December 31, 2006 and 2005, respectively. If interest on non-accrual loans had been accrued, such income would have approximated \$15,888 and \$0 for the years ended December 31, 2006 and 2005, respectively.

## NOTES TO FINANCIAL STATEMENTS

The following presents loan maturities as of December 31, 2006:

	<u>Within 1 Year</u>	<u>After 1 But Within 5 Years</u>	<u>After 5 Years</u>
Commercial, financial and agricultural	\$ 24,472,497	\$ 35,078,903	\$ 140,235
Real estate - mortgage	6,690,663	16,935,105	388,898
Installment loans	<u>5,179,311</u>	<u>2,265,244</u>	<u>89,214</u>
<b>Total loans</b>	<b><u>\$ 36,342,471</u></b>	<b><u>\$ 54,279,252</u></b>	<b><u>\$ 618,347</u></b>
Loans due after one year with:			
Variable rates	\$ 45,727,978		
Fixed rates	<u>9,169,621</u>		
	<b><u>\$ 54,897,599</u></b>		

In the past the Bank has made loans, in the normal course of business, to its directors, officers and employees and will continue to make such loans in the future. At December 31, 2006 and 2005, outstanding loans of this nature approximated \$3,874,974 and \$2,837,603, respectively.

The following presents the activity with respect to loans to executive officers and directors aggregating \$60,000 or more during the years ended December 31, 2006 and 2005. Other changes represent additions to and changes in individuals with aggregate loans over \$60,000.

	<u>2006</u>	<u>2005</u>
Balance, beginning	\$ 2,516,305	\$ 2,749,267
Additions	7,420,342	5,060,684
Amounts collected	(6,995,755)	(4,891,493)
Other, net	<u>160,869</u>	<u>(402,153)</u>
Balance, ending	<b><u>\$ 3,101,761</u></b>	<b><u>\$ 2,516,305</u></b>

### Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning	\$ 718,451	\$ 505,000
Losses:		
Commercial, financial and agricultural	(86,615)	-
Real estate - mortgage	(31,650)	-
Installment loans	<u>(19,030)</u>	<u>(51,989)</u>
<b>Total</b>	<b><u>(137,295)</u></b>	<b><u>(51,989)</u></b>
Recoveries:		
Commercial, financial and agricultural	-	-
Real estate - mortgage	-	-
Installment loans	<u>2,592</u>	<u>440</u>
<b>Total</b>	<b><u>2,592</u></b>	<b><u>440</u></b>
Net losses	(134,703)	(51,549)
Provision for loan losses	<u>390,000</u>	<u>265,000</u>
Balance, ending	<b><u>\$ 973,748</u></b>	<b><u>\$ 718,451</u></b>



## NOTES TO FINANCIAL STATEMENTS

The Bank's total recorded investment in impaired loans approximated \$587,000 and \$0 at December 31, 2006 and 2005, respectively, for which the related allowances for credit losses determined in accordance with SFAS No. 114, as amended, approximated \$300,000 and \$0, respectively. The Bank's average investment in such loans approximated \$594,000 and \$0 for the years ended December 2006 and 2005, respectively. The impaired loans at December 31, 2006 were collateral dependent, and accordingly, the fair values of the underlying collateral were used to measure the impairment of the loans. For both of the years ended December 31, 2006 and 2005, the Bank recognized \$0 in interest income under the accrual method of accounting on the impaired loans.

For purposes of evaluating impairment, the Bank considers groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property, other than those which significantly exceed the Bank's typical residential mortgage loan amount (currently those in excess of \$100,000); and installment loans to individuals, exclusive of those loans in excess of \$50,000.

### Note 6. Bank Premises and Equipment

The major categories of bank premises and equipment and accumulated depreciation at December 31, 2006 and 2005, are summarized as follows:

	<b>2006</b>	<b>2005</b>
Land	\$ 1,202,676	\$ 1,202,676
Buildings and improvements	2,893,405	2,893,405
Furniture and equipment	851,130	830,664
Vehicles	-	-
	4,947,211	4,926,745
Less accumulated depreciation	(708,959)	(509,753)
<b>Bank premises and equipment, net</b>	<b>\$ 4,238,252</b>	<b>\$ 4,416,992</b>

Depreciation expense for the years ended December 31, 2006 and 2005, totaled \$199,206 and \$232,308, respectively.

In October 2004 and May 2005, the Bank entered into agreements to lease to outside parties certain office spaces within its building under noncancelable lease agreements to commence on January 1, 2005 and October 1, 2005, respectively. The Bank expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Bank premises and equipment for space relating to the operating leases was \$823,419 and \$823,419 at December 31, 2006 and 2005, with accumulated depreciation of \$67,465 and \$44,794, respectively. Depreciation of assets recorded under operating leases was \$22,671 and \$33,376 in 2006 and 2005.

Future minimum rental lease payments receivable under the noncancelable operating leases, exclusive of certain termination fees as defined in each lease agreement, are as follows for the years ended after December 31, 2006:

<b>Year</b>		<b>\$</b>
2007		176,700
2008		66,960
		<b>\$ 243,660</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Deposits

The following is a summary of interest bearing deposits by type at December 31, 2006 and 2005.

	<b>2006</b>	<b>2005</b>
Money Market	\$ 1,420,648	\$ 4,003,769
NOW accounts	7,992,831	14,226,322
Savings accounts	1,235,853	1,457,767
Certificates of deposit	80,210,716	55,242,518
<b>Total</b>	<b>\$ 90,860,048</b>	<b>\$ 74,930,376</b>

Included in certificates of deposit are brokered deposits totaling \$10,953,913 and \$0 at December 31, 2006 and 2005, respectively, which were obtained through the Certificate of Deposit Account Registry Service.

Time certificates of deposit in denominations of \$100,000 or more totaled \$30,691,943 and \$25,108,266 at December 31, 2006 and 2005. Interest paid on such certificates totaled \$1,241,769 and \$611,051 for the years ended December 31, 2006 and 2005.

The following is a summary of the maturity distribution of certificates of deposit in amounts of \$100,000 or more as of December 31, 2006:

	<b>Amount</b>	<b>Percent</b>
Three months or less	\$ 10,866,679	35.4%
Three through six months	6,478,052	21.1%
Six through twelve months	8,402,160	27.4%
Over twelve months	4,945,052	16.1%
<b>Total</b>	<b>\$ 30,691,943</b>	<b>100.0%</b>

At December 31, 2006, the scheduled maturities of certificates of deposit are as follows:

2007	\$ 66,311,420
2008	4,387,987
2009	5,490,929
2010	1,721,949
2011	997,419
Thereafter	1,301,012
	<b>\$ 80,210,716</b>

The Bank has, and expects to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). In management's opinion, these deposits and transactions were on the same terms as those for comparable deposits and transactions with nonrelated parties. Aggregate deposit transactions with related parties approximated \$768,909 and \$808,084 at December 31, 2006 and 2005, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Other Borrowings

**Short-term borrowings:** Securities sold under agreements to repurchase mature the next business day. The securities underlying the repurchase agreements are under the Bank's control and secure the total outstanding daily balances.

Additional details regarding short-term borrowings during the year ended December 31, 2006, are presented below. There were no short-term borrowings during the year ended December 31, 2005.

	<b>2006</b>
	<b>Repurchase Agreements</b>
Outstanding at year end	\$ 1,502,155
Average amount outstanding	\$ 1,200,469
Maximum amount outstanding at any month end	\$ 2,489,811
Weighted average interest rate	4.86%

The Bank is a member of Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank has available funding of \$59,954,000 and \$40,059,000 at December 31, 2006 and 2005, respectively.

### Note 9. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2006 and 2005, are as follows:

	<b>2006</b>	<b>2005</b>
<b>Current:</b>		
Federal	\$ 70,881	\$ -
State	-	-
	70,881	-
<b>Deferred</b>	355,315	142,869
<b>Total</b>	\$ 426,196	\$ 142,869

A reconciliation between the amount of reported income tax benefit and the amount computed by multiplying the statutory income tax rate by book pretax income for the years ended December 31, 2006 and 2005, is as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Computed tax at applicable statutory rate	\$ 367,537	34.0	\$ 148,887	34.0
Increase (decrease) in taxes resulting from:				
Deferred taxes – State	45,909	4.2	(4,706)	(1.1)
Other, net	12,750	1.2	(1,312)	(.3)
<b>Applicable income taxes</b>	<b>\$ 426,196</b>	<b>39.4</b>	<b>\$ 142,869</b>	<b>32.6</b>

## NOTES TO FINANCIAL STATEMENTS

Deferred income taxes for the years ended December 31, 2006 and 2005, reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

The tax effects of temporary differences which give rise to the Bank's deferred tax assets and liabilities as of December 31, 2006 and 2005 are as follows:

	2006	2005
<b>Deferred tax assets:</b>		
Net unrealized loss on securities	\$ 12,461	\$ 52,332
Net operating loss carryforwards	39,712	472,979
Unamortized fees and costs, net	40,550	37,874
Organizational start-up costs	33,138	56,529
Allowance for loan losses	256,301	174,558
	382,162	794,272
<b>Deferred tax liabilities:</b>		
Depreciation	(123,067)	(139,991)
	(123,067)	(139,991)
<b>Net deferred tax asset</b>	<b>\$ 259,095</b>	<b>\$ 654,281</b>

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets.

At December 31, 2006 and 2005, the Bank had Federal net operating loss carryforwards of approximately \$0 and \$1,081,000, respectively. At December 31, 2006 and 2005, the Bank had state net operating loss carryforwards of approximately \$648,000 and \$1,618,000, respectively. The net operating loss carryforwards expire in 2024 and 2023, respectively.

### Note 10. Employee Benefit Plans and Profit Sharing Plans

Under the profit-sharing thrift plan, which includes 401(k) provisions for all employees of the Bank who have attained age twenty-one and have completed three months of service, employee contributions are generally limited to the lesser of \$15,000 or 25.0 percent of annual compensation. The Company may make two types of contributions to the Plan: (1) Matching Contributions (Company matches, up to a certain percentage, Salary Reduction Contributions made by the participant), and (2) Nonelective Contributions (additional discretionary contributions made by the Company as determined by the Board of Directors, subject to vesting). The employee may make (1) Salary Reduction Contributions and (2) Rollover Contributions. Each participant's account is credited with an allocation of (a) the Company's contribution, (b) Plan earnings and (c) forfeitures of terminated participants' nonvested accounts. Voluntary Bank matching contributions are limited to 50.0 percent of each employee's contribution up to a maximum of 6.0 percent of total annual compensation.

## NOTES TO FINANCIAL STATEMENTS

Contributions of \$22,122 and \$3,667 were made to the Plan for the years ended December 31, 2006 and 2005, respectively.

### Note 11. Commitments and Contingencies

The Bank could be involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, these matters will not have a material adverse effect on the financial statements.

#### Financial instruments with off-balance sheet risk:

The Bank is a party of financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

	<b>Contract Amount</b>	
	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
Commitments to extend credit	\$ 7,470,583	\$ 6,142,636
Standby letters of credit and financial guarantees written	70,000	10,000
	\$ 7,540,583	\$ 6,152,636

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans.

### Note 12. Restrictions on Dividends and Capital and Issuance of Common Stock

Dividends paid by the Bank are subject to restrictions by banking regulations. Banks are generally prohibited by regulations from paying dividends until such time as they have eliminated any Retained Deficit.

## NOTES TO FINANCIAL STATEMENTS

During 2005, the Board of Directors of the Bank voted to approve the sale of common stock in order to maintain capital levels at regulatory required amounts. This was necessitated due to the growth the Bank has experienced since its opening in 2003. The approved sale consisted of up to 15% of the outstanding common shares (46,838 shares) at an offering price of \$32.50 per share. Existing shareholders were given preemptive rights to purchase a pro rata number of shares for the first 30 days, after which time new shareholders could acquire the remaining shares available. By year end, the Bank completed the sale of 46,838 common shares, generating total offering proceeds of \$1,522,235.

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulations about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006 and 2005, that the Bank meets all capital adequacy requirements to which it is subject.

The most recent notification from the Bank's primary regulatory agency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are presented in the following table (in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Actions Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2006:</b>						
Total Capital (to Risk-Weighted Assets)	\$ 10,098	12.5%	\$ 6,478	8.0%	\$ 8,097	10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 9,124	11.3%	\$ 3,239	4.0%	\$ 4,858	6.0%
Tier I Capital (to Average Assets)	\$ 9,124	8.4%	\$ 4,361	4.0%	\$ 5,452	5.0%

## NOTES TO FINANCIAL STATEMENTS

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Actions Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2005:</b>						
Total Capital (to Risk-Weighted Assets)	\$ 9,031	13.2%	\$ 5,494	8.0%	\$ 6,867	10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 8,312	12.1%	\$ 2,747	4.0%	\$ 4,120	6.0%
Tier I Capital (to Average Assets)	\$ 8,312	9.6%	\$ 3,471	4.0%	\$ 4,339	5.0%

**Note 13. Fair Value of Financial Instruments**

The following summarizes the methods and significant assumptions used by the Bank in estimating its fair value disclosures for financial instruments.

**Cash and due from banks:** The carrying values of cash and due from banks approximate their estimated fair values.

**Federal funds sold:** The carrying values of Federal funds sold approximate their estimated fair values.

**Securities:** Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

**Loans:** The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.

**Accrued interest receivable and payable:** The carrying values of accrued interest receivable and payable approximate their estimated fair values.

**Deposits:** The estimated fair values of demand deposits (i.e., non interest bearing checking, NOW and money market), savings accounts and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

**Off-balance sheet instruments:** The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

## NOTES TO FINANCIAL STATEMENTS

The carrying values and estimated fair values of the Bank's financial instruments are summarized below:

	December 31, 2006		December 31, 2005	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial assets:</b>				
Cash and due from banks	\$ 1,195,523	\$ 1,195,523	\$ 2,638,797	\$ 2,638,797
Federal funds sold	2,916,000	2,916,000	2,074,000	2,074,000
Securities available for sale	11,704,447	11,704,447	8,493,470	8,493,470
Loans	90,159,275	90,167,059	72,209,060	72,203,747
Accrued interest receivable	560,663	560,663	352,029	352,029
	<u>\$ 106,535,908</u>	<u>\$ 106,543,692</u>	<u>\$ 85,767,356</u>	<u>\$ 85,762,043</u>
<b>Financial liabilities:</b>				
Deposits	\$ 99,997,733	\$ 99,676,985	\$ 82,239,916	\$ 81,811,773
Short-term borrowings	1,502,155	1,502,155	-	-
Accrued interest payable	467,952	467,952	238,879	238,879
	<u>\$ 101,967,840</u>	<u>\$ 101,647,092</u>	<u>\$ 82,478,795</u>	<u>\$ 82,050,652</u>





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***Financial Report***

***December 31, 2007***

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201 Pennsylvania Avenue, Charleston, West Virginia 25302  
P.O. Box 6907, Charleston, West Virginia 25362  
Telephone: (304) 340-3000  
Fax: (304) 340-3003

February 29, 2008

To Our Stockholders

The Annual Stockholders Meeting for the First Bank of Charleston, Inc. will be held on April 9, 2008 at 5:00 pm. The meeting will be held at the Holiday Inn Charleston House, 600 Kanawha Boulevard, Charleston, WV. Enclosed are the proxy statement and ballot along with the formal notice and the auditors report with year end financial statements. You may vote your shares at the meeting or by mail by returning the proxy ballot in the enclosed envelope. Even if you execute the proxy ballot you may still vote your shares at the meeting if you so desire.

As stated last year the focus of the bank has been on continuing and profitable growth. The past year has seen growth of 8% in total assets to \$120 Million while increasing net income by 33% to \$870 Thousand. The increased profitability resulted in the Board of Directors authorizing the bank's first dividend in the 4<sup>th</sup> quarter that was paid on December 31, 2007. Profitable growth will be our main objective in 2008 and is what drives shareholder value.

You will be receiving in the next few days a certificate for your stock dividend doubling the number of shares you hold. This action was taken by the Board of Directors effective March 1, 2008 to broaden the bank's stock base for increased flexibility. As a result of this and to provide for any future opportunities an amendment to the bank's Articles of Incorporation to increase the bank's authorized common stock shares will be presented at the Annual Meeting. Details of this and other proposals are contained in the enclosed proxy statement.

As always we appreciate your support and assistance in continuing the bank's success. You can most directly do this by helping to increase the customers that we have whether it be for loans or deposits. On behalf of the Board of Directors we look forward to meeting with you on April 9, 2008 and thank you for your support.

Sincerely,

A handwritten signature in dark ink, appearing to read "Percy Osborne", written over a light-colored background.

Percy Osborne  
President & CEO

*First Bank of Charleston, Inc.*



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
First Bank of Charleston, Inc.  
Charleston, West Virginia

We have audited the accompanying balance sheets of First Bank of Charleston, Inc., as of December 31, 2007 and 2006, and the related statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Bank of Charleston, Inc., as of December 31, 2007 and 2006, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

ARNETT & FOSTER, P.L.L.C.

*Arnett & Foster, P.L.L.C.*

Charleston, West Virginia  
February 29, 2008

*Innovation With Results*

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**FIRST BANK OF CHARLESTON, INC.**

**BALANCE SHEETS**  
December 31, 2007 and 2006

<b>ASSETS</b>	<u>2007</u>	<u>2006</u>
Cash and due from banks	\$ 1,634,395	\$ 1,195,523
Federal funds sold	958,000	2,916,000
Securities available for sale, at fair value	9,621,782	11,704,447
Loans, less allowance for loan losses of \$1,372,793 and \$973,748, respectively	102,297,173	90,159,275
Bank premises and equipment, net	4,529,210	4,238,252
Accrued interest receivable	537,289	560,663
Other assets	<u>415,827</u>	<u>349,827</u>
<b>Total assets</b>	<u><b>\$ 119,993,676</b></u>	<u><b>\$ 111,123,987</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing	\$ 8,846,309	\$ 9,137,685
Interest bearing	<u>95,557,449</u>	<u>90,860,048</u>
<b>Total deposits</b>	<u>104,403,758</u>	<u>99,997,733</u>
Short-term borrowings	4,112,813	1,502,155
Other liabilities	<u>1,446,488</u>	<u>519,688</u>
<b>Total liabilities</b>	<u>109,963,059</u>	<u>102,019,576</u>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Common stock, \$10 par value, 500,000 shares authorized, 359,093 shares issued and outstanding	3,590,930	3,590,930
Capital surplus	5,737,680	5,737,680
Retained earnings (deficit)	628,525	(205,507)
Accumulated other comprehensive income (loss)	<u>73,482</u>	<u>(18,692)</u>
<b>Total shareholders' equity</b>	<u>10,030,617</u>	<u>9,104,411</u>
<b>Total liabilities and shareholders' equity</b>	<u><b>\$ 119,993,676</b></u>	<u><b>\$ 111,123,987</b></u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**

**STATEMENTS OF INCOME**

**For Each of the Three Years in the Period Ended December 31, 2007**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Interest income:</b>			
Interest and fees on loans	\$ 7,595,344	\$ 6,216,741	\$ 4,102,798
Taxable interest and dividends on securities	660,780	343,464	251,888
Interest on Federal funds sold	<u>150,056</u>	<u>94,845</u>	<u>42,734</u>
<b>Total interest income</b>	<u>8,406,180</u>	<u>6,655,050</u>	<u>4,397,420</u>
<b>Interest expense:</b>			
Interest on deposits	4,443,489	3,301,411	2,050,316
Interest on other borrowings	<u>188,070</u>	<u>58,310</u>	<u>-</u>
<b>Total interest expense</b>	<u>4,631,559</u>	<u>3,359,721</u>	<u>2,050,316</u>
<b>Net interest income</b>	3,774,621	3,295,329	2,347,104
Provision for loan losses	<u>450,000</u>	<u>390,000</u>	<u>265,000</u>
<b>Net interest income after provision for loan losses</b>	<u>3,324,621</u>	<u>2,905,329</u>	<u>2,082,104</u>
<b>Other income:</b>			
Service charges and fees	155,141	159,044	122,932
Rental income	<u>211,096</u>	<u>187,258</u>	<u>112,921</u>
	<u>366,237</u>	<u>346,302</u>	<u>235,853</u>
<b>Other expenses:</b>			
Salaries and employee benefits	1,114,558	1,024,539	852,240
Net occupancy expense	222,492	244,985	230,293
Equipment rentals, depreciation and maintenance	196,668	212,641	228,487
Legal and accounting	80,296	92,078	49,231
Data processing	175,692	147,636	105,482
Other operating expenses	<u>543,246</u>	<u>448,760</u>	<u>414,320</u>
	<u>2,332,952</u>	<u>2,170,639</u>	<u>1,880,053</u>
<b>Income before income tax expense</b>	1,357,906	1,080,992	437,904
Income tax expense	<u>487,965</u>	<u>426,196</u>	<u>142,869</u>
<b>Net income</b>	<u>\$ 869,941</u>	<u>\$ 654,796</u>	<u>\$ 295,035</u>
<b>Basic income per common share</b>	<u>\$ 2.42</u>	<u>\$ 1.82</u>	<u>\$ .93</u>
<b>Average common shares outstanding</b>	<u>359,093</u>	<u>359,093</u>	<u>317,521</u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**For Each of the three Years in the Period Ended December 31, 2007**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Net income</b>	\$ 869,941	\$ 654,796	\$ 295,035
Other comprehensive income:			
Gross unrealized gains (losses) arising during the period	153,623	99,677	(84,268)
Adjustments for income tax (expense) benefit	<u>(61,449)</u>	<u>(39,871)</u>	<u>33,707</u>
Other comprehensive income, net of tax	<u>92,174</u>	<u>59,806</u>	<u>(50,561)</u>
<b>Comprehensive income</b>	<u>\$ 962,115</u>	<u>\$ 714,602</u>	<u>\$ 244,474</u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.**

**STATEMENTS OF SHAREHOLDERS' EQUITY**  
**For Each of the Three Years in the Period Ended December 31, 2007**

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained Earnings (Deficit)</u>	<u>Accum- ulated Other Compre- hensive Income</u>	<u>Total</u>
<b>Balance, December 31, 2004</b>	\$ 3,122,550	\$ 4,683,825	\$(1,155,338)	\$ (27,937)	\$ 6,623,100
Net income	-	-	295,035	-	295,035
Issuance of common stock	468,380	1,053,855	-	-	1,522,235
Change in net unrealized gain (loss) on securities	-	-	-	(50,561)	(50,561)
<b>Balance, December 31, 2005</b>	3,590,930	5,737,680	(860,303)	(78,498)	8,389,809
Net income	-	-	654,796	-	654,796
Change in net unrealized gain (loss) on securities	-	-	-	59,806	59,806
<b>Balance, December 31, 2006</b>	3,590,930	5,737,680	(205,507)	(18,692)	9,104,411
Net income	-	-	869,941	-	869,941
Cash dividend declared on common stock (\$.10 per share)	-	-	(35,909)	-	(35,909)
Change in net unrealized gain (loss) on securities	-	-	-	92,174	92,174
<b>Balance, December 31, 2007</b>	<u>\$ 3,590,930</u>	<u>\$ 5,737,680</u>	<u>\$ 628,525</u>	<u>\$ 73,482</u>	<u>\$10,030,617</u>

**See Notes to Financial Statements**



**FIRST BANK OF CHARLESTON, INC.**

**STATEMENTS OF CASH FLOWS**  
**For Each of the Three Years in the Period Ended December 31, 2007**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 869,941	\$ 654,796	\$ 295,035
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	191,886	199,206	232,308
Provision for loan losses	450,000	390,000	265,000
Provision for deferred income tax expense (benefit)	134,626	355,315	142,869
Amortization of securities premiums and (accretion) of discounts, net	(12)	-	-
(Increase) decrease in accrued interest receivable	23,374	(208,634)	(143,873)
(Increase) decrease in other assets	(262,075)	(19,210)	(15,998)
Increase (decrease) in other liabilities	<u>926,800</u>	<u>239,262</u>	<u>47,212</u>
<b>Net cash provided by (used in) operating activities</b>	<u>2,334,540</u>	<u>1,610,735</u>	<u>822,553</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of securities available for sale	(10,029,200)	(9,621,600)	(1,061,300)
Proceeds from maturities and calls of securities available for sale	12,265,500	6,510,300	500,000
Proceeds from sales of securities available for sale	-	-	19,500
Net (increase) decrease in Federal funds sold	1,958,000	(842,000)	(1,457,000)
Principal collected from (loans made to) customers, net	(12,587,898)	(18,340,215)	(24,047,005)
Purchases of bank premises and equipment	(482,844)	(20,466)	(225,236)
Proceeds from sale of bank premises and equipment	<u>-</u>	<u>-</u>	<u>13,299</u>
<b>Net cash (used in) investing activities</b>	<u>(8,876,442)</u>	<u>(22,313,981)</u>	<u>(26,257,742)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase (decrease) in demand deposits, NOW and savings accounts	6,157,142	(7,210,380)	(4,549,725)
Proceeds from sales of (payments for maturing) time deposits, net	(1,751,117)	24,968,197	30,115,433
Net increase (decrease) in short-term borrowings	2,610,658	1,502,155	-
Proceeds from issuance of common stock	-	-	1,522,235
Dividends paid	<u>(35,909)</u>	<u>-</u>	<u>-</u>
<b>Net cash provided by financing activities</b>	<u>6,980,774</u>	<u>19,259,972</u>	<u>27,087,943</u>
Increase (decrease) in cash and due from banks	438,872	(1,443,274)	1,652,754
<b>Cash and due from banks:</b>			
Beginning	<u>1,195,523</u>	<u>2,638,797</u>	<u>986,043</u>
Ending	<u>\$ 1,634,395</u>	<u>\$ 1,195,523</u>	<u>\$ 2,638,797</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash payments for:			
Interest on deposits and borrowings	<u>\$ 4,621,266</u>	<u>\$ 3,130,648</u>	<u>\$ 1,904,881</u>
Income taxes	<u>\$ 62,803</u>	<u>\$ 61,000</u>	<u>\$ -</u>

**See Notes to Financial Statements**

**FIRST BANK OF CHARLESTON, INC.****NOTES TO FINANCIAL STATEMENTS****Note 1. Significant Accounting Policies**

**Nature of business:** First Bank of Charleston, Inc. (the Bank) is a commercial bank with operations in Kanawha County, West Virginia. The Bank provides consumer and commercial loans and deposit services principally to individuals and small businesses in Kanawha County, West Virginia and the surrounding areas.

**Basis of presentation:** The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Presentation of cash flows:** For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from demand deposits, money market accounts, NOW accounts, savings accounts, and Federal funds sold are reported net since their original maturities are less than three months. Cash flows from loans, certificates of deposit and other time deposits are reported net.

**Securities:** Debt and equity securities are classified as "held to maturity", "available for sale" or "trading" according to management's intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

**Securities held to maturity** - Debt securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost and adjusted for amortization of premiums and accretion of discounts. There are no securities classified as "held to maturity" in the accompanying financial statements.

**Securities available for sale** - Securities not classified as "held to maturity" or as "trading" are classified as "available for sale". Securities classified as "available for sale" are those securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at fair value, net of unrealized gains or losses, which are adjusted for applicable income taxes and reported as a separate component of shareholders' equity.

**Trading securities** - There are no securities classified as "trading" in the accompanying financial statements.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts is computed using methods which approximate the interest method of accounting.

**Loans and allowance for loan losses:** Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest is accrued daily on the outstanding balance.

## NOTES TO FINANCIAL STATEMENTS

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The Bank makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Loan origination fees and certain direct loan origination costs are deferred and amortized as adjustments of the related loan yield over its contractual life.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Generally, loans are placed on non-accrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on non-accrual status. Impaired loans are placed on non-accrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on non-accrual loans is recognized primarily using the cost-recovery method.

**Concentrations of credit risk:** The Bank predominately grants installment, commercial and residential loans to customers in Kanawha County, West Virginia and the immediate surrounding areas.

**Bank premises and equipment:** Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for Bank premises and equipment over the estimated useful lives of the assets. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

**Other real estate:** Other real estate consists primarily of real estate held for resale which was acquired through foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at the lower of cost or appraised market value with any writedown being charged to the allowance for loan losses. Expenses incurred in connection with operating these properties are charged to operating expenses. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions. There was no "other real estate" included in the financial statements at December 31, 2007 and 2006.

**Advertising:** The Bank expenses advertising costs as incurred.

## NOTES TO FINANCIAL STATEMENTS

**Income taxes:** The provision for income taxes includes Federal and state income taxes and is based on pretax income reported in the financial statements, adjusted for transactions that may never enter into the computation of income taxes payable. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized within a short term.

**Profit sharing and thrift plan:** The Bank has a contributory profit sharing plan covering substantially all employees. The Bank's contribution is discretionary and is determined by management on a yearly basis.

**Basic and fully dilutive earnings per share:** Basic earnings per common share is computed based upon the weighted average shares outstanding. The weighted average shares outstanding were 359,093, 359,093 and 317,521 for the years ended December 31, 2007, 2006 and 2005, respectively. The Bank did not have any potentially dilutive shares during the three year period ended December 31, 2007.

### Significant New Accounting Pronouncements

**Uncertainty in Income Taxes:** In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective for years beginning after December 15, 2006. The FASB issued Interpretation 48-b, *Effective Date of FASB Interpretation No. 48 for Nonpublic Enterprises*, which defers implementation for nonpublic entities until years beginning after December 15, 2007. This interpretation is intended to clarify the accounting for uncertainty in income taxes recognized in a company's financial statements, in accordance with FASB 109, *Accounting for Income Taxes*, by prescribing a more-likely-than-not threshold to recognize any benefit of a tax position taken or expected to be taken in a tax return. Tax positions that meet the recognition threshold are reported at the largest amount that is more-likely-than-not to be realized. The adoption of this standard is not anticipated to have a material impact on the Company's financial condition, results of operations or liquidity.

**Fair Value Measurement:** In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*, effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of this standard is not anticipated to have a material impact on the Company's financial condition, results of operations or liquidity.

**Fair Value Option:** In February 2007, FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment to FASB Statement No. 115*, effective for fiscal years beginning after November 15, 2007. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. The adoption of this standard is not anticipated to have a material impact on the Company's financial condition, results of operations or liquidity.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Cash and Due From Banks

At December 31, 2007 and 2006, the Bank had \$792,784 and \$427,398, respectively, in a due from bank account and \$958,000 and \$2,916,000, respectively, in Federal funds sold from a correspondent bank. Federal funds sold are generally unsecured. Also, "due from" bank accounts have limited insurance under current banking regulations.

### Note 3. Securities

The amortized gains, unrealized losses and estimated fair values of securities at December 31, 2007 and 2006, are summarized as follows:

	<u>2007</u>			<u>Carrying Value (Estimated Fair Value)</u>
	<u>Amortized Cost</u>	<u>Unrealized</u>		
		<u>Gains</u>	<u>Losses</u>	
<b>Available for sale:</b>				
<b>Taxable:</b>				
U.S. Government Agencies and Corporation	\$ 9,247,513	\$ 122,469	\$ -	\$ 9,369,982
Equity securities - FHLB stock	<u>251,800</u>	<u>-</u>	<u>-</u>	<u>251,800</u>
<b>Total securities available         for sale</b>	<u>\$ 9,499,313</u>	<u>\$ 122,469</u>	<u>\$ -</u>	<u>\$ 9,621,782</u>
	<u>2006</u>			<u>Carrying Value (Estimated Fair Value)</u>
	<u>Amortized Cost</u>	<u>Unrealized</u>		
		<u>Gains</u>	<u>Losses</u>	
<b>Available for sale:</b>				
<b>Taxable:</b>				
U.S. Government Agencies and Corporation	\$11,500,000	\$ 7,500	\$ (38,653)	\$ 11,468,847
Equity securities - FHLB stock	<u>235,600</u>	<u>-</u>	<u>-</u>	<u>235,600</u>
<b>Total securities available         for sale</b>	<u>\$11,735,600</u>	<u>\$ 7,500</u>	<u>\$ (38,653)</u>	<u>\$ 11,704,447</u>

The maturities, amortized cost and estimated fair values of securities at December 31, 2007, are summarized as follows:

	<u>Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Carrying Value (Estimated Fair Value)</u>
Due within 1 year	\$ 1,000,000	\$ 1,000,310
Due after 1 but within 5 years	7,250,000	7,369,672
Due after 5 but within 10 years	997,513	1,000,000
Due after 10 years	-	-
Equity securities	<u>251,800</u>	<u>251,800</u>
	<u>\$ 9,499,313</u>	<u>\$ 9,621,782</u>

## NOTES TO FINANCIAL STATEMENTS

Federal Home Loan Bank stock is an equity security that is included in securities available for sale in the accompanying financial statements. Such securities are carried at cost, since they may only be sold back to the Federal Home Loan Bank or another member at par value.

At December 31, 2007 and 2006, securities carried at estimated fair values of \$8,353,763 and \$4,981,112, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes required or permitted by law.

The proceeds from sales, calls and maturities and securities and the related gross gains and losses realized are as follows:

For the Years Ended December 31,	Proceeds From			Gross Realized	
	Sales	Calls and Maturities	Principal Payments	Gains	Losses
<b>2007</b>					
Securities available for sale	\$ -	\$12,265,500	\$ -	\$ -	\$ -
<b>2006</b>					
Securities available for sale	\$ -	\$ 6,510,300	\$ -	\$ -	\$ -
<b>2005</b>					
Securities available for sale	\$ 19,500	\$ 500,000	\$ -	\$ -	\$ -

Impairment is evaluated considering numerous factors, and their relative significance varies from case to case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than temporary, the security is written down to fair value, and a loss is recognized through earnings.

The Bank has no securities in an unrealized loss position as of December 31, 2007.

Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2006.

	2006					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
U.S. Government Agencies and Corporations	\$ 3,994,921	\$ 5,079	\$ 3,966,426	\$ 33,574	\$ 7,961,347	\$ 38,653

### Note 4. Loans

Loans are summarized as follows:

	December 31,	
	2007	2006
Commercial, financial and agricultural	\$ 70,718,111	\$ 59,691,635
Real estate - mortgage	25,321,019	24,014,666
Installment loans	7,766,590	7,533,769
Total loans	103,805,720	91,240,070
Less:		
Allowance for loan losses	(1,372,793)	(973,748)
Loan origination (fees) costs, net	(135,754)	(107,047)
<b>Loans, net</b>	<b>\$ 102,297,173</b>	<b>\$ 90,159,275</b>

## NOTES TO FINANCIAL STATEMENTS

Included in the balance of net loans are non-accrual loans totaling \$0 and \$599,797 at December 31, 2007 and 2006, respectively. If interest on non-accrual loans had been accrued, such income would have approximated \$0, \$15,888 and \$0 for the years ended December 31, 2007, 2006 and 2005, respectively.

The following presents loan maturities as of December 31, 2007:

	<u>Within 1 Year</u>	<u>After 1 But Within 5 Years</u>	<u>After 5 Years</u>
Commercial, financial and agricultural	\$ 28,089,466	\$ 42,237,114	\$ 391,531
Real estate - mortgage	7,174,223	17,767,802	378,994
Installment loans	<u>5,345,224</u>	<u>2,365,198</u>	<u>56,168</u>
<b>Total loans</b>	<b><u>\$ 40,608,913</u></b>	<b><u>\$ 62,370,114</u></b>	<b><u>\$ 826,693</u></b>
Loans due after one year with:			
Variable rates	\$ 51,424,030		
Fixed rates	<u>11,772,777</u>		
	<b><u>\$ 63,196,807</u></b>		

In the past the Bank has made loans, in the normal course of business, to its directors, officers and employees and will continue to make such loans in the future. At December 31, 2007 and 2006, outstanding loans of this nature approximated \$4,394,059 and \$3,874,974, respectively.

The following presents the activity with respect to loans to executive officers and directors aggregating \$60,000 or more during the years ended December 31, 2007 and 2006. Other changes represent additions to and changes in individuals with aggregate loans over \$60,000.

	<u>2007</u>	<u>2006</u>
<b>Balance, beginning</b>	\$ 3,101,761	\$ 2,516,305
Additions	5,812,017	7,420,342
Amounts collected	(5,087,197)	(6,995,755)
Other, net	<u>45,405</u>	<u>160,869</u>
<b>Balance, ending</b>	<b><u>\$ 3,871,986</u></b>	<b><u>\$ 3,101,761</u></b>

### Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Balance, beginning</b>	\$ 973,748	\$ 718,451	\$ 505,000
<b>Losses:</b>			
Commercial, financial and agricultural	(17,092)	(86,615)	-
Real estate - mortgage	-	(31,650)	-
Installment loans	<u>(36,327)</u>	<u>(19,030)</u>	<u>(51,989)</u>
<b>Total</b>	<b><u>(53,419)</u></b>	<b><u>(137,295)</u></b>	<b><u>(51,989)</u></b>
<b>Recoveries:</b>			
Commercial, financial and agricultural	-	-	-
Real estate - mortgage	-	-	-
Installment loans	<u>2,464</u>	<u>2,592</u>	<u>440</u>
<b>Total</b>	<b><u>2,464</u></b>	<b><u>2,592</u></b>	<b><u>440</u></b>
Net losses	(50,955)	(134,703)	(51,549)
Provision for loan losses	<u>450,000</u>	<u>390,000</u>	<u>265,000</u>
<b>Balance, ending</b>	<b><u>\$ 1,372,793</u></b>	<b><u>\$ 973,748</u></b>	<b><u>\$ 718,451</u></b>

## NOTES TO FINANCIAL STATEMENTS

The Bank's total recorded investment in impaired loans approximated \$0 and \$587,000 at December 31, 2007 and 2006, respectively, for which the related allowances for credit losses determined in accordance with SFAS No. 114, as amended, approximated \$0 and \$300,000, respectively. The Bank's average investment in such loans approximated \$0, \$594,000 and \$0 for the years ended December 2007, 2006 and 2005, respectively. The impaired loans at December 31, 2007 were collateral dependent, and accordingly, the fair values of the underlying collateral were used to measure the impairment of the loans. For the years ended December 31, 2007, 2006 and 2005, the Bank recognized \$0 in interest income under the accrual method of accounting on the impaired loans.

For purposes of evaluating impairment, the Bank considers groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property, other than those which significantly exceed the Bank's typical residential mortgage loan amount (currently those in excess of \$100,000); and installment loans to individuals, exclusive of those loans in excess of \$50,000.

### Note 6. Bank Premises and Equipment

The major categories of bank premises and equipment and accumulated depreciation at December 31, 2007 and 2006, are summarized as follows:

	<b>2007</b>	<b>2006</b>
Land	\$ 1,202,676	\$ 1,202,676
Buildings and improvements	2,901,084	2,893,405
Furniture and equipment	906,205	851,130
Vehicles	32,127	-
Construction in progress	387,964	-
	5,430,056	4,947,211
Less accumulated depreciation	(900,846)	(708,959)
<b>Bank premises and equipment, net</b>	<b>\$ 4,529,210</b>	<b>\$ 4,238,252</b>

Construction in progress of \$387,964 at December 31, 2007, represents costs incurred under various contracts the Bank entered into for construction of a new building for the purpose of leasing and future expansion. Construction contracts were entered into from October to December 2007 and totaled approximately \$1,015,000. The building is expected to be completed in April 2008.

Depreciation expense for the years ended December 31, 2007, 2006 and 2005, totaled \$191,886, \$199,206 and \$232,308, respectively.

The Bank entered into agreements to lease to outside parties certain office spaces within its building under noncancelable lease agreements to commence on January 1, 2005 and October 1, 2005, respectively. In October 2007, the Bank entered into an agreement to lease to an outside party the building under construction under a noncancelable lease agreement expected to commence on April 21, 2008, which would replace the October 1, 2005 lease agreement. The Bank expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Bank premises and equipment for space relating to the operating leases was \$823,419 and \$823,419 at December 31, 2007 and 2006, with accumulated depreciation of \$89,912 and \$67,465, respectively. Depreciation of assets recorded under operating leases was \$22,447, \$22,671 and \$33,376 in 2007, 2006 and 2005, respectively.



## NOTES TO FINANCIAL STATEMENTS

Future minimum rental lease payments receivable under the noncancelable operating leases, exclusive of certain termination fees as defined in each lease agreement, are as follows for the years ended after December 31, 2007:

<u>Year</u>	
2008	\$ 238,054
2009	176,333
2010	178,633
2011	180,934
2012	183,233
Thereafter	<u>61,333</u>
	<u>\$ 1,018,520</u>

### Note 7. Deposits

The following is a summary of interest bearing deposits by type at December 31, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Money Market	\$ 2,517,463	\$ 1,420,648
NOW accounts	13,377,318	7,992,831
Savings accounts	1,203,069	1,235,853
Certificates of deposit	<u>78,459,599</u>	<u>80,210,716</u>
<b>Total</b>	<u>\$ 95,557,449</u>	<u>\$ 90,860,048</u>

Included in certificates of deposit are brokered deposits totaling \$10,253,975 and \$10,953,913 at December 31, 2007 and 2006, respectively, which were obtained through the Certificate of Deposit Account Registry Service.

Time certificates of deposit in denominations of \$100,000 or more totaled \$33,321,684 and \$30,691,943 at December 31, 2007 and 2006. Interest paid on such certificates totaled \$1,694,045, \$1,241,769 and \$611,051 for the years ended December 31, 2007, 2006 and 2005, respectively.

The following is a summary of the maturity distribution of certificates of deposit in amounts of \$100,000 or more as of December 31, 2007:

	<u>Amount</u>	<u>Percent</u>
Three months or less	\$ 11,638,828	34.9%
Three through six months	7,560,274	22.7%
Six through twelve months	3,121,423	9.4%
Over twelve months	<u>11,001,159</u>	<u>33.0%</u>
<b>Total</b>	<u>\$ 33,321,684</u>	<u>100.0%</u>

At December 31, 2007, the scheduled maturities of certificates of deposit are as follows:

2008	\$ 60,034,074
2009	8,660,519
2010	2,378,401
2011	1,121,302
2012	6,265,303
Thereafter	<u>-</u>
	<u>\$ 78,459,599</u>

## NOTES TO FINANCIAL STATEMENTS

The Bank has, and expects to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). In management's opinion, these deposits and transactions were on the same terms as those for comparable deposits and transactions with nonrelated parties. Aggregate deposit transactions with related parties approximated \$1,127,450 and \$768,909 at December 31, 2007 and 2006, respectively.

### Note 8. Other Borrowings

**Short-term borrowings:** Securities sold under agreements to repurchase mature the next business day. The securities underlying the repurchase agreements are under the Bank's control and secure the total outstanding daily balances.

Additional details regarding short-term borrowings during the years ended December 31, 2007 and 2006, are presented below.

	Repurchase Agreements	
	2007	2006
Outstanding at year end	\$ 4,112,813	\$ 1,502,155
Average amount outstanding	\$ 3,801,801	\$ 1,200,469
Maximum amount outstanding at any month end	\$ 5,124,686	\$ 2,489,811
Weighted average interest rate	4.30%	4.86%

The Bank is a member of Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank has available funding of \$59,980,000 and \$59,954,000 at December 31, 2007 and 2006, respectively.

### Note 9. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2007 and 2006, are as follows:

	2007	2006	2005
<b>Current:</b>			
Federal	\$ 570,368	\$ 70,881	\$ -
State	52,224	-	-
	622,592	70,881	-
<b>Deferred</b>	(134,627)	355,315	142,869
<b>Total</b>	\$ 487,965	\$ 426,196	\$ 142,869

A reconciliation between the amount of reported income tax benefit and the amount computed by multiplying the statutory income tax rate by book pretax income for the years ended December 31, 2007 and 2006, is as follows:

	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at applicable statutory rate	\$ 461,688	34.0	\$ 367,537	34.0	\$ 148,887	34.0
Increase (decrease) in taxes resulting from:						
State income tax effect	34,468	2.5	45,909	4.2	(4,706)	(1.1)
Other, net	(8,191)	(0.6)	12,750	1.2	(1,312)	(0.3)
<b>Applicable income taxes</b>	\$ 487,965	35.9	\$ 426,196	39.4	\$ 142,869	32.6

## NOTES TO FINANCIAL STATEMENTS

Deferred income taxes for the years ended December 31, 2007 and 2006, reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

The tax effects of temporary differences which give rise to the Bank's deferred tax assets and liabilities as of December 31, 2007 and 2006 are as follows:

	<b>2007</b>	<b>2006</b>
<b>Deferred tax assets:</b>		
Net unrealized loss on securities	\$ -	\$ 12,461
Net operating loss carryforwards	-	39,712
Unamortized fees and costs, net	54,220	40,550
Organizational start-up costs	9,746	33,138
Allowance for loan losses	453,751	256,301
	517,717	382,162
<b>Deferred tax liabilities:</b>		
Net unrealized gain on securities	(48,988)	-
Depreciation	(136,457)	(123,067)
	(185,445)	(123,067)
<b>Net deferred tax asset</b>	<b>\$ 332,272</b>	<b>\$ 259,095</b>

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets.

At December 31, 2007 and 2006, the Bank had state net operating loss carryforwards of approximately \$0 and \$648,000, respectively.

### **Note 10. Employee Benefit Plans and Profit Sharing Plans**

Under the profit-sharing thrift plan, which includes 401(k) provisions for all employees of the Bank who have attained age twenty-one and have completed three months of service, employee contributions are generally limited to the lesser of \$15,000 or 25.0 percent of annual compensation. The Company may make two types of contributions to the Plan: (1) Matching Contributions (Company matches, up to a certain percentage, Salary Reduction Contributions made by the participant), and (2) Nonelective Contributions (additional discretionary contributions made by the Company as determined by the Board of Directors, subject to vesting). The employee may make (1) Salary Reduction Contributions and (2) Rollover Contributions. Each participant's account is credited with an allocation of (a) the Company's contribution, (b) Plan earnings and (c) forfeitures of terminated participants' nonvested accounts. Voluntary Bank matching contributions are limited to 50.0 percent of each employee's contribution up to a maximum of 6.0 percent of total annual compensation.

Contributions of \$21,466, \$22,122 and \$3,667 were made to the Plan for the years ended December 31, 2007, 2006 and 2005, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 11. Commitments and Contingencies

The Bank could be involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, these matters will not have a material adverse effect on the financial statements.

#### Financial instruments with off-balance sheet risk:

The Bank is a party of financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

	<b>Contract Amount</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Commitments to extend credit	\$ 8,994,749	\$ 7,470,583
Standby letters of credit and financial guarantees written	20,000	70,000
	<b>\$ 9,014,749</b>	<b>\$ 7,540,583</b>

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans.

### Note 12. Restrictions on Dividends and Capital and Issuance of Common Stock

Dividends paid by the Bank are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if dividends declared in any year exceed the year's net income, as defined, plus the retained net profits of the two preceding years.

During 2005, the Board of Directors of the Bank voted to approve the sale of common stock in order to maintain capital levels at regulatory required amounts. This was necessitated due to the growth the Bank has experienced since its opening in 2003. The approved sale consisted of up to 15% of the outstanding common shares (46,838 shares) at an offering price of \$32.50 per share. Existing shareholders were given preemptive rights to purchase a pro rata number of shares for the first 30 days, after which time new shareholders could acquire the remaining shares available. By year end 2005, the Bank completed the sale of 46,838 common shares, generating total offering proceeds of \$1,522,235.

## NOTES TO FINANCIAL STATEMENTS

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulations about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

The most recent notification from the Bank's primary regulatory agency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are presented in the following table (in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Actions Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2007:</b>						
Total Capital (to Risk-Weighted Assets)	\$ 11,135	11.8%	\$ 7,522	8.0%	\$ 9,403	10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 10,031	10.7%	\$ 3,761	4.0%	\$ 5,642	6.0%
Tier I Capital (to Average Assets)	\$ 10,031	8.2%	\$ 4,902	4.0%	\$ 6,127	5.0%
<b>As of December 31, 2006:</b>						
Total Capital (to Risk-Weighted Assets)	\$ 10,098	12.5%	\$ 6,478	8.0%	\$ 8,097	10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 9,124	11.3%	\$ 3,239	4.0%	\$ 4,858	6.0%
Tier I Capital (to Average Assets)	\$ 9,124	8.4%	\$ 4,361	4.0%	\$ 5,452	5.0%

## NOTES TO FINANCIAL STATEMENTS

### Note 13. Fair Value of Financial Instruments

The following summarizes the methods and significant assumptions used by the Bank in estimating its fair value disclosures for financial instruments.

**Cash and due from banks:** The carrying values of cash and due from banks approximate their estimated fair values.

**Federal funds sold:** The carrying values of Federal funds sold approximate their estimated fair values.

**Securities:** Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

**Loans:** The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms of borrowers of similar credit quality. No prepayments of principal are assumed.

**Accrued interest receivable and payable:** The carrying values of accrued interest receivable and payable approximate their estimated fair values.

**Deposits:** The estimated fair values of demand deposits (i.e, non interest bearing checking, NOW and money market), savings accounts and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

**Off-balance sheet instruments:** The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

The carrying values and estimated fair values of the Bank's financial instruments are summarized below:

	December 31, 2007		December 31, 2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial assets:</b>				
Cash and due from banks	\$ 1,634,395	\$ 1,634,395	\$ 1,195,523	\$ 1,195,523
Federal funds sold	958,000	958,000	2,916,000	2,916,000
Securities available for sale	9,621,782	9,621,782	11,704,447	11,704,447
Loans	102,297,173	102,528,048	90,159,275	90,167,059
Accrued interest receivable	537,289	537,289	560,663	560,663
	<u>\$ 115,048,639</u>	<u>\$ 115,279,514</u>	<u>\$ 106,535,908</u>	<u>\$ 106,543,692</u>
<b>Financial liabilities:</b>				
Deposits	\$ 104,403,758	\$ 104,507,398	\$ 99,997,733	\$ 99,676,985
Short-term borrowings	4,112,813	4,112,813	1,502,155	1,502,155
Accrued interest payable	471,063	471,063	467,952	467,952
	<u>\$ 108,987,634</u>	<u>\$ 109,091,274</u>	<u>\$ 101,967,840</u>	<u>\$ 101,647,092</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 14: Subsequent Event

On February 13, 2008, the Bank's Board of Directors declared a stock dividend, effective March 1, 2008, to be effected by one share of stock being issued for each share outstanding. The stock certificates will be mailed to the shareholders in March 2008.

This stock dividend will result in the issuance of 359,093 additional shares of common stock and will be accounted for by the transfer of \$3,590,930 from capital surplus to common stock. This transfer will place an additional restriction on the Bank's ability to pay future dividends by requiring the Bank to transfer 10% of future earnings to capital surplus prior to the payment of any future dividend until such time as the capital surplus account is equal to or exceeds the common stock account.

Pro forma earnings per share amounts on a post-dividend basis for the years ended December 31, 2007, 2006 and 2005 would be as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Earnings per common share:</b>			
Basic:			
As reported	\$ 2.42	\$ 1.82	\$ 0.93
Post dividend	\$ 1.21	\$ 0.91	\$ 0.46

Information presented in the financial statements and in the notes to the financial statements have not been restated to reflect the stock issuance.



**2008**  
COMPARATIVE BALANCE SHEET

	1/31/2008	2/29/2008	3/31/2008	4/30/2008	5/31/2008	6/30/2008	7/31/2008	8/31/2008	9/30/2008	10/31/2008	11/30/2008	12/31/2008
<b>ASSETS</b>												
Total Cash and Due From Fed Funds Sold	1,198,664	1,835,437	3,865,673	2,229,986	2,109,228	2,425,319	1,869,985	1,962,217	3,292,221	2,497,986	7,612,117	2,897,829
Securities and Investments	4,084,000	3,261,000	5,363,000	7,152,000	6,083,000	5,246,000	3,674,000	0	0	76,000	7,134,000	2,960,000
Loans	9,693,315	10,626,848	9,153,373	9,143,365	9,071,180	7,793,779	12,778,212	13,568,255	13,172,203	12,537,435	12,782,915	13,743,687
Commercial Loans	71,029,103	72,715,620	73,986,347	76,027,362	75,878,376	77,269,359	78,059,764	79,656,617	81,437,285	83,579,388	84,297,313	87,672,279
Installment Loans	7,700,403	7,659,688	7,762,786	7,991,959	8,263,911	8,094,403	8,113,359	8,028,893	7,783,186	7,546,670	7,706,759	7,632,659
Mortgage Loans	25,429,363	25,794,975	25,588,116	26,170,948	26,207,417	27,227,683	27,768,131	28,643,228	29,589,246	29,759,492	29,516,144	29,494,544
Overdrafts	20,034	5,628	6,795	8,697	17,709	14,062	12,096	6,002	17,530	16,351	108,391	48,415
Total Gross Loans	104,178,903	106,175,910	107,344,044	110,198,966	110,367,413	112,605,507	113,954,349	116,334,740	118,827,247	120,901,901	121,628,606	124,847,897
Allowance for Loan Loss	1,398,230	1,423,572	1,449,414	1,472,270	1,496,909	1,484,161	1,503,859	1,528,829	1,553,949	1,580,341	1,605,482	1,630,824
Net Loans	102,780,673	104,752,339	105,894,630	108,726,696	108,870,504	111,121,346	112,450,490	114,805,911	117,273,299	119,321,560	120,023,124	123,217,073
Total Fixed Assets	4,522,193	4,829,210	4,987,233	5,073,520	5,148,091	5,315,165	5,327,875	5,341,916	5,322,652	5,310,315	5,280,462	5,258,971
Total Other Assets	552,592	527,836	503,395	511,422	500,783	603,937	594,497	691,390	805,049	871,886	845,948	915,842
Total Interest Receivable	539,082	511,227	556,085	499,052	554,343	486,397	501,392	578,262	612,453	605,935	669,946	690,317
<b>Total Assets</b>	<b>\$ 123,370,520</b>	<b>\$ 126,343,896</b>	<b>\$ 130,323,388</b>	<b>\$ 133,336,040</b>	<b>\$ 132,397,128</b>	<b>\$ 132,931,943</b>	<b>\$ 137,196,450</b>	<b>\$ 136,947,951</b>	<b>\$ 140,477,876</b>	<b>\$ 141,221,116</b>	<b>\$ 154,348,512</b>	<b>\$ 149,683,718</b>
<b>LIABILITIES</b>												
Demand Deposits	7,146,629	7,204,774	7,819,448	7,744,636	8,473,133	9,137,664	8,480,668	8,359,478	8,882,023	9,229,752	8,695,706	8,737,915
NOW, MMA, & Savings	13,072,626	14,843,953	19,342,736	23,183,219	23,677,624	26,176,953	30,344,449	31,480,317	30,315,507	30,941,536	32,848,139	34,284,250
Certificates of Deposit	89,685,079	81,170,924	79,764,778	79,394,817	76,172,047	72,413,889	72,977,356	69,818,229	77,389,188	77,261,862	82,043,173	79,413,689
Total Deposits	109,904,334	103,219,651	106,926,962	110,322,672	108,322,804	107,728,505	111,802,473	109,658,023	116,586,718	117,433,150	123,587,017	122,435,855
Fed Funds Purchased	0	0	0	0	0	0	(122)	1,419,000	436,000	0	0	0
FHLB Advances	0	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	15,000,000	10,000,000
Repo Agreements - TBB	0	0	0	0	0	0	0	0	0	0	0	0
Sweep Agreements Corp	1,892,303	1,393,493	2,212,965	1,816,549	2,734,465	4,090,945	4,102,405	4,254,929	2,139,494	2,220,435	2,345,158	2,960,420
Total Repurchase Agree.	1,892,303	1,393,493	2,212,965	1,816,549	2,734,465	4,090,945	4,102,282	4,254,929	2,139,494	2,220,435	2,345,158	2,960,420
Accrued Interest on Deposits	460,267	477,395	469,786	491,510	507,182	413,603	389,182	420,446	358,036	373,984	416,226	363,903
Accrued Expenses	978,048	1,026,492	399,713	319,601	381,548	286,145	369,682	517,372	439,259	546,365	628,379	489,821
Other Liabilities	(17,248)	(7,205)	61,685	66,419	93,523	102,149	109,024	78,817	88,979	90,011	115,140	136,758
Total Accrued & Other Liab	1,421,067	1,496,682	931,184	877,531	982,253	801,897	867,888	1,016,635	886,275	1,010,360	1,159,746	990,483
<b>Total Liabilities</b>	<b>\$ 113,217,704</b>	<b>\$ 116,109,825</b>	<b>\$ 120,071,111</b>	<b>\$ 123,016,751</b>	<b>\$ 122,039,522</b>	<b>\$ 122,621,347</b>	<b>\$ 126,772,643</b>	<b>\$ 126,348,587</b>	<b>\$ 130,048,487</b>	<b>\$ 130,663,945</b>	<b>\$ 142,091,921</b>	<b>\$ 136,386,758</b>
<b>Stockholder Equity</b>												
Capital Stock	3,590,930	3,590,930	7,181,860	718,186	718,186	718,186	718,186	718,186	718,186	720,716	783,220	818,792
Surplus	5,737,680	5,737,680	2,171,750	8,635,424	8,635,424	8,635,424	8,635,424	8,635,424	8,635,424	8,696,144	10,196,240	11,048,528
Current Earnings - YTD	78,644	139,792	216,965	289,994	376,854	463,535	573,112	712,959	724,541	848,757	958,945	1,167,714
Total Capital & Surplus	9,407,254	9,468,402	9,570,575	9,643,604	9,730,464	9,817,145	9,926,722	10,066,569	10,078,151	10,265,617	11,938,405	13,034,974
Unrealized Gain / Loss	113,989	134,096	149,998	143,981	95,438	33,565	37,052	72,762	(36,977)	(96,641)	(70,010)	(46,193)
Undivided Profit / Loss	631,574	631,574	531,706	531,706	531,706	459,888	459,888	459,888	388,069	388,069	388,069	308,055
Total Capital	10,152,817	10,234,071	10,252,279	10,319,292	10,357,608	10,310,598	10,423,661	10,599,219	10,429,244	10,557,045	12,256,465	13,296,836
<b>Total Liabilities &amp; Capital</b>	<b>\$ 123,370,520</b>	<b>\$ 126,343,896</b>	<b>\$ 130,323,391</b>	<b>\$ 133,336,043</b>	<b>\$ 132,397,130</b>	<b>\$ 132,931,945</b>	<b>\$ 137,196,304</b>	<b>\$ 136,947,806</b>	<b>\$ 140,477,731</b>	<b>\$ 141,220,990</b>	<b>\$ 154,348,386</b>	<b>\$ 149,683,594</b>
<b>Difference</b>	<b>\$ (0.44)</b>	<b>\$ 0.06</b>	<b>\$ (2.93)</b>	<b>\$ (2.93)</b>	<b>\$ (1.92)</b>	<b>\$ (2.04)</b>	<b>\$ 146.23</b>	<b>\$ 145.31</b>	<b>\$ 145.31</b>	<b>\$ 126.27</b>	<b>\$ 126.27</b>	<b>\$ 124.48</b>







**2008**  
COMPARATIVE INCOME STATEMENT

	1/31/2008	2/29/2008	3/31/2008	4/30/2008	5/31/2008	6/30/2008	7/31/2008	8/31/2008	9/30/2008	10/31/2008	11/30/2008	12/31/2008	YTD
<b>INTEREST INCOME</b>													
Commercial Loans	461,281	421,661	453,418	438,847	444,906	430,047	463,110	459,907	450,994	466,040	450,494	466,212	5,406,917
Installment Loans	49,546	43,087	45,082	42,273	44,567	42,827	44,372	43,938	41,278	40,506	37,454	37,399	512,329
Mortgage Loans	143,217	131,596	139,555	135,224	139,108	136,821	145,658	148,186	148,680	154,527	146,772	150,470	1,719,793
Securities and Investments	39,362	40,751	37,415	35,092	35,092	32,042	48,769	53,852	62,577	60,044	58,103	60,127	563,225
Dividends (Stock)	0	0	3,179	0	0	4,187	0	0	5,864	0	4,241	0	17,471
Fed Funds Sold	2,835	6,384	5,084	10,433	11,269	10,434	9,001	5,300	1,146	1,166	1,978	3,542	68,570
<b>Total Interest Income</b>	<b>\$ 696,240</b>	<b>\$ 643,480</b>	<b>\$ 683,732</b>	<b>\$ 661,868</b>	<b>\$ 674,941</b>	<b>\$ 656,358</b>	<b>\$ 710,889</b>	<b>\$ 711,183</b>	<b>\$ 710,539</b>	<b>\$ 722,282</b>	<b>\$ 699,042</b>	<b>\$ 717,750</b>	<b>\$ 8,288,305</b>
<b>Loan Charges &amp; Fee Income</b>													
Daily Overdraft Fee	1,435	820	840	1,095	911	1,305	1,605	1,500	1,768	2,190	1,527	2,300	17,295
Late Fees on Loans	3,702	4,355	1,081	5,821	3,069	4,136	6,086	3,762	3,521	2,673	4,413	5,484	48,104
Prepayment Penalty Fee	0	0	0	0	55	0	0	0	0	0	0	693	749
Other Loan Fees	0	0	0	0	4,460	0	175	2,757	0	0	0	0	7,392
Deferred Fee	8,435	11,477	6,506	9,684	7,165	6,311	9,950	9,710	6,029	7,046	8,302	6,001	96,618
<b>Total Loan Fee Income</b>	<b>\$ 13,572</b>	<b>\$ 16,653</b>	<b>\$ 8,428</b>	<b>\$ 16,600</b>	<b>\$ 15,661</b>	<b>\$ 11,752</b>	<b>\$ 17,816</b>	<b>\$ 17,729</b>	<b>\$ 11,317</b>	<b>\$ 11,909</b>	<b>\$ 14,242</b>	<b>\$ 14,479</b>	<b>\$ 170,158</b>
<b>Deposit Account Fee Income</b>													
DDA Service Charges	1,721	1,386	1,394	1,809	1,756	1,912	2,229	2,144	2,292	2,081	2,059	2,747	23,531
Savings Service Charges	72	94	61	96	76	89	79	80	82	83	83	105	1,000
NSF / Overdraft Fees	6,245	4,461	4,357	5,991	5,361	6,002	6,770	5,900	7,230	9,400	10,040	11,440	83,198
Interchange Fees	2,554	2,748	3,380	3,508	4,084	3,911	3,452	3,502	3,701	3,403	3,269	4,100	41,611
CD Penalties/Forfeitures	448	27	242	1,908	906	12	738	4,347	0	52	335	51	9,066
<b>Total Deposit Acct Income</b>	<b>\$ 11,040</b>	<b>\$ 8,716</b>	<b>\$ 9,434</b>	<b>\$ 13,312</b>	<b>\$ 12,183</b>	<b>\$ 11,926</b>	<b>\$ 13,268</b>	<b>\$ 15,974</b>	<b>\$ 13,305</b>	<b>\$ 15,019</b>	<b>\$ 15,786</b>	<b>\$ 18,442</b>	<b>\$ 158,406</b>
<b>Other Non Interest Income</b>													
Credit Life Ins	0	0	0	0	0	0	0	0	0	0	15	0	15
MTG Life Ins	96	0	0	96	0	0	96	0	0	96	0	0	386
Bill Pay	33	33	33	30	24	27	27	27	27	27	27	27	342
Miscellaneous Fees	508	286	168	290	121	141	448	246	256	531	218	168	3,381
Safe Deposit Box Rental	405	99	68	70	102	123	66	182	141	210	225	490	2,181
Royalties	0	0	0	0	0	0	0	0	0	0	0	0	0
Harland Check Upcharges	489	348	303	408	311	342	505	402	448	597	318	433	4,904
Merchant Residuals	221	230	236	237	263	333	292	327	239	227	292	193	3,090
Research / Copies	0	0	0	13	95	0	0	0	0	0	0	96	203
Debit Card Fee Income	164	174	214	138	168	212	168	142	228	168	160	178	2,114
Lease Income	20,716	15,087	15,289	23,462	40,017	25,213	28,313	22,213	25,313	45,360	30,273	30,696	321,953
<b>Total Non Interest Income</b>	<b>\$ 22,632</b>	<b>\$ 16,257</b>	<b>\$ 16,310</b>	<b>\$ 24,745</b>	<b>\$ 41,100</b>	<b>\$ 28,391</b>	<b>\$ 29,915</b>	<b>\$ 23,540</b>	<b>\$ 26,652</b>	<b>\$ 47,217</b>	<b>\$ 31,529</b>	<b>\$ 32,281</b>	<b>\$ 338,569</b>
Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL INCOME</b>	<b>\$ 743,485</b>	<b>\$ 685,105</b>	<b>\$ 717,904</b>	<b>\$ 716,526</b>	<b>\$ 743,885</b>	<b>\$ 706,428</b>	<b>\$ 771,887</b>	<b>\$ 768,426</b>	<b>\$ 761,813</b>	<b>\$ 796,427</b>	<b>\$ 760,600</b>	<b>\$ 782,952</b>	<b>\$ 8,955,438</b>



Director Fees	1,800	2,000	2,000	1,400	1,600	1,400	2,000	1,400	1,800	1,800	2,200	1,800	21,200
Contributions / Donations	500	1,000	500	1,950	968	797	2,850	1,100	1,400	100	2,605	3,667	17,436
Subscriptions / Publications	83	0	0	0	0	0	0	0	0	0	48	0	131
Postage	1,683	2,054	2,268	2,106	2,183	51	2,794	6,205	1,573	4,162	242	5,412	30,732
ATM Expense	4,619	5,169	4,579	4,616	5,164	4,839	1,411	6,051	5,281	6,445	5,414	8,473	62,061
Audit & Accounting Expense	7,500	7,500	7,500	7,775	7,500	7,500	7,500	7,500	7,500	7,500	7,500	16,100	98,875
Bill Pay Expense	569	574	571	572	573	573	573	573	7,579	31	32	32	12,249
Legal Fees	1,349	0	96	3,588	458	(98)	61	50	578	596	971	3,484	11,152
Correspondent Bank Charges	687	737	777	443	740	715	776	1,422	1,186	750	768	736	9,738
Miscellaneous Expense	154	322	945	46	678	644	259	131	191	2,806	362	1,348	7,887
Teller Over/Short	10	111	536	458	14	(17)	(35)	(2)	41	65	83	36	1,301
Loss on Operations/DP Clearing	0	34	2	(3)	(2)	(3)	(3)	(5)	(2)	(4)	(3)	(3)	10
FRS Charges	1,128	1,236	1,170	1,234	1,282	1,341	1,373	1,746	1,743	1,825	2,019	1,776	17,873
Fee Expense - CDARS	4,308	668	41	1,197	2,315	184	4,309	845	991	4,824	3,445	5,405	28,533
Overdraft Charge Offs	0	10	0	0	0	0	0	0	0	0	0	0	10
Fed Adjustments under \$10.00	0	0	13	(14)	3	(108)	3	0	(25)	(28)	0	(99)	(255)
OREO Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Loan Expense	584	(735)	249	5	2,081	598	(13)	262	(623)	37	31	778	3,262
Deferred Loan Fees	11	897	(211)	(339)	(1,334)	(1,312)	(208)	(210)	(3,996)	(4,136)	868	(1,159)	(11,130)
Entertainment Expense	2,778	370	1,073	1,904	2,077	291	670	857	484	705	223	5,398	16,630
<b>Total General Expense</b>	<b>\$ 63,388</b>	<b>\$ 60,672</b>	<b>\$ 59,000</b>	<b>\$ 68,202</b>	<b>\$ 70,936</b>	<b>\$ 56,602</b>	<b>\$ 70,688</b>	<b>\$ 62,455</b>	<b>\$ 61,060</b>	<b>\$ 70,547</b>	<b>\$ 68,665</b>	<b>\$ 96,145</b>	<b>\$ 808,339</b>

**Other Expenses**

Provision for Loan Losses	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000
Provision for Bond Losses	0	0	0	0	0	0	0	0	198,938	19,522	0	0	218,460
Loss on Sale of Securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss on Sale of OREO	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Other Expense</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 223,938</b>	<b>\$ 44,522</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 518,460</b>

**Net Income Before Taxes**

	\$ 141,916	\$ 111,523	\$ 137,160	\$ 131,989	\$ 156,888	\$ 160,713	\$ 194,197	\$ 213,378	\$ 17,160	\$ 218,256	\$ 203,249	\$ 178,762	1,865,191
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**Tax Expense**

Income Tax - Federal	45,592	34,307	42,717	41,818	51,504	55,381	63,772	112,258	60,088	79,346	70,594	12,440	669,818
Income Tax Deferred - Federal	0	0	0	0	0	0	0	(64,870)	(67,639)	(6,637)	0	(55,406)	(194,552)
Income Tax - State	6,513	4,901	6,102	5,974	7,358	7,483	9,682	27,447	13,898	11,335	11,299	11,740	123,732
Income Tax Deferred - State	0	0	0	0	0	0	0	(11,333)	(11,936)	(1,171)	0	(9,549)	(33,989)
Franchise Tax - WV	4,500	4,500	4,500	4,500	4,500	4,500	4,500	3,363	4,500	4,500	4,500	4,102	52,464
Business & Occupation	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	80,004
<b>Total Tax Expense</b>	<b>\$ 63,272</b>	<b>\$ 50,376</b>	<b>\$ 59,986</b>	<b>\$ 58,959</b>	<b>\$ 70,029</b>	<b>\$ 74,031</b>	<b>\$ 84,620</b>	<b>\$ 73,631</b>	<b>\$ 5,578</b>	<b>\$ 94,041</b>	<b>\$ 93,060</b>	<b>\$ (30,007)</b>	<b>\$ 697,477</b>

**Adjustments**

	0	0	0	0	0	0	0	0	0	0	0	0	0
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**TOTAL EXPENSES**

	\$ 664,841	\$ 623,957	\$ 640,731	\$ 643,496	\$ 657,026	\$ 619,746	\$ 662,311	\$ 628,579	\$ 750,231	\$ 672,211	\$ 650,412	\$ 574,183	\$ 7,787,724
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**Total Income**

	\$ 743,485	\$ 685,105	\$ 717,904	\$ 716,526	\$ 743,885	\$ 705,428	\$ 771,887	\$ 768,426	\$ 761,813	\$ 796,427	\$ 760,600	\$ 782,952	\$ 8,955,438
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**Total Expense**

	\$ 664,841	\$ 623,957	\$ 640,731	\$ 643,496	\$ 657,026	\$ 619,746	\$ 662,311	\$ 628,579	\$ 750,231	\$ 672,211	\$ 650,412	\$ 574,183	\$ 7,787,724
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**Net Income / Loss**

	\$ 78,644	\$ 61,148	\$ 77,173	\$ 73,030	\$ 86,859	\$ 86,682	\$ 109,577	\$ 139,847	\$ 11,582	\$ 124,216	\$ 110,189	\$ 208,769	\$ 1,167,714
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## Key Ratio Analysis 2008

1/31/2008    2/29/2008    3/31/2008    4/30/2008    5/31/2008    6/30/2008    7/31/2008    8/31/2008    9/30/2008    10/31/2008    11/30/2008    12/31/2008    Bank Policy / Guideline

### BALANCE SHEET

Total Asset Growth (\$)	\$12,973,376	\$3,978,492	\$3,012,652	\$ (988,912)	\$ (534,816)	\$ (2,264,608)	\$ (248,499)	\$ 3,529,925	\$ 743,240	\$ 13,127,386	\$ (4,664,794)		
Total Asset Growth (%)	2.41%	0.65%	2.31%	-0.70%	0.40%	-3.21%	-0.18%	2.55%	0.53%	0.30%	-3.02%		
Net Loan Growth (\$)	\$1,971,635	\$1,142,231	\$2,320,665	\$ 143,808	\$2,250,842	\$ (1,929,144)	\$1,255,421	\$2,467,388	\$ 2,043,261	\$ 701,565	\$ 3,193,948		
Net Loan Growth (%)	1.82%	1.03%	2.87%	0.15%	2.07%	-1.20%	2.09%	2.15%	1.75%	0.53%	2.66%		
Deposit Growth (\$)	\$ (8,684,683)	\$ 3,707,011	\$ 2,295,710	\$ (1,999,838)	\$ (694,239)	\$ 4,072,968	\$ (2,144,450)	\$ 6,928,690	\$ 849,432	\$ 3,163,667	\$ (1,151,162)		
Deposit Growth (%)	-6.08%	3.53%	3.16%	-1.81%	-0.55%	3.78%	-1.52%	6.32%	0.73%	5.24%	-0.93%		
Gross Loans / Deposits	94.79%	102.66%	100.39%	99.89%	101.00%	104.83%	101.92%	106.09%	101.92%	102.95%	98.42%	101.97%	95.00%
Average Earning Assets / Average Assets	94.89%	99.47%	94.43%	94.47%	94.11%	94.46%	94.60%	95.23%	94.86%	94.32%	93.25%	93.16%	
Non-Performing Assets / Total Assets	0.00%	0.06%	0.06%	0.05%	0.06%	0.71%	0.67%	0.65%	0.54%	0.63%	0.58%	0.60%	

### PROFITABILITY (annualized)

Return on Average Assets	0.77%	0.67%	0.72%	0.66%	0.77%	0.60%	0.94%	1.19%	0.10%	1.04%	0.91%	1.16%	1.00%
Return on Average Equity	9.12%	7.73%	8.96%	8.81%	8.75%	10.23%	12.35%	15.53%	11.36%	13.85%	10.94%	16.43%	
Efficiency Ratio	60.99%	66.33%	61.10%	63.74%	60.07%	57.87%	58.50%	52.10%	98.19%	54.05%	54.13%	60.27%	
Yield on Average Earning Assets	7.25%	7.27%	6.85%	6.85%	6.51%	6.50%	6.61%	6.54%	6.58%	6.45%	6.33%	6.16%	
Cost of Funds	4.11%	4.19%	3.61%	3.55%	3.40%	3.47%	3.14%	3.01%	2.99%	2.92%	2.67%	2.67%	
Cost of Interest Bearing Liabilities	4.40%	4.47%	3.86%	3.82%	3.65%	3.53%	3.37%	3.25%	3.20%	3.14%	3.08%	3.07%	
Interest Margin	3.17%	3.09%	3.23%	3.10%	3.11%	3.23%	3.48%	3.53%	3.69%	3.57%	3.47%	3.28%	3.50%
Overhead Costs / Average Assets	2.77%	2.96%	2.58%	2.71%	2.70%	2.70%	2.61%	2.61%	3.86%	2.92%	2.76%	1.89%	

### ASSET QUALITY

Allowance for Loan Losses / Loans	1.34%	1.34%	1.35%	1.34%	1.36%	1.32%	1.32%	1.31%	1.31%	1.31%	1.32%	1.31%
Net Charge-offs / Average Loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.03%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Non-performing Assets / Average Loans	0.00%	0.07%	0.07%	0.07%	0.07%	0.85%	0.62%	0.78%	0.76%	0.74%	0.73%	0.73%

### CAPITAL

Equity / Assets	8.23%	8.10%	7.87%	7.74%	7.82%	7.76%	7.60%	7.74%	7.42%	7.48%	7.54%	8.68%	7.00%
Equity + ALLL / Assets	9.36%	9.23%	8.98%	8.84%	8.93%	8.87%	8.69%	8.86%	8.53%	8.59%	8.98%	9.97%	8.00%

### SHAREHOLDER

Book Value per Share	\$28.27	\$28.50	\$14.28	\$14.37	\$14.42	\$14.38	\$14.51	\$14.76	\$14.52	\$14.65	\$15.65	\$16.24	
Earnings per Share	\$0.22	\$0.17	\$0.11	\$0.10	\$0.12	\$0.12	\$0.18	\$0.19	\$0.02	\$0.17	\$0.12	\$0.25	
Dividend Pay-out Ratio	0.00%	0.00%	6.15%	0.00%	0.00%	8.15%	0.00%	0.00%	6.15%	0.00%	0.00%	6.85%	35.00%
Retention Ratio	100%	100%	94%	100%	100%	94%	100%	100%	94%	100%	100%	93%	
Dividend Yield	0.00%	0.00%	2.00%	0.00%	0.00%	1.60%	0.00%	0.00%	1.60%	0.00%	0.00%	1.60%	

### LIQUIDITY

Liquidity Ratio*	97.3%	10.51%	13.07%	12.36%	12.87%	9.67%	13.23%	8.86%	9.47%	8.37%	18.20%	11.93%	3.00%
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\*Does not include AFS Securities