

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 Except to the extent supplemented or superseded by the terms set forth herein or in the Schedules hereto, the provisions contained in the Securities Purchase Agreement – Standard Terms attached hereto as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.

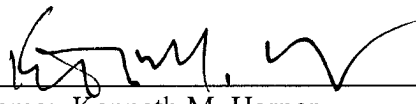
* * *

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:
Title:

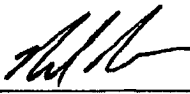
GREER BANCSHARES INCORPORATED

By:  _____
Name: Kenneth M. Harper
Title: Chief Executive Officer

Date: January 30, 2009

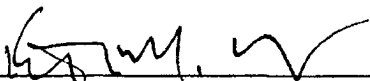
In witness whereof, this letter agreement has been duly executed and delivered by the duly authorized representatives of the parties hereto as of the date written below.

**UNITED STATES DEPARTMENT OF THE
TREASURY**

By:  _____

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

GREER BANCSHARES INCORPORATED

By:  _____

Name: **Kenneth M. Harper**
Title: **Chief Executive Officer**

Date: January 30, 2009

EXHIBIT A

SECURITIES PURCHASE AGREEMENT

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

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 draftsperson 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 of 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 30th calendar day following the Signing Date; *provided, however*, that in the event the Closing has not occurred by such 30th 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 30th 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 NON-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 Non-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 Non-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]¹ 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]

¹ 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) “Acquiror,” in any Holding Company Transaction, means the surviving or resulting entity or its ultimate parent in the case of a merger or consolidation or the transferee in the case of a sale, lease or other transfer in one transaction or a series of related transactions of all or substantially all of the consolidated assets of the Issuer and its subsidiaries, taken as a whole.

(b) “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.

(c) “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.

(d) “Bank Holding Company” means a company registered as such with the Board of Governors of the Federal Reserve System pursuant to 12 U.S.C. §1842 and the regulations of the Board of Governors of the Federal Reserve System thereunder.

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

(f) “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.

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

(h) “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.

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

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

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

(l) “Holding Company Preferred Stock” has the meaning set forth in Section 7(c)(iv).

(m) “Holding Company Transaction” means the occurrence of (a) any transaction (including, without limitation, any acquisition, merger or consolidation) the result of which is that a “person” or “group” within the meaning of Section 13(d) of the Securities Exchange Act of 1934, as amended, (i) becomes the direct or indirect ultimate “beneficial owner,” as defined in Rule 13d-3 under that Act, of common equity of the Issuer representing more than 50% of the voting power of the outstanding Common Stock or (ii) is otherwise required to consolidate the Issuer for purposes of generally accepted accounting principles in the United States, or (b) any consolidation or merger of the Issuer or similar transaction or any sale, lease or other transfer in one transaction or a series of related transactions of all or substantially all of the consolidated assets of the Issuer and its subsidiaries, taken as a whole, to any Person other than one of the Issuer’s subsidiaries; *provided that*, in the case of either clause (a) or (b), the Issuer or the Acquiror is or becomes a Bank Holding Company or Savings and Loan Holding Company.

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

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

(p) “Person” means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint-stock company, limited liability company or trust.

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

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

(s) “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).

(t) “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.

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

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

(w) “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, non-cumulative cash dividends with respect to each Dividend Period (as defined below) at a rate per annum equal to the Applicable Dividend Rate on the Liquidation Amount per share of Designated Preferred Stock, and no more, 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) Non-Cumulative. Dividends on shares of Designated Preferred Stock shall be non-cumulative. If the Board of Directors or any duly authorized committee of the Board of Directors does not declare a dividend on the Designated Preferred Stock in respect of any Dividend Period, the holders of Designated Preferred Stock shall have no right to receive any dividend for such Dividend Period, and the Issuer shall have no obligation to pay a dividend for such Dividend Period, whether or not dividends are declared for any subsequent Dividend Period with respect to the Designated Preferred Stock.

(c) 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 full dividends on all outstanding shares of Designated Preferred Stock for the most recently completed Dividend Period have been or are contemporaneously declared and paid (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 shall bear the same ratio to each other as all accrued but unpaid dividends per share on the Designated Preferred Stock 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 declared and unpaid dividends on each such share (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, the amount equal to any declared and unpaid dividends plus any dividends accrued but unpaid for the then current Dividend Period at the rate set forth in Section 3(a) to, but excluding, the date fixed for redemption (regardless of whether any dividends are actually declared for that Dividend Period).

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, an amount equal to any declared and unpaid dividends plus any dividends accrued but unpaid for the then current Dividend Period at the rate set forth in Section 3(a) to, but excluding, the date fixed for redemption (regardless of whether any dividends are actually declared for that Dividend Period); *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 for the then current Dividend Period 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 full dividends have been paid on the Designated Preferred Stock for at least four consecutive Dividend Periods, 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;

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Subject to Section 7(c)(iv) below, 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; or

(iv) Holding Company Transactions. Any consummation of a Holding Company Transaction, unless as a result of the Holding Company Transaction each share of Designated Preferred Stock shall be converted into or exchanged for one share with an equal liquidation preference of preference securities of the Issuer or the Acquiror (the "Holding Company Preferred Stock"). Any such Holding Company Preferred Stock shall entitle holders thereof to cumulative dividends from the date of issuance of such Holding Company Preferred Stock at a rate per annum equal to the Applicable Dividend Rate on the amount of liquidation preference of such stock, and shall have such other 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 conversion or exchange, 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 CERTIFICATE OF DESIGNATIONS
FOR WARRANT PREFERRED STOCK**

[SEE ATTACHED]

FORM OF [CERTIFICATE OF DESIGNATIONS]

OF

FIXED RATE NON-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 Non-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 Non-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]¹ 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 Non-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]

¹ 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) “Acquiror,” in any Holding Company Transaction, means the surviving or resulting entity or its ultimate parent in the case of a merger or consolidation or the transferee in the case of a sale, lease or other transfer in one transaction or a series of related transactions of all or substantially all of the consolidated assets of the Issuer and its subsidiaries, taken as a whole.

(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) “Bank Holding Company” means a company registered as such with the Board of Governors of the Federal Reserve System pursuant to 12 U.S.C. §1842 and the regulations of the Board of Governors of the Federal Reserve System thereunder.

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

(e) “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.

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

(g) “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.

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

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

- (j) “Dividend Record Date” has the meaning set forth in Section 3(a).
- (k) “Holding Company Preferred Stock” has the meaning set forth in Section 7(c)(iv).
- (l) “Holding Company Transaction” means the occurrence of (a) any transaction (including, without limitation, any acquisition, merger or consolidation) the result of which is that a “person” or “group” within the meaning of Section 13(d) of the Securities Exchange Act of 1934, as amended, (i) becomes the direct or indirect ultimate “beneficial owner,” as defined in Rule 13d-3 under that Act, of common equity of the Issuer representing more than 50% of the voting power of the outstanding Common Stock or (ii) is otherwise required to consolidate the Issuer for purposes of generally accepted accounting principles in the United States, or (b) any consolidation or merger of the Issuer or similar transaction or any sale, lease or other transfer in one transaction or a series of related transactions of all or substantially all of the consolidated assets of the Issuer and its subsidiaries, taken as a whole, to any Person other than one of the Issuer’s subsidiaries; *provided* that, in the case of either clause (a) or (b), the Issuer or the Acquiror is or becomes a Bank Holding Company or Savings and Loan Holding Company.
- (m) “Liquidation Preference” has the meaning set forth in Section 4(a).
- (n) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.
- (o) “Person” means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint-stock company, limited liability company or trust.
- (p) “Preferred Director” has the meaning set forth in Section 7(b).
- (q) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.
- (r) “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).
- (s) “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.
- (t) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.
- (u) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(v) “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, non-cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 9.0% on the Liquidation Amount per share of Designated Preferred Stock, and no more, 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) Non-Cumulative. Dividends on shares of Designated Preferred Stock shall be non-cumulative. If the Board of Directors or any duly authorized committee of the Board of Directors does not declare a dividend on the Designated Preferred Stock in respect of any Dividend Period, the holders of Designated Preferred Stock shall have no right to receive any dividend for such Dividend Period, and the Issuer shall have no obligation to pay a dividend for

such Dividend Period, whether or not dividends are declared for any subsequent Dividend Period with respect to the Designated Preferred Stock.

(c) 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 full dividends on all outstanding shares of Designated Preferred Stock for the most recently completed Dividend Period have been or are contemporaneously declared and paid (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 shall bear the same ratio to each other as all accrued but unpaid dividends per share on the Designated Preferred Stock 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 declared and unpaid dividends on each such share (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, the amount equal to any declared and unpaid dividends plus any dividends accrued but unpaid for the then current Dividend Period at the rate set forth in Section 3(a) to, but excluding, the date fixed for redemption (regardless of whether any dividends are actually declared for that Dividend Period).

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, an amount equal to any declared and unpaid dividends plus any dividends accrued but unpaid for the then current Dividend Period at the rate set forth in Section 3(a) to, but excluding, the date fixed for redemption (regardless of whether any dividends are actually declared for that Dividend Period); *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 for the then current Dividend Period 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 full dividends have been paid on the Designated Preferred Stock for at least four consecutive Dividend Periods, 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;

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Subject to Section 7(c)(iv) below, 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; or

(iv) Holding Company Transactions. Any consummation of a Holding Company Transaction, unless as a result of the Holding Company Transaction each share of Designated Preferred Stock shall be converted into or exchanged for one share with an equal liquidation preference of preference securities of the Issuer or the Acquiror (the "Holding Company Preferred Stock"). Any such Holding Company Preferred Stock shall entitle holders thereof to cumulative dividends from the date of issuance of such Holding Company Preferred Stock at a per annum rate of 9.0% on the amount of liquidation preference of such stock, and shall have such other 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 conversion or exchange, 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:¹ _____

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:²

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:³

Item 8

Company's address:

Item 9

Notice information:

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

³ 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 Warrantholder (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 2.2(H)
FINANCIAL STATEMENTS

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-33021

GREER BANCSHARES INCORPORATED

(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction of
incorporation or organization)

57-1126200
(I.R.S. Employer
Identification No.)

1111 W. Poinsett Street, Greer, South Carolina
(Address of principal executive offices)

29650
(Zip Code)

(864) 877-2000
(Registrant's telephone number, including area code)

[None]
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at 10/31/08
Common Stock, \$5.00 par value per share	2,486,692 shares

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Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands, except per share data)

	<u>September 30, 2008</u>	<u>December 31, 2007 *</u>
ASSETS		
Cash and due from banks	\$ 7,396	\$ 7,049
Interest bearing deposits in banks	967	426
Federal funds sold	2,751	—
Cash and cash equivalents	11,114	7,475
Investment securities:		
Held to maturity (fair value of approximately \$16,436 and \$19,281, respectively)	16,709	19,586
Available for sale	81,253	79,565
Loans, net of allowance for loan losses of \$3,498 and \$2,233, respectively	296,032	260,778
Premises and equipment, net	6,336	6,573
Accrued interest receivable	1,904	2,448
Restricted stock	5,510	4,943
Other assets	10,746	8,337
Total Assets	<u>\$ 429,604</u>	<u>\$ 389,705</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits		
Non interest-bearing	\$ 33,177	\$ 30,396
Interest-bearing	247,649	214,197
Total Deposits	280,826	244,593
Short term borrowings	3,000	3,004
Long term borrowings	125,341	113,441
Other liabilities	4,183	4,231
Total Liabilities	413,350	365,269
Stockholders' Equity:		
Preferred stock – no par value, 200,000 shares authorized	—	—
Common stock – par value \$5 per share, 10,000,000 shares authorized, 2,486,692 and 2,481,836 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	12,433	12,409
Additional paid in capital	3,383	3,260
Retained earnings	1,150	8,610
Accumulated other comprehensive income (loss)	(712)	157
Total Stockholders' Equity	16,254	24,436
Total Liabilities and Stockholders' Equity	<u>\$ 429,604</u>	<u>\$ 389,705</u>

* This information is derived from Audited Consolidated Financial Statements.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**GREER BANCSHARES INCORPORATED**

Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands, except per share data)

	For Three Months Ended		For Nine Months Ended	
	09/30/08	09/30/07	09/30/08	09/30/07
Interest Income:				
Loans (including fees)	\$ 4,682	\$ 5,311	\$ 13,911	\$ 15,413
Investment securities:				
Taxable	1,210	725	3,485	2,260
Exempt from federal income tax	222	245	695	735
Federal funds sold	4	2	36	84
Other	4	9	13	28
Total interest income	6,122	6,292	18,140	18,520
Interest Expense:				
Interest on deposit accounts	1,854	2,032	5,853	6,128
Interest on short term borrowings	21	128	65	375
Interest on long term borrowings	1,264	1,048	3,725	2,918
Total interest expense	3,139	3,208	9,643	9,421
Net interest income	2,983	3,084	8,497	9,099
Provision for loan losses	928	30	1,469	1,679
Net interest income after provision for loan losses	2,055	3,054	7,028	7,420
Noninterest income:				
Customer service fees	219	213	649	677
Gain on sale of investment securities	—	—	200	—
Impairment loss on investment securities	(7,935)	—	(7,935)	—
Other operating income	433	397	1,580	1,173
Total noninterest income (loss)	(7,283)	610	(5,506)	1,850
Noninterest expenses:				
Salaries and employee benefits	1,250	1,440	4,387	4,253
Occupancy and equipment	245	252	695	696
Postage and supplies	76	75	236	230
Marketing expenses	105	110	301	277
Directors fees	66	42	199	148
Professional fees	95	97	294	333
Other noninterest expenses	399	312	1,520	999
Total noninterest expenses	2,236	2,328	7,632	6,936
Income (loss) before income taxes	(7,464)	1,336	(6,110)	2,334
Provision (benefit) for income taxes:	(271)	403	7	586
Net income (loss)	\$ (7,193)	\$ 933	\$ (6,117)	\$ 1,748
Basic net income (loss) per share of common stock	<u>\$ (2.89)</u>	<u>\$.38</u>	<u>\$ (2.46)</u>	<u>\$.71</u>
Diluted net income (loss) per share of common stock	<u>\$ (2.89)</u>	<u>\$.38</u>	<u>\$ (2.46)</u>	<u>\$.70</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
 Consolidated Statements of Comprehensive Loss
 (Unaudited)
 (Dollars in thousands)

	<u>For Three Months Ended</u>		<u>For Nine Months Ended</u>	
	<u>09/30/08</u>	<u>09/30/07</u>	<u>09/30/08</u>	<u>09/30/07</u>
Net Income (Loss)	\$ (7,193)	\$ 933	\$ (6,117)	\$ 1,748
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) on investment securities	(7,511)	509	(8,679)	(96)
Less reclassification adjustments for losses included in net income (loss)	<u>7,935</u>	<u>—</u>	<u>7,810</u>	<u>—</u>
Subtotal	<u>424</u>	<u>509</u>	<u>(869)</u>	<u>(96)</u>
Comprehensive Income (Loss)	<u>\$ (6,769)</u>	<u>\$ 1,442</u>	<u>\$ (6,986)</u>	<u>\$ 1,652</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
 Consolidated Statement of Changes in Stockholders' Equity
 For the Nine Months Ended September 30, 2008
 (Unaudited)
 (Dollars in thousands, except per share data)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
Balances at 12/31/2007	\$12,409	\$ 3,260	\$ 8,610	\$ 157	\$ 24,436
Cumulative effect of a change in accounting principle (Note 5)	—	—	(75)	—	(75)
Net loss	—	—	(6,117)	—	(6,117)
Other comprehensive loss, net of tax	—	—	—	(869)	(869)
Stock exercised pursuant to stock option plan	24	23	—	—	47
Stock based compensation	—	100	—	—	100
Cash dividends (\$.51 per share)	—	—	(1,268)	—	(1,268)
Balances at 9/30/2008	<u>\$12,433</u>	<u>\$ 3,383</u>	<u>\$ 1,150</u>	<u>\$ (712)</u>	<u>\$ 16,254</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
 Consolidated Statements of Cash Flows
 (Unaudited)
 (Dollars in thousands)

	<u>For the Nine Months Ended</u>	
	<u>09/30/08</u>	<u>09/30/07</u>
Operating activities		
Net income (loss)	\$ (6,117)	\$ 1,748
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	358	345
Gain on sale of securities	(200)	—
Gain on sale of interest rate floor	(153)	—
Other than temporary impairment of investment securities	7,935	—
Provision for loan losses	1,469	1,679
Deferred income tax (benefit)	(711)	129
Stock based compensation	100	138
Increase in cash surrender value of life insurance	(188)	(172)
Net change in:		
Accrued interest receivable	544	48
Other assets	184	129
Accrued interest payable	70	483
Other liabilities	(95)	(994)
Net cash provided by operating activities	<u>3,196</u>	<u>3,533</u>
Investing activities		
Activity in available-for-sale securities:		
Sales	16,250	—
Maturities, payment and calls	6,987	4,350
Purchases	(34,073)	—
Activity in held to maturity securities:		
Maturities, payment and calls	2,877	3,154
Purchase of restricted stock	(567)	(405)
Net increase in loans	(37,818)	(12,021)
Purchase of life insurance	—	(1,000)
Purchase of premises and equipment	(121)	(366)
Net cash used for investing activities	<u>(46,465)</u>	<u>(6,288)</u>
Financing activities		
Net increase (decrease) in deposits	36,233	(11,399)
Repayment of notes payable to FHLB	(41,400)	(9,513)
Proceeds from notes payable to FHLB	53,300	15,000
Net increase (decrease) in short term borrowings	(4)	3,739
Proceeds from exercise of stock options	47	92
Tax benefit from stock option exercise	—	8
Cash dividends paid	(1,268)	(847)
Net cash provided by (used for) financing activities	<u>46,908</u>	<u>(2,920)</u>
Net (decrease) increase in cash and cash equivalents	3,639	(5,675)
Cash and equivalents, beginning of period	<u>7,475</u>	<u>11,690</u>
Cash and equivalents, end of period	<u>\$ 11,114</u>	<u>\$ 6,015</u>

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GREER BANCSHARES INCORPORATED
Consolidated Statements of Cash Flows-Continued
(Unaudited)
(Dollars in thousands)

	<u>For the Nine Months Ended</u>	
	<u>9/30/08</u>	<u>9/30/07</u>
Cash paid for		
Income taxes	\$ 791	\$ 1,010
Interest	<u>\$ 9,573</u>	<u>\$ 8,938</u>
Non-cash investing and financing activities		
Real estate acquired in satisfaction of loans	\$ 1,095	\$ —
Unrealized losses on investment securities net of tax	<u>\$ (869)</u>	<u>\$ (96)</u>
Adoption of new accounting principle charged to retained earnings (Note 5)	<u>\$ (75)</u>	<u>\$ —</u>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**GREER BANCSHARES INCORPORATED**
Notes to Consolidated Financial Statements**Note 1 – Basis of Presentation**

Greer Bancshares Incorporated (the “Company”) is a one-bank holding company for Greer State Bank (the “Bank”). The Company currently engages primarily in owning and managing the Bank.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. The statements of income and comprehensive income for the interim periods are not necessarily indicative of the results that may be expected for the entire year or any other future interim period.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the Company for the year ended December 31, 2007, which are included in the 2007 Annual Report on Form 10-K.

Note 2 – Income (Loss) per Common Share

Basic and diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during each period presented. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of potential common stock options, using the treasury stock method. There are no potential common shares assumed in the diluted net loss per share calculation because the impact would be antidilutive.

The weighted average common shares outstanding for the nine months ended September 30, 2008 and September 30, 2007 were 2,484,560 and 2,478,112, respectively (basic) and 2,484,560 and 2,509,547, respectively (diluted). The weighted average common shares outstanding for the three months ended September 30, 2008 and September 30, 2007 were 2,486,692 and 2,481,453, respectively (basic) and 2,486,692 and 2,503,511, respectively (diluted). Anti-dilutive options totaling 318,031 and 145,300 have been excluded from the income (loss) per share calculation for the nine months ended September 30, 2008 and September 30, 2007, respectively. Anti-dilutive options totaling 572 and 82,000 have been excluded from the income (loss) per share calculation for the three months ended September 30, 2008 and 2007, respectively.

Note 3 – Income Taxes

The Company files a consolidated federal income tax return and separate state income tax returns. Income taxes are allocated to each company as if filed separately for federal purposes and based on the separate returns filed for state purposes.

Certain items of income and expense for financial reporting are recognized differently for income tax purposes (principally the provision for loan losses, deferred compensation and depreciation). Provisions for deferred taxes are made in recognition of such temporary differences as required under Statement of Financial Accounting Standard (“SFAS”) No. 109, *Accounting for Income Taxes*. Current income taxes are recorded based on amounts due with the current income tax returns. The need for a valuation allowance is considered when it is determined more likely than not that a deferred tax asset will not be realized.

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Note 4 – Fair Value

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, (SFAS 157), and SFAS No. 159 *The Fair Value Option for Financial Assets and Liabilities*, (SFAS 159). SFAS No. 157, which was issued in September 2006, establishes a framework for using fair value. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 159, which was issued in February 2007, generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. Upon adoption of SFAS 159, the Company did not elect to adopt the fair value option for any financial instruments.

SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, asset-backed securities and residential mortgage loans held-for-sale.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, impaired loans and highly structured or long-term derivative contracts.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investments Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices of like or similar securities, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan

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agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*, (SFAS 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2008, all loans considered to be impaired were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraisal value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets and liabilities measured at fair value:

(Amounts in thousands) Description	9/30/2008	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Available for sale securities	\$ 81,253	\$ —	\$ 81,253	—

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Corporation may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

(Amounts in thousands) Description	9/30/2008	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Impaired loans	\$ 4,735	\$ —	\$ —	\$ 4,735

Note 5 – Other than Temporary Impairment

The Bank holds 320,000 shares of Series S Federal National Mortgage Association (“FNMA”) preferred stock and one investment in an asset-backed security in its available-for-sale investment portfolio, with costs of approximately \$8,049,000 and \$1,000,000 at June 30, 2008, respectively.

On September 7, 2008, the United States Department of Treasury and the Federal Housing Finance Agency (“FHFA”) announced that both the FNMA and the Federal Home Loan Mortgage Corporation (“FHLMC”) were being placed under conservatorship and that management of the entities would be under the control of the FHFA, which is their regulator. The plan announced by the Treasury Department and the FHFA includes, among other things, the elimination of dividends on FNMA and FHMLC common and preferred stock. Further, the preferred stock of FNMA and FHLMC were also downgraded by rating agencies to below investment grade.

Subsequent to June 30, 2008, two of the approximately forty-five underlying trust preferred stock issuers in the asset-backed security defaulted under the terms of the indenture, one issuer deferred interest payments and the Bank’s ownership tranche was downgraded by rating agencies.

In view of these facts, management concluded the market value declines were other than temporary. The Bank recorded other than temporary impairment (“OTTI”) noncash charges of approximately \$7,352,000 and

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\$583,000 through earnings on September 30, 2008, as required by SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115) with respect to its holdings of the FNMA preferred stock and the asset-backed security, respectively. The OTTI charges were based on the market values of the investments on that date, or a closing price of \$2.18 per share for the FNMA preferred stock and approximately \$444,000 for the asset-backed security as determined by a discounted cash flow analysis.

Note 6 – New Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that affect accounting, reporting and disclosure of financial information by the Company.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”), Implementation Issue No. E23, *Hedging – General: Issues Involving the Application of the Shortcut Method under Paragraph 68* (“Issue E23”). Issue E23 amends SFAS 133 to explicitly permit use of the shortcut method for hedging relationships in which interest rate swaps have nonzero fair value at the inception of the hedging relationship, provided certain conditions are met. Issue E23 was effective for hedging relationships designated on or after January 1, 2008. The implementation of this guidance did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (“SFAS 161”). SFAS 161 expands quarterly disclosure requirements in SFAS 133 about an entity’s derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact of SFAS 161 on its consolidated financial position and results of operations.

The Emerging Issues Task Force (“EITF”) reached a consensus at its September 2006 meeting regarding EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The scope of EITF 06-4 is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Therefore, this EITF would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee’s active service period with an employer. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company adopted EITF 06-04 at the beginning of 2008 and calculated the impact on beginning retained earnings to be \$75,031 on January 1, 2008.

In October 2008, the Financial Accounting Standards Board (“FASB”) issued a FASB Staff Position (“FSP”) No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FAS 157-3 clarifies the application of FASB Statement No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. The Bank adopted FAS 157-3 in the third quarter ended September 30, 2008.

In June 2008, the FASB issued a FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. The guidance in this FSP applies to the calculation of earnings per share (“EPS”) under Statement 128 for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP is effective for financial statements issued in fiscal years beginning after December 15, 2008. The Company is currently evaluating the effects of this FSP on its EPS calculation and related disclosures.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****RESULTS OF OPERATIONS****Overview**

The following discussion describes and analyzes our results of operations and financial condition for the quarter ended September 30, 2008 as compared to the quarter ended September 30, 2007, as well as results for the nine months ended September 30, 2008 and September 30, 2007. You are encouraged to read this discussion and analysis in conjunction with the financial statements and the related notes included in this report. Throughout this discussion, amounts are rounded to the nearest thousand, except per share data or percentages.

Like most community banks, most of our income is derived from interest received on loans and investments. The primary source of funds for making these loans and investments is deposits, most of which are interest-bearing. Consequently, one of the key measures of our success is net interest income, or the difference between the income on interest-earning assets, such as loans and investments, and the expense on interest-bearing liabilities, such as deposits and Federal Home Loan Bank advances. Another key measure is the spread between the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities.

Of course, there are risks inherent in all loans, so an allowance for loan losses is maintained to absorb probable losses on existing loans that may become uncollectible. This allowance is established and maintained by charging a provision for loan losses against current operating earnings. (See "Provision for Loan Losses" for a detailed discussion of this process.)

In addition to earning interest on loans and investments, income is also earned through fees and other charges to the Bank's customers. The various components of this non-interest income, as well as non-interest expense, are described in the following discussion.

The Company reported a consolidated net loss of \$7,193,000, or \$2.89 per diluted share, for the quarter ended September 30, 2008, compared to consolidated net income of \$933,000, or \$.38 per diluted share, for the quarter ended September 30, 2007, a decrease of \$8,126,000. For the nine months ended September 30, 2008, the Company reported a consolidated net loss of \$6,117,000, or \$2.46 per diluted share, compared to consolidated net income of \$1,748,000 or \$.70 per diluted share for the nine months ended September 30, 2007, a decrease of \$7,865,000. The net losses for the three and nine months ended September 30, 2008 were the result of significant impairment charges taken in September. For additional information regarding the impairment charges, see the discussions below under "Noninterest Income (Loss)" and "Securities". Had the impairment charges not been necessary, net income for the three months and nine months ended September 30, 2008 would have been approximately \$405,000 and \$1,481,000, respectively.

Interest Income, Interest Expense and Net Interest Income

The Company's total interest income for the quarter ended September 30, 2008 was \$6,122,000, compared to \$6,292,000 for the quarter ended September 30, 2007, a decrease of \$170,000 or 2.7%. Total interest income for the nine months ended September 30, 2008 decreased by \$380,000 or 2.1%, from \$18,520,000 for the nine months ended September 30, 2007. Interest and fees on loans is the largest component of total interest income and decreased \$629,000 or 11.8%, to \$4,682,000 for the quarter ended September 30, 2008, compared to \$5,311,000 for the quarter ended September 30, 2007 and decreased \$1,502,000, or 9.7% for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The decline in interest and fees on loans for the three and nine months ended September 30, 2008 was due primarily to the 275 basis points reduction in the federal funds target rate by the Federal Open Market Committee since the third quarter of 2007. This drastic rate reduction, which occurred in the period from October 31, 2007 until April 30, 2008, affected approximately \$140 million in loans indexed to the Wall Street Journal Prime Rate, which were immediately repriced. Approximately \$44 million of the Bank's loans indexed to the WSJ Prime Rate have floors of 5.0% or higher and will not be affected by further declines in the prime rate. The average yields on the Company's loan portfolio for the nine months

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ended September 30, 2008 and September 30, 2007 were 6.16% and 7.84%, respectively. The loss of interest income as a result of repriced loans was slightly offset by increased average loan balances outstanding of \$33,408,000 for the nine months ended September 30, 2008 compared to the same period in 2007.

Interest income on investment securities increased by \$462,000 in the three months ended September 30, 2008 compared to the three months ended September 30, 2007 due primarily to an approximate \$29,519,000 increase in average balances of investment securities for the three months ended September 30, 2008 compared to the same period in 2007. Interest income on investment securities increased approximately \$1,185,000 in the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 primarily as the result of an increase of approximately \$25,373,000 in the average balances of investment securities for the nine months ended September 30, 2008 compared to the same period in 2007. The yield curve for market interest rates steepened during the first half of 2008 and allowed opportunities for bond swap and leveraged transactions in the Bank's investment portfolio which resulted in the increases in interest income on the investment portfolio and gains on the sale of securities. The weighted average yield on the investment portfolio was 5.59% on September 30, 2008, compared to 5.31% on September 30, 2007.

The Company's total interest expense for the three months ended September 30, 2008 decreased slightly to \$3,139,000, compared to \$3,208,000 for the three months ended September 30, 2007. For the nine months ended September 30, 2008 and September 30, 2007, total interest expense was \$9,643,000 and \$9,421,000, respectively, which was an increase of \$222,000, or 2.4%. The largest component of the Company's interest expense is interest expense on deposits. Despite increases in average balances of deposits of \$36,455,000 and \$22,366,000 for the three and nine months ended September 30, 2008, respectively, compared to the same periods in 2007, interest expense on deposits remained relatively stable, as a result of a decline in interest rates. Market interest rate decreases resulted in the weighted average rate on certificates of deposit declining from 4.91% at September 30, 2007 to 3.66% at September 30, 2008.

For the three months ended September 30, 2008, interest expense on short-term borrowings declined \$107,000, or 83.6%, to \$21,000, compared to \$128,000 for the three months ended September 30, 2007. Interest expense on short-term borrowings was \$65,000 for the nine months ended September 30, 2008, compared to \$375,000 for the nine months ended September 30, 2007, a reduction of \$310,000, or 82.7%. The primary reason for the decline in interest expense on short-term borrowings for the three and nine month periods ended September 30, 2008 compared to the same periods in 2007, was due to the issuance of \$15,000,000 in long term, callable borrowings in November 2007 as part of a leveraged investment transaction. These long term, callable borrowings replaced short term repurchase agreements and were obtained at lower interest rates.

Net interest income, which is the difference between interest earned on assets and the interest paid for the liabilities used to fund those assets, measures the spread earned on lending and investing activities and is the primary contributor to the Company's earnings. Net interest income before provision for loan losses decreased \$101,000, or 3.3%, to \$2,983,000 for the quarter ended September 30, 2008, compared to \$3,084,000 for the quarter ended September 30, 2007. For the nine months ended September 30, 2008, net interest income before provision for loan losses decreased \$602,000, or 6.6%, to \$8,497,000 compared to \$9,099,000 at September 30, 2007. The Company's balance sheet is asset sensitive in the short term, meaning assets reprice faster than liabilities, largely due to the amount of variable rate loans in the loan portfolio. Balance sheets that are asset sensitive typically produce more earnings as interest rates rise and likewise, earnings decline as interest rates fall. (See the above discussion of reductions in market interest rates).

Provision for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem credits. On a quarterly basis, the Bank's Loan Committee of the Board of Directors reviews and approves the appropriate level for the allowance for loan losses based upon management's recommendations and the results of the internal monitoring and reporting

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systems. Management also monitors historical statistical data for both the Bank and other financial institutions. The adequacy of the allowance for loan losses and the effectiveness of the monitoring and analysis system are also reviewed by the Bank's regulators and the Company's internal auditor.

The allowance for loan losses is based upon judgments and assumptions of risk elements in the portfolio, economic conditions and other factors affecting borrowers. The process includes identification and analysis of loss inherent in various portfolio segments utilizing a credit risk grading process and specific reviews and evaluations of significant problem credits. In addition, management monitors the overall portfolio quality through observable trends in delinquency, charge-offs and general conditions in the Company's market area.

The provision for loan losses charged to operations during the three months ended September 30, 2008 was \$928,000, compared to \$30,000 for the same period in 2007. The increase was due primarily to provisions of approximately \$779,000 related to the valuation of two impaired loans. For the nine months ended September 30, 2008, the loan loss provision was \$1,469,000, compared with \$1,679,000 for the same period in 2007. Provisions were made based on the results of the Company's loan loss reserve model which was adopted in June 2007. An impaired loan for \$1,287,398 was charged off in June 2007, resulting in large provisions in the nine months ended September 30, 2007. The charged-off loan was originated through a specialized "asset-based" lending program that the Company began in 1996, and after careful evaluation, discontinued in early 2007. Updated appraisals obtained during the impaired loan valuation analysis that showed decreased market values resulted in significant increases to the loan loss provision in the three and nine months ended September 30, 2008. See also the discussion below under "Allowance for Loan Losses."

Noninterest Income (Loss)

Noninterest income decreased to a loss of \$7,283,000 for the quarter ended September 30, 2008 compared to income of \$610,000 for the same period in 2007. Noninterest income decreased to a loss of \$5,506,000, for the nine months ended September 30, 2008, compared with income of \$1,850,000 at September 30, 2007. The primary reasons for the decreases are related to impairment losses recorded September 30, 2008. Impairment loss on investment securities for the three and nine months ended September 30, 2008 is the result of declines in the value of Fannie Mae preferred stock and in the value of an asset-backed security. In September management made the determination that the Fannie Mae preferred stock and a trust-preferred pool were "other than temporarily impaired." See discussion under "Balance Sheet Review." This loss was slightly offset by the gains occurring in the first six months of 2008 of \$152,878 on the sale of an interest rate floor and \$200,451 on the sales of investment securities and increased earnings from the Bank's financial services division. Greer Financial Services revenue increased approximately \$137,000 in the nine months ended September 30, 2008 compared to the same period in 2007. The increase can be attributed to a change in personnel in that division, as well as, new investment advice strategies and a change in the fee arrangement.

Noninterest Expenses

Total noninterest expenses for the three months ended September 30, 2008 decreased 3.9%, or \$92,000, to \$2,236,000 compared to \$2,328,000 for the three months ended September 30, 2007. For the nine months ended September 30, 2008, total noninterest expenses increased \$696,000, or 10.0%, to \$7,632,000, from \$6,936,000 for the same period in 2007. Salaries and employee benefits, decreased \$190,000, or 13.2%, for the three months ended September 30, 2008, compared to the three months ended September 30, 2007. This decrease is primarily attributable to management's decision in September 2008 to reverse an accrual of incentive payments since the Bank's earnings goals for 2008 will not be met. Salaries and benefits increased approximately \$134,000, or 3.2%, from \$4,253,000 to \$4,387,000 in the nine months ended September 30, 2008, compared to the same period in 2007. The increase in salaries and benefits for the nine months ended September 30, 2008 compared to the same period in 2007 is related primarily to 2008 salary increases, partially offset by the incentive accrual reversal.

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While salaries and employee benefits increased, occupancy and equipment, postage and supplies, marketing and professional fees remained stable for the three and nine months ended September 30, 2008 compared to the same periods in 2007. Directors' fees increased for the three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007 primarily as the result of the addition of two board members. Other noninterest expenses increased \$87,000, or 27.9%, and \$521,000, or 52.2%, for the three and nine months ended September 30, 2008 as compared to the same periods in 2007 primarily as the result of increases in FDIC insurance assessments and expenses related to other real estate owned. Included in 2008 noninterest expenses was the second quarter write-off of construction in process charges totaling \$247,000, related to the design of an administrative and operations center, the construction of which has been postponed.

Income Tax Expense

The Company had an increase in the tax benefit of \$674,000 and a decrease in the tax provision of \$579,000 for the three and nine months ended September 30, 2008 compared to the same periods in 2007, respectively, due to the state tax benefits generated from the impairment loss on investments. Because the FNMA preferred stock is considered a capital item for federal tax purposes at September 30, 2008, the other-than-temporary impairment charge results in a capital loss and can only be used to offset current capital gains and capital gains going forward five years, thus generating a deferred tax asset for federal tax purposes. Due to the current composition of the investment portfolio and other assets held by the Bank, it is not likely that the Bank would be able to generate capital gains; therefore, a federal tax valuation allowance of approximately \$2,500,000 was created. New tax law was enacted October 3, 2008 to allow the treatment of the impairment charge as an ordinary loss. As a result of the new tax treatment, the federal income tax valuation allowance will be reversed in October 2008.

BALANCE SHEET REVIEW**Loans**

Outstanding loans represent the largest component of earning assets at 72.9% of total earning assets as of September 30, 2008. Gross loans totaled \$299,530,000 as of September 30, 2008, which is a \$36,519,000, or 13.9%, increase over gross loans of \$263,011,000 as of December 31, 2007. Adjustable rate loans totaled 67.4% of the loan portfolio as of September 30, 2008, which allows the Company to be in a favorable position as interest rates rise. The Company's loan portfolio consists primarily of real estate mortgage loans, commercial loans and consumer loans. Substantially all of these loans are to borrowers located in South Carolina and are concentrated in the Company's local market area.

Allowance for Loan Losses

The allowance for loan losses at September 30, 2008 was \$3,498,000, or 1.17% of gross loans outstanding, compared to \$2,233,000 or .85% of gross loans outstanding at December 31, 2007. The increase of \$1,265,000, or .32%, in the allowance is primarily a result of increased non-performing loans and impaired loan valuations at September 30, 2008 compared to December 31, 2007, slightly offset by loan charge-offs. The allowance at September 30, 2008 includes an allocation of \$1,545,000 for valuation allowances related to impaired loans compared to \$65,000 at December 31, 2007. As discussed above in "Provision for Loan Losses," after several months of data entry and testing, the Company implemented a new loan loss model in June 2007 which has more complex features to provide greater precision and increased objectivity in estimating the allowance. Internal reviews and evaluations of the Company's loan portfolio for the purpose of identifying potential problem loans, external reviews by federal and state banking examiners, management's consideration of current economic conditions, and other relevant risk factors are also used in evaluating the adequacy of the allowance for loan losses. The level of loan loss reserves is monitored on an on-going basis. The evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Actual losses will undoubtedly vary from the estimates. Also, there is a possibility that charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time. If delinquencies and defaults increase, additional loan loss provisions may be required, which would adversely affect the Company's results of operations and financial condition.

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At September 30, 2008, the Company had \$6,454,000 in non-accruing loans, twenty-five impaired loans totaling \$6,335,000, \$12,000 in loans more than 90 days past due and still accruing interest and \$1,137,000 in Other Real Estate Owned. This compares to \$2,702,000 in non-accruing loans, one impaired loan for \$1,354,000 and \$100,000 in loans more than 90 days past due and still accruing interest at December 31, 2007. Non-performing loans consisted of \$4,845,000 in mortgage loans, \$1,508,000 in commercial loans and \$101,000 in consumer loans at September 30, 2008. Non-performing loans and Other Real Estate Owned as a percentage of average assets were 1.56% and 0.75% at September 30, 2008 and December 31, 2007, respectively.

Loans on non-accrual are reviewed monthly by management for possible impairment. Impaired loans at September 30, 2008 consisted mainly of commercial loans secured by real estate. The amount of the valuation allowance allocated to the impaired loans was \$1,545,000 at September 30, 2008 compared to \$64,844 at December 31, 2007. Non-performing loans have increased as economic conditions have declined.

Net charge-offs for the first nine months of 2008 were approximately \$204,000. Net loan loss reserves as a percentage of non-performing loans were 54.2% and 82.6% as of September 30, 2008 and December 31, 2007, respectively.

Securities

The investment portfolio is an important contributor to the earnings of the Company. The Company strives to maintain a portfolio that provides necessary liquidity for the Company while maximizing income consistent with the ability of the Company's capital structure to accept nominal amounts of investment risk. During past years when loan demand has not been strong, the Company has utilized the investment portfolio as a means for investing "excess" funds for higher yields, instead of accepting low overnight investment rates. The investment portfolio also provides securities that can be pledged against borrowings as a source of funding for loans. It is management's intent to maintain a significant percentage of the Company's earning assets in the loan portfolio as loan demand allows. As of September 30, 2008, investment securities totaled \$97,962,000 or 23.9% of total earning assets. Investment securities decreased \$1,189,000 or 1.2% from \$99,151,000 as of December 31, 2007, due to the maturity of one municipal security for \$250,000, the call of two municipal securities for \$1,400,000, the impairment valuation for \$7,935,000 discussed below and cash inflows from principal prepayments on mortgage backed securities, netted against the purchase of \$16,440,000 in mortgage backed securities.

On September 7, 2008, the U.S. Treasury, the Federal Reserve and the Federal Housing Finance Agency ("FHFA") announced that the FHFA was placing the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") under conservatorship. Dividends on FNMA preferred securities were suspended and the preferred stocks of FNMA and FHLMC were downgraded by rating agencies to below investment grade. After the conservatorship was announced, the market value of such preferred stock decreased significantly. After much research and discussion, management determined the market value impairment was other than temporary and reduced the cost basis to the fair value at September 30, 2008. As a result, \$7,351,310 was charged to "impairment loss on investment securities" to record an adjustment of the cost to of the FNMA preferred stock to \$697,600. Further impairments may be necessary in future periods if values continue to decline and are deemed other than temporary.

In addition, management determined the market value decline in an asset-backed security to be other than temporary due to the default of two of approximately forty-five underlying trust preferred security issuers, the deferral of interest payments by one issuer and the downgrade of the investment rating of the Bank's tranche by rating agencies. The cost basis was reduced to the fair value as determined by a discounted cash flow analysis at September 30, 2008. As a result, \$583,319 was charged to impairment loss on investment securities to record a new cost of \$444,266. Further impairments may be necessary in future periods if values continue to decline and are deemed other than temporary.

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An increase in longer term market interest rates since December 31, 2007 resulted in an increase in unrealized losses in the Company's investment portfolio. At September 30, 2008 the Company's investment securities classified as Available for Sale had an amortized cost of \$82,332,000 and a market value of \$81,253,000 for an aggregate unrealized loss of \$1,079,000. This compares to an amortized cost of \$79,310,000 and a market value of \$79,565,000 for an unrealized gain of \$255,000 as of December 31, 2007 for those investment securities classified as Available for Sale. Management has evaluated the remaining securities at September 30, 2008 with an unrealized loss and concluded that none of these securities have impairment that is considered other than temporary. The entire gross unrealized losses relate to securities for which management has concluded are temporarily impaired due to changes in market interest rates. Management will continue to monitor these and other unrealized losses in its investment securities portfolio in future periods. To the extent that these unrealized losses are deemed to be other than temporary in future periods, we will record a charge to our income statement to reduce the cost basis of these securities to their fair value.

Cash and Cash Equivalents

The Company's cash and cash equivalents increased \$3,639,000, or 48.7%, to \$11,114,000 at September 30, 2008, compared to \$7,475,000 at December 31, 2007. Balances in due from bank accounts vary depending on the settlement of cash letters and other transactions.

Deposits

The Company receives its primary source of funding for loans and investments from its deposit accounts. Total deposits increased \$36,233,000, or 14.8%, to \$280,826,000 as of September 30, 2008 compared to \$244,593,000 as of December 31, 2007. The increase in deposits during the nine months ended September 30, 2008 is primarily the result of an increase of approximately \$25,700,000 in brokered deposits combined with an increase in core deposits of approximately \$10,500,000. In 2008 Bank management has focused on the acquisition of core deposits in an effort to reduce its cost of funds.

At September 30, 2008 and December 31, 2007, interest-bearing deposits comprised 88.7% and 87.6% of total deposits, respectively. Included in these amounts were brokered deposits of \$47,400,000, or 17.7%, and \$21,717,000, or 8.9%, of total deposits at September 30, 2008 and December 31, 2007, respectively. The Company takes into consideration liquidity needs, direction and level of interest rates and market conditions when pricing deposits.

Borrowings

The Company's borrowings are comprised of federal funds purchased, repurchase agreements, both short-term and long-term advances from the Federal Home Loan Bank of Atlanta and junior subordinated debentures. At September 30, 2008, total borrowings were \$128,341,000, compared with \$116,445,000 as of December 31, 2007. Federal funds purchased were \$3,000,000 and \$3,004,000 at September 30, 2008 and December 31, 2007, respectively. At September 30, 2008 and December 31, 2007, long term repurchase agreements were \$15,000,000. Notes payable to the Federal Home Loan Bank of Atlanta totaled \$99,000,000 as of September 30, 2008 compared to \$87,100,000 as of December 31, 2007. The weighted average rate of interest for the Company's portfolio of Federal Home Loan Bank of Atlanta advances was 3.82% and 4.54% as of September 30, 2008 and December 31, 2007, respectively. The weighted average remaining maturity for Federal Home Loan Bank of Atlanta advances was 2.93 years and 2.68 years as of September 30, 2008 and December 31, 2007, respectively.

In October 2004 and December 2006, the Company issued \$6,186,000 and \$5,155,000 of junior subordinated debentures to its wholly-owned capital trusts, Greer Capital Trust I and Greer Capital Trust II, respectively, to fully and unconditionally guarantee the trust preferred securities issued by the Trusts.

The junior subordinated debentures issued in October 2004 mature in October 2034, but include an option to call the debt in October 2009. Interest payments are due quarterly to Greer Capital Trust I at the three-month LIBOR plus 220 basis points.

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The junior subordinated debentures issued in December 2006 mature in December 2036, but include an option to call the debt in December 2011. Interest payments are due quarterly to Greer Capital Trust II at the three-month LIBOR plus 173 basis points.

Liquidity and Capital Resources

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring sources and uses of funds in order to meet day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities in the investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control. Liquidity is also a measure of the Company's ability to provide funds to meet the needs of depositors and borrowers. The Company's primary goal is to meet these needs at all times. In addition to these basic cash needs, the Company must meet liquidity requirements created by daily operations and regulatory requirements. Liquidity requirements of the Company are met primarily through two categories of funding; core deposits and borrowings.

Core deposits include checking and savings accounts, as well as retail certificates of deposit less than \$100,000. These deposits, which are generally the result of stable consumer and commercial banking relationships, are considered to be a relatively stable component of the Company's mix of liabilities. At September 30, 2008, core deposits totaled approximately \$182 million, or 64.8%, of the Company's total deposits, compared to approximately \$171 million, or 69.9%, of the Company's total deposits as of December 31, 2007.

Unsecured lines of credit with correspondent banks are also sources of liquidity. Of the total lines of credit of \$37,600,000 at September 30, 2008 and December 31, 2007, approximately \$19,600,000 were available for use as of each of those dates. The Bank also has a collateralized borrowing capacity of 30% of total assets from the FHLB. Outstanding FHLB borrowings totaled \$99,000,000 and \$87,100,000 at September 30, 2008 and December 31, 2007, respectively. Unused available FHLB borrowings totaled approximately \$17,340,000 and \$19,700,000 at September 30, 2008 and December 31, 2007, respectively, and were subject to collateral availability.

In addition to the primary funding sources discussed above, secondary sources of liquidity include sales of investment securities which are not held for pledging purposes and sales of other classes of assets.

Greer Bancshares Incorporated, the parent holding company, has very limited liquidity needs, generally requiring liquidity only to pay limited operating expenses and dividends. The cash dividends paid to shareholders are funded by dividends from the Company's banking subsidiary. The Company purchased land in 2006 on which to build an operations center, and engaged an architect to design the building. In June 2008 management made the decision to postpone construction of the building. Therefore, the costs associated with the design of the building were expensed in second quarter 2008 earnings.

Management believes that the Company's available borrowing capacity and efforts to grow deposits are adequate to provide the necessary funding for its banking operations for the remainder of 2008 and 2009. However, management is prepared to take other actions, including potential asset sales, if necessary to maintain appropriate liquidity.

Prior to the OTTI charge discussed above under "Securities," the Bank's capital exceeded the levels defined as "well-capitalized" under regulatory standards, or Leverage, Tier 1 Risk-based and Total Risk-based capital ratios of at least 5.00%, 6.00% and 10.00%, respectively. As a result of the \$7,935,000 impairment charge, the Bank's capital is now considered "adequate" under regulatory standards. At September 30, 2008, the Bank's Leverage, Tier 1 Risk-based and Total Risk-based capital ratios were 6.30%, 8.03% and 9.08%, respectively. Although at the end of the third quarter 2008 the Bank met the

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minimum for two of the three ratios, the Bank's Total Risk-based Capital fell below 10%, the minimum required to be well-capitalized. The primary regulatory impact of the Bank being "adequately" capitalized is that it is subject to restrictions on using brokered deposits and the payment of above market rates on deposits. The Bank has received permission from its primary federal regulator, the FDIC, to generally maintain brokered certificates of deposit at current levels. Also, management does not believe that the deposit interest restriction will materially affect its deposit procurement.

Management is considering several options to increase the Bank's capital in order to return to a "well-capitalized" position as soon as possible. These options include, but are not limited to: securities issuance, balance sheet management, limiting dividend payouts, obtaining a holding company loan to be transferred to the Bank as capital and participation in the U.S. Department of Treasury's Troubled Asset Relief Program ("TARP") Capital Purchase Program.

Forward-looking and Cautionary Statements

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements relate to, among other things, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of management, as well as assumptions made by, and information currently available to, management. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "estimate," "continue," "may," and "intend," as well as other similar words and expressions, are intended to identify forward-looking statements. Actual results may differ materially from the results discussed in the forward-looking statements. The Company's operating performance is subject to various risks and uncertainties including, without limitation:

- significant increases in competitive pressure in the banking and financial services industries;
- reduced earnings due to higher credit losses owing to economic factors, including declining home values, increasing interest rates, increasing unemployment, or changes in payment behavior or other causes;
- the concentration of our portfolio in real estate based loans and the weakness in the commercial real estate market;
- increased funding costs due to market illiquidity, increased competition for funding or other regulatory requirements;
- market risk and inflation;
- level, composition and re-pricing characteristics of our securities portfolios;
- availability of wholesale funding;
- adequacy of capital and future capital needs;
- our reliance on secondary sources of liquidity such as FHLB advances, federal funds lines of credit from correspondent banks and brokered time deposits, to meet our liquidity needs;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment, including recently enacted and proposed legislation;

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- adequacy of the level of our allowance for loan losses;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- changes in monetary and tax policies;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

For a description of factors which may cause actual results to differ materially from such forward-looking statements, see the Company's Annual Report on Form 10-K for the year ended December 31, 2007, and other reports from time to time filed with or furnished to the Securities and Exchange Commission. Investors are cautioned not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made. The Company undertakes no obligation to update any forward-looking statements made in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4T. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the current disclosure controls and procedures are effective as of September 30, 2008. There have been no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Table of Contents**PART II – OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is involved in various legal actions arising in the normal course of business. Management believes that these proceedings will not result in a material loss to the Company.

Item 1A. Risk Factors

Information regarding risk factors appears in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Forward-looking and Cautionary Statements,” in Part I-Item 2 of this Form 10-Q. More detailed information concerning our risk factors may be found in Part I-Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the “Form 10-K”).

Set forth below are additions to the risk factors previously disclosed in Part I-Item 1A of our Form 10-K:

Our use of brokered deposits may be limited as a result of our decline in capital ranking to “adequately capitalized,” which may require us to curtail our asset base and growth.

We solicit deposits from brokers because our banking offices do not attract enough deposits to fund all of the loans that we make. These “brokered deposits” represent funds that brokers gather from third parties and package in batches in order to find higher interest rates that are typically available for certificates of deposits with large balances, as compared to individually deposited smaller denomination deposits. Deposit holders then earn a higher rate on the money that they have invested. The broker charges a fee for its service. Brokered deposits are available in bulk, and do not require any investments in branch offices or branch personnel or spending for marketing or education of employees. At December 31, 2007 and September 30, 2008, approximately \$21,717,000 and \$47,477,000, respectively, of our deposits were brokered deposits.

A well-capitalized bank may accept brokered deposits without restriction. Adequately capitalized banks may only accept or renew such deposits with the consent of the FDIC. As a result of the \$7,935,000 impairment charge discussed above under “Balance Sheet Review,” the Bank is no longer well-capitalized but is now considered adequately capitalized. Although we have received permission from the FDIC, in general, to maintain brokered deposits at current levels, in the future the FDIC may deny permission, or may permit us to accept fewer brokered deposits than the level we consider desirable. Also, our ability to expand the use of brokered deposits to fund our growth or otherwise has been limited. If it were required to reduce its level of brokered deposits, the Bank would have to reduce its assets and, most likely, curtail its lending activities. Any reduction could have an adverse affect on our revenues.

Market conditions may adversely affect our ability to continue to rely on brokered deposits as a source of funds and cause us to seek alternative sources that may not be on terms favorable to us.

Brokered deposits are normally more costly than traditional core deposits, as they carry a higher blended interest rate. If market conditions change, brokers may transfer deposited funds from us into other investments or demand higher interest rates for new deposits. Moreover, brokers operate in a national market and will place funds with banks that offer to pay the highest interest rates. Unlike businesses and individuals who bank with us in our market, there is no basis for a business relationship with deposit brokers that would provide a stable deposit base. There is a higher likelihood that, unlike deposits from our local customers, the funds that brokers provide us will not remain with us after maturity.

We could be confronted with the choice of curtailing our lending activity or paying above market interest rates in order to attract and retain deposits. Either action could reduce our net income. Our inability to keep our deposit growth on pace with the growth of our loan portfolio may affect our net income. In this situation, we may need to obtain alternative sources of funding, which may or may not be available to us on terms that we consider favorable.

Table of Contents***Liquidity needs could adversely affect our financial condition and results of operation.***

The primary sources of funds for our bank are customer deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and international instability.

Also, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to customers on alternative investments and general economic conditions. Accordingly, we are required to rely on secondary sources of liquidity in the funding of our institution, including routine withdrawal demands. Such sources include proceeds from FHLB advances, federal funds lines of credit from correspondent banks and brokered deposits. While we believe these sources are currently adequate, there can be no assurance that they will be sufficient to meet future liquidity demands, particularly given the need to fund growth and increasing loan demand. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

There have been no other material changes in the risk factors previously disclosed in Part I-Item 1A of our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

Not applicable

Item 6. Exhibits

- 31.1* Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC §1350, as adopted pursuant to the Sarbanes-Oxley Act of 2002.

* Filed herewith.

Table of Contents**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GREER BANCSHARES INCORPORATED

Dated: November 12, 2008

/s/ Kenneth M. Harper
Kenneth M. Harper
Chief Executive Officer

Dated: November 12, 2008

/s/ J. Richard Medlock, Jr.
J. Richard Medlock, Jr.
Chief Financial Officer

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* Filed herewith.

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-33021

GREER BANCSHARES INCORPORATED

(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction of
incorporation or organization)

57-1126200
(I.R.S. Employer
Identification No.)

1111 W. Poinsett Street, Greer, South Carolina
(Address of principal executive offices)

29650
(Zip Code)

(864) 877-2000
(Registrant's telephone number, including area code)

[None]
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at 8/07/08
Common Stock, \$5.00 par value per share	2,486,692 shares

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Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****GREER BANCSHARES INCORPORATED**

Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands, except per share data)

	<u>June 30, 2008</u>	<u>December 31, 2007 *</u>
ASSETS		
Cash and due from banks	\$ 8,284	\$ 7,049
Interest bearing deposits in banks	471	426
Federal funds sold	723	—
Cash and cash equivalents	<u>9,478</u>	<u>7,475</u>
Investment securities:		
Held to maturity (fair value of approximately \$17,125 and 19,281, respectively)	17,545	19,586
Available for sale	91,483	79,565
Loans, net of allowance for loan losses of \$2,639 and \$2,233, respectively	287,589	260,778
Premises and equipment, net	6,361	6,573
Accrued interest receivable	2,059	2,448
Restricted stock	5,510	4,943
Other assets	10,394	8,337
Total Assets	<u>\$430,419</u>	<u>\$ 389,705</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities :		
Deposits		
Non interest-bearing	\$ 31,682	\$ 30,396
Interest-bearing	243,715	214,197
Total Deposits	<u>275,397</u>	<u>244,593</u>
Short term borrowings	2,000	3,004
Long term borrowings	125,341	113,441
Other liabilities	4,274	4,231
Total Liabilities	<u>407,012</u>	<u>365,269</u>
Stockholders' Equity:		
Preferred stock – par value \$5 per share, 1,000,000 shares authorized	—	—
Common stock – par value \$5 per share, 10,000,000 shares authorized, 2,486,692 and 2,481,836 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	12,433	12,409
Additional paid in capital	3,344	3,260
Retained earnings	8,766	8,610
Accumulated other comprehensive (loss) income	(1,136)	157
Total Stockholders' Equity	<u>23,407</u>	<u>24,436</u>
Total Liabilities and Stockholders' Equity	<u>\$430,419</u>	<u>\$ 389,705</u>

* This information is derived from Audited Consolidated Financial Statements.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**GREER BANCSHARES INCORPORATED**

Consolidated Statements of Income

(Unaudited)

(Dollars in thousands, except per share data)

	For Three Months Ended		For Six Months Ended	
	06/30/08	06/30/07	06/30/08	06/30/07
Interest Income:				
Loans (including fees)	\$ 4,426	5,098	\$ 9,229	\$ 10,102
Investment securities:				
Taxable	1,179	753	2,275	1,535
Exempt from federal income tax	233	245	473	490
Federal funds sold	3	25	32	82
Other	4	9	9	19
Total interest income	5,845	6,130	12,018	12,228
Interest Expense:				
Interest on deposit accounts	1,915	2,039	3,999	4,096
Interest on short term borrowings	25	124	44	247
Interest on long term borrowings	1,212	945	2,461	1,870
Total interest expense	3,152	3,108	6,504	6,213
Net interest income	2,693	3,022	5,514	6,015
Provision for loan losses	454	1,459	541	1,649
Net interest income after provision for loan losses	2,239	1,563	4,973	4,366
Noninterest income:				
Customer service fees	211	242	430	464
Gain on sale of investment securities	99	—	200	—
Other operating income	617	410	1,147	776
Total noninterest income	927	652	1,777	1,240
Noninterest expenses:				
Salaries and employee benefits	1,661	1,241	3,137	2,813
Occupancy and equipment	221	229	450	444
Postage and supplies	79	86	160	155
Marketing expenses	103	83	196	167
Directors fees	66	46	133	106
Professional fees	89	127	199	236
Other noninterest expenses	703	352	1,121	687
Total noninterest expenses	2,922	2,164	5,396	4,608
Income before income taxes	244	51	1,354	998
Provision (benefit) for income taxes:	(13)	(54)	278	183
Net income	\$ 257	\$ 105	\$ 1,076	\$ 815
Basic net income per share of common stock	\$.10	\$.04	\$.43	\$.33
Diluted net income per share of common stock	\$.10	\$.04	\$.43	\$.33

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
 Consolidated Statements of Comprehensive Income
 (Unaudited)
 (Dollars in thousands)

	<u>For Three Months Ended</u>		<u>For Six Months Ended</u>	
	<u>06/30/08</u>	<u>06/30/07</u>	<u>06/30/08</u>	<u>06/30/07</u>
Net Income	\$ 257	\$ 105	\$ 1,076	\$ 815
Other comprehensive loss, net of tax:				
Unrealized holding losses on investment securities	(1,287)	(691)	(1,417)	(605)
Less reclassification adjustments for gains included in net income	61	—	124	—
Subtotal	<u>(1,226)</u>	<u>(691)</u>	<u>(1,293)</u>	<u>(605)</u>
Comprehensive Income (Loss)	<u>\$ (969)</u>	<u>\$ (586)</u>	<u>\$ (217)</u>	<u>\$ 210</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
Consolidated Statement of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2008
(Unaudited)
(Dollars in thousands, except per share data)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity</u>
Balances at 12/31/2007	\$12,409	\$ 3,260	\$ 8,610	\$ 157	\$ 24,436
Cumulative effect of a change in accounting principle (Note 5)	—	—	(75)	—	(75)
Net income	—	—	1,076	—	1,076
Other comprehensive loss, net of tax	—	—	—	(1,293)	(1,293)
Stock exercised pursuant to stock option plan	24	23	—	—	47
Stock based compensation	—	61	—	—	61
Cash dividends (\$.34 per share)	—	—	(845)	—	(845)
Balances at 6/30/2008	<u>\$12,433</u>	<u>\$ 3,344</u>	<u>\$ 8,766</u>	<u>\$ (1,136)</u>	<u>\$ 23,407</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
 Consolidated Statements of Cash Flows
 (Unaudited)
 (Dollars in thousands)

	<u>For the Six Months Ended</u>	
	<u>06/30/08</u>	<u>06/30/07</u>
Operating activities		
Net income	\$ 1,076	\$ 815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	234	224
Gain on sale of securities	(200)	—
Provision for loan losses	541	1,649
Deferred income tax (benefit)	(246)	(24)
Stock based compensation	61	110
Increase in cash surrender value of life insurance	(124)	(129)
Net change in:		
Accrued interest receivable	389	201
Other assets	53	(903)
Accrued interest payable	(70)	17
Other liabilities	136	(1,230)
Net cash provided by operating activities	<u>1,850</u>	<u>730</u>
Investing activities		
Activity in available-for-sale securities:		
Sales	15,633	—
Maturities, payment and calls	4,622	2,749
Purchases	(34,074)	—
Activity in held to maturity securities:		
Maturities, payment and calls	2,041	2,163
Purchase of restricted stock	(567)	(157)
Net increase in loans	(28,382)	(2,395)
Purchase of property and equipment	(22)	(283)
Net cash provided by (used for) investing activities	<u>(40,749)</u>	<u>2,077</u>
Financing activities		
Net increase (decrease) in deposits	30,804	(3,015)
Repayment of notes payable to FHLB	(16,900)	(7,763)
Proceeds from notes payable to FHLB	28,800	10,250
Net decrease in short term borrowings	(1,004)	(5,910)
Proceeds from exercise of stock options	47	83
Tax benefit from stock option exercise	—	8
Cash dividends paid	(845)	(425)
Net cash provided by (used for) financing activities	<u>40,902</u>	<u>(6,772)</u>
Net (decrease) increase in cash and cash equivalents	2,003	(3,965)
Cash and equivalents, beginning of period	<u>7,475</u>	<u>11,690</u>
Cash and equivalents, end of period	<u>\$ 9,478</u>	<u>\$ 7,725</u>

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GREER BANCSHARES INCORPORATED
 Consolidated Statements of Cash Flows-Continued
 (Unaudited)
 (Dollars in thousands)

	<u>For the Six Months Ended</u>	
	<u>6/30/08</u>	<u>6/30/07</u>
Cash paid for		
Income taxes	\$ 605	\$ 577
Interest	\$ 6,574	\$ 6,196
Non-cash investing and financing activities		
Real estate acquired in satisfaction of mortgage	\$ 1,030	\$ —
Unrealized losses before tax	\$ (1,293)	\$ (605)
Adoption of new accounting principle charged to retained earnings (Note 5)	\$ (75)	\$ —

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**GREER BANCSHARES INCORPORATED**
Notes to Consolidated Financial Statements**Note 1 – Basis of Presentation**

Greer Bancshares Incorporated (the “Company”) is a one-bank holding company for Greer State Bank (the “Bank”). The Company currently engages primarily in owning and managing the Bank.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. The statements of income and comprehensive income for the interim periods are not necessarily indicative of the results that may be expected for the entire year or any other future interim period.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the Company for the year ended December 31, 2007, which are included in the 2007 Annual Report on Form 10-K.

During the first quarter of 2008, the Company made the decision to consider federal funds sold as cash equivalents and to make the same characterization in the 2007 quarterly financial statements. This resulted in net cash used by investing activities for the six months ended June 30, 2007 increasing from \$1,821,000 to net cash provided by investing activities of \$2,077,000 for the six months ended June 30, 2008. Cash and cash equivalents at the end of the six months ended June 30, 2008 increased to \$7,725,000 as a result of this change.

Note 2 – Net Income per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during each period presented. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of potential common stock options, using the treasury stock method. The weighted average common shares outstanding for the six months ended June 30, 2008 and June 30, 2007 were 2,483,483 and 2,476,414, respectively (basic) and 2,483,483 and 2,512,615, respectively (diluted). The weighted average common shares outstanding for the three months ended June 30, 2008 and June 30, 2007 were 2,484,295 and 2,478,988, respectively (basic) and 2,485,374 and 2,511,343, respectively (diluted). Anti-dilutive options totaling 318,230 and 63,300 have been excluded from the income per share calculation for the six months ended June 30, 2008 and June 30, 2007, respectively. Anti-dilutive options totaling 34,800 have been excluded from the income per share calculation for the three months ended June 30, 2008. There were no anti-dilutive options for the three months ended June 30, 2007.

Note 3 – Income Taxes

The Company files a consolidated federal income tax return and separate state income tax returns. Income taxes are allocated to each company as if filed separately for federal purposes and based on the separate returns filed for state purposes.

Certain items of income and expense for financial reporting are recognized differently for income tax purposes (principally the provision for loan losses, deferred compensation and depreciation). Provisions for deferred taxes are made in recognition of such temporary differences as required under Statement of Financial Accounting Standard (“SFAS”) No. 109, *Accounting for Income Taxes*. Current income taxes are recorded based on amounts due with the current income tax returns. The need for a valuation allowance is considered when it is determined more likely than not that a deferred tax asset will not be realized.

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Note 4 – Fair Value

Effective January 1, 2008, the Company adopted SFAS No.157, *Fair Value Measurements*, (SFAS 157), and SFAS No. 159 *The Fair Value Option for Financial Assets and Liabilities*, (SFAS 159). SFAS No. 157, which was issued in September 2006, establishes a framework for using fair value. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 159, which was issued in February 2007, generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. Upon adoption of SFAS 159, the Company did not elect to adopt the fair value option for any financial instruments.

SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts and residential mortgage loans held-for-sale.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, impaired loans and highly structured or long-term derivative contracts.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investments Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices of like or similar securities, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*, (SFAS 114). The fair value of impaired loans is estimated using one of several methods, including

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collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2008, all loans considered to be impaired were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraisal value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets and liabilities measured at fair value:

(Amounts in thousands) Description	6/30/2008	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Available for sale securities	\$91,483	\$ —	\$ 91,483	\$ —

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Corporation may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

(Amounts in thousands) Description	6/30/2008	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Impaired loans	\$ 4,985	\$ —	\$ —	\$ 4,985

Note 5 – New Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that affect accounting, reporting and disclosure of financial information by the Company.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”), Implementation Issue No. E23, *Hedging – General: Issues Involving the Application of the Shortcut Method under Paragraph 68* (“Issue E23”). Issue E23 amends SFAS 133 to explicitly permit use of the shortcut method for hedging relationships in which interest rate swaps have nonzero fair value at the inception of the hedging relationship, provided certain conditions are met. Issue E23 was effective for hedging relationships designated on or after January 1, 2008. The implementation of this guidance did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (“SFAS 161”). SFAS 161 expands quarterly disclosure requirements in SFAS 133 about an entity’s derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact of SFAS 161 on its consolidated financial position and results of operations.

The Emerging Issues Task Force (“EITF”) reached a consensus at its September 2006 meeting regarding EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The scope of EITF 06-4 is limited to the recognition of a

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liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Therefore, this EITF would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee's active service period with an employer. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company adopted EITF 06-04 at the beginning of 2008 and calculated the impact on beginning retained earnings to be \$75,031 on January 1, 2008.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**RESULTS OF OPERATIONS****Overview**

The following discussion describes and analyzes our results of operations and financial condition for the quarter ended June 30, 2008 as compared to the quarter ended June 30, 2007, as well as results for the six months ended June 30, 2008 and June 30, 2007. You are encouraged to read this discussion and analysis in conjunction with the financial statements and the related notes included in this report. Throughout this discussion, amounts are rounded to the nearest thousand, except per share data or percentages.

Like most community banks, most of our income is derived from interest received on loans and investments. The primary source of funds for making these loans and investments is deposits, most of which are interest-bearing. Consequently, one of the key measures of our success is net interest income, or the difference between the income on interest-earning assets, such as loans and investments, and the expense on interest-bearing liabilities, such as deposits and Federal Home Loan Bank advances. Another key measure is the spread between the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities.

Of course, there are risks inherent in all loans, so an allowance for loan losses is maintained to absorb probable losses on existing loans that may become uncollectible. This allowance is established and maintained by charging a provision for loan losses against current operating earnings. (See "Provision for Loan Losses" for a detailed discussion of this process.)

In addition to earning interest on loans and investments, income is also earned through fees and other charges to the Bank's customers. The various components of this non-interest income, as well as non-interest expense, are described in the following discussion.

The Company reported consolidated net income of \$257,000, or \$.10 per diluted share, for the quarter ended June 30, 2008, compared to \$105,000, or \$.04 per diluted share, for the quarter ended June 30, 2007, an increase of \$152,000, or 144.8%. For the six months ended June 30, 2008, the Company reported consolidated net income of \$1,076,000, or \$.43 per diluted share, compared to \$815,000 or \$.33 per diluted share for the six months ended June 30, 2007, an increase of \$261,000, or 32.0%.

Interest Income, Interest Expense and Net Interest Income

The Company's total interest income for the quarter ended June 30, 2008 was \$5,845,000, compared to \$6,130,000 for the quarter ended June 30, 2007, a decrease of \$285,000 or 4.6%. Total interest income for the six months ended June 30, 2008 decreased by \$210,000 or 1.7%, from \$12,228,000 for the six months ended June 30, 2007. Interest and fees on loans is the largest component of total interest income and decreased \$672,000 or 13.2%, to \$4,426,000 for the quarter ended June 30, 2008, compared to \$5,098,000 for the quarter ended June 30, 2007 and decreased \$873,000, or 8.6% for the six months ended June 30, 2008 compared to the six months ended June 30, 2007. The decline in interest and fees on loans for the three and six months ended June 30, 2008 was due primarily to the 325 basis points reduction in the federal funds rate by the Federal Open Market Committee since the second quarter of 2007. This drastic rate reduction, which occurred in the period from September 18, 2007 until April 30, 2008, affected approximately \$140 million in loans indexed to the Wall Street Journal Prime Rate, which were immediately repriced. The average yields on the Company's loan portfolio for the six months ended June 30, 2008

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and June 30, 2007 were 6.56% and 8.04%, respectively. The loss of interest income as a result of repriced loans was slightly offset by increased average loan balances outstanding of \$28,466,000 for the six months ended June 30, 2008 compared to the same period in 2007.

Interest income on investment securities increased by \$414,000 in the three months ended June 30, 2008 compared to the three months ended June 30, 2007 due primarily to an approximate \$28,045,000 increase in average balances of investment securities for the three months ended June 30, 2008 compared to the same period in 2007. Interest income on investment securities increased approximately \$723,000 in the six months ended June 30, 2008 compared to the six months ended June 30, 2007 primarily as the result of an increase of approximately \$23,282,000 in the average balances of investment securities for the six months ended June 30, 2008 compared to the same period in 2007. The yield curve for market interest rates steepened during the first half of 2008 and allowed opportunities for bond swap and leveraged transactions in the Bank's investment portfolio which resulted in the increases in interest income on the investment portfolio and gains on the sale of securities. The weighted average yield on the investment portfolio was 5.50% on June 30, 2008, compared to 5.28% on June 30, 2007.

The Company's total interest expense for the three months ended June 30, 2008 increased slightly to \$3,152,000, compared to \$3,108,000 for the three months ended June 30, 2007. For the six months ended June 30, 2008 and June 30, 2007, total interest expense was \$6,504,000 and \$6,213,000, respectively, which was an increase of \$291,000, or 4.7%. The largest component of the Company's interest expense is interest expense on deposits. Despite increases in average balances of deposits of \$20,764,000 and \$15,227,000 for the three and six months ended June 30, 2008, respectively, compared to the same periods in 2007, interest expense on deposits remained relatively stable, as a result of a decline in interest rates. Market interest rate decreases resulted in the average weighted rate on certificates of deposit declining from 4.89% at June 30, 2007 to 3.93% at June 30, 2008.

For the three months ended June 30, 2008, interest expense on short-term borrowings declined \$99,000, or 79.8%, to \$25,000, compared to \$124,000 for the three months ended June 30, 2007. Interest expense on short-term borrowings was \$44,000 for the six months ended June 30, 2008, compared to \$247,000 for the six months ended June 30, 2007, a reduction of \$203,000, or 82.2%. The primary reason for the decline in interest expense for the three and six month periods ended June 30, 2008 compared to the same periods in 2007, was due to the purchase of \$15,000,000 in long term, callable borrowings in November 2007 as part of a leveraged investment transaction. These long term, callable borrowings replaced short term repurchase agreements and were obtained at lower interest rates.

Net interest income, which is the difference between interest earned on assets and the interest paid for the liabilities used to fund those assets, measures the spread earned on lending and investing activities and is the primary contributor to the Company's earnings. Net interest income before provision for loan losses decreased \$329,000, or 10.9%, to \$2,693,000 for the quarter ended June 30, 2008, compared to \$3,022,000 for the quarter ended June 30, 2007. For the six months ended June 30, 2008, net interest income before provision for loan losses decreased \$501,000, or 8.3%, to \$5,514,000 compared to \$6,015,000 at June 30, 2007. The Company's balance sheet is asset sensitive in the short term, meaning assets reprice faster than liabilities, largely due to the amount of variable rate loans in the loan portfolio. Balance sheets that are asset sensitive typically produce more earnings as interest rates rise and likewise, earnings decline as interest rates fall. (See the above discussion of reductions in market interest rates).

Provision for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem credits. On a quarterly basis, the Bank's Loan Committee of the Board of Directors reviews and approves the appropriate level for the allowance for loan losses based upon management's recommendations and the results of the internal monitoring and reporting systems. Management also monitors historical statistical data for both the Bank and other financial institutions. The adequacy of the allowance for loan losses and the effectiveness of the monitoring and analysis system are also reviewed by the Bank's regulators and the Company's internal auditor.

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The allowance for loan losses is based upon judgments and assumptions of risk elements in the portfolio, future economic conditions and other factors affecting borrowers. The process includes identification and analysis of loss potential in various portfolio segments utilizing a credit risk grading process and specific reviews and evaluations of significant problem credits. In addition, management monitors the overall portfolio quality through observable trends in delinquency, charge-offs and general conditions in the Company's market area.

The provision for loan losses charged to operations during the three months ended June 30, 2008 was \$454,000, compared to \$1,459,000 for the same period in 2007. For the six months ended June 30, 2008, the loan loss provision was \$541,000, compared with \$1,649,000 for the same period in 2007. Provisions were made based on the results of the Company's loan loss reserve model which was adopted in June 2007. An impaired loan for \$1,287,398 was charged off in June 2007, resulting in large provisions in the three and six months ended June 30, 2007 that were significantly more than the provisions needed in the three and six months periods ended June 30, 2008. The charged-off loan was originated through a specialized "asset-based" lending program that the Company began in 1996, and after careful evaluation, discontinued in early 2007. Larger loan balances for the three and six months ended June 30, 2008 compared to the same periods in 2007 resulted in increased loan loss provisions when excluding the June 2007 impaired loan charge off. See also the discussion below under "Allowance for Loan Losses."

Noninterest Income

Noninterest income increased \$275,000, or 42.2%, to \$927,000 for the quarter ended June 30, 2008 compared to \$652,000 for the quarter ended June 30, 2007. The increase was due primarily to a gain on sale of investment securities of \$99,000 and increased fees generated by the Bank's financial services division. Noninterest income increased \$537,000, or 43.3% to \$1,777,000 for the six months ended June 30, 2008, compared with \$1,240,000 at June 30, 2007. The primary reasons for the increases are the result of a gain of \$152,878 on the sale of an interest rate floor, gains of \$200,451 on the sales of investment securities and increased fees of \$132,000 generated by the Bank's financial services division in the six months ended June 30, 2008, compared with the same period in 2007.

Noninterest Expenses

Total noninterest expenses for the three months ended June 30, 2008 increased 35.0%, or \$758,000, to \$2,922,000 compared to \$2,164,000 for the three months ended June 30, 2007. For the six months ended June 30, 2008, total noninterest expenses increased \$788,000, or 17.1%, to \$5,396,000, from \$4,608,000 for the same period in 2007. The largest component of noninterest expenses, salaries and employee benefits, increased \$420,000, or 33.8%, for the three months ended June 30, 2008, compared to the three months ended June 30, 2007. Salaries and benefits increased approximately \$324,000, or 11.5%, from \$2,813,000 to \$3,137,000 in the six months ended June 30, 2008, compared to the same period in 2007. The increase in salaries and benefits for the three and six months ended June 30, 2008 compared to the same period in 2007 is primarily attributable to management's decision to reverse an accrual of incentive payments in June 2007, due to the Bank's performance.

While salaries and employee benefits increased, occupancy and equipment and postage and supplies remained stable for the three and six months ended June 30, 2008 compared to the same periods in 2007. Marketing expenses increased 24.1%, or \$20,000, and 17.4%, or \$29,000 for the three and six months ended June 30, 2008, respectively, as compared to the same periods in 2007. These increases were primarily the result of an increased effort to obtain low interest rate deposits. Directors' fees increased for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007 primarily as the result of the addition of two board members. Other noninterest expenses increased \$351,000, or 99.7%, and \$434,000, or 63.2%, for the three and six months ended June 30, 2008 as compared to the same periods in 2007 primarily as the result of increases in internet banking expenses, FDIC insurance assessments and expenses related to other real estate owned. Included in noninterest expenses was the write-off of construction in process charges totaling \$247,000, related to the design of an administrative and operations center, the construction of which has been postponed.

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The Company had a slight decrease in the tax benefit for the three months ended June 30, 2008 compared to the three months ended June 30, 2007. While the second quarter of 2007 absorbed the large loan write off discussed previously, taxable income was reduced in the second quarter of 2008 by the write off of the construction in process costs and significant loan loss provisions. The tax expense for the six months ended June 30, 2008 increased \$95,000, or 51.9%, to \$278,000 from \$183,000 in the six months ended June 30, 2007.

BALANCE SHEET REVIEW

Loans

Outstanding loans represent the largest component of earning assets at 69.9% of total earning assets as of June 30, 2008. Gross loans totaled \$290,228,000 as of June 30, 2008, which is a \$27,217,000, or 10.3%, increase over gross loans of \$263,011,000 as of December 31, 2007. Adjustable rate loans totaled 67.0% of the loan portfolio as of June 30, 2008, which allows the Company to be in a favorable position as interest rates rise. The Company's loan portfolio consists primarily of real estate mortgage loans, commercial loans and consumer loans. Substantially all of these loans are to borrowers located in South Carolina and are concentrated in the Company's local market area.

Allowance for Loan Losses

The allowance for loan losses at June 30, 2008 was \$2,639,000, or .91% of gross loans outstanding, compared to \$2,233,000 or .85% of gross loans outstanding at December 31, 2007. The .06% increase in the allowance is a result of larger loan balances and increased non-performing loans at June 30, 2008 compared to December 31, 2007. As discussed above in "Provision for Loan Losses," after several months of data entry and testing, the Company implemented a new loan loss model in June 2007 which has more complex features to provide greater precision and increased objectivity. Internal reviews and evaluations of the Company's loan portfolio for the purpose of identifying potential problem loans, external reviews by federal and state banking examiners, management's consideration of current economic conditions, and other relevant risk factors are also used in evaluating the adequacy of the allowance for loan losses. The level of loan loss reserves is monitored on an on-going basis. The evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Actual losses will undoubtedly vary from the estimates. Also, there is a possibility that charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time. If delinquencies and defaults increase, an increase in the loan loss provision may be required, which would adversely affect the Company's results of operations and financial condition.

At June 30, 2008, the Company had \$5,854,000 in non-accruing loans, 23 impaired loans for \$4,985,000, \$50,000 in loans more than 90 days past due and still accruing interest and \$1,072,000 in Other Real Estate Owned. This compares to \$2,702,000 in non-accruing loans, one impaired loan for \$1,354,000 and \$100,000 loans more than 90 days past due and still accruing interest at December 31, 2007. Non-performing loans consisted of \$4,597,000 in mortgage loans, \$1,122,000 in commercial loans and \$135,000 in consumer loans at June 30, 2008. Non-performing loans and Other Real Estate Owned as a percentage of average assets were 1.45% and 0.75% at June 30, 2008 and December 31, 2007, respectively.

Loans on non-accrual are reviewed monthly by management for possible impairment. Impaired loans at June 30, 2008 consisted mainly of commercial loans secured by real estate. The amount of the valuation allowance allocated to the impaired loans was \$571,548 at June 30, 2008 compared to \$64,844 at December 31, 2007. Non-performing loans have increased as economic conditions have declined.

Net charge-offs for the first six months of 2008 were approximately \$135,000. Non-performing loans as a percentage of net loan loss reserve were 221.8% and 125.5% as of June 30, 2008 and December 31, 2007, respectively.

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The investment portfolio is an important contributor to the earnings of the Company. The Company strives to maintain a portfolio that provides necessary liquidity for the Company while maximizing income consistent with the ability of the Company's capital structure to accept nominal amounts of investment risk. During past years when loan demand has not been strong, the Company has utilized the investment portfolio as a means for investing "excess" funds for higher yields, instead of accepting low overnight investment rates. The investment portfolio also provides securities that can be pledged against borrowings as a source of funding for loans. It is management's intent to maintain a significant percentage of the Company's earning assets in the loan portfolio as loan demand allows. As of June 30, 2008, investment securities totaled \$109,028,000 or 26.5% of total earning assets. Investment securities increased \$9,877,000 or 10.0% from \$99,151,000 as of December 31, 2007, due to the purchase of \$8,720,000 in mortgage backed securities offset by the maturity of one municipal security for \$250,000, the call of two municipal securities for \$800,000 and cash inflows from principal prepayments on mortgage backed securities.

An increase in longer term market interest rates since December 31, 2007 resulted in an increase in unrealized losses in the Company's investment portfolio. At June 30, 2007 the Company's investment securities classified as Available for Sale had an amortized cost of \$93,330,000 and a market value of \$91,483,000 for an aggregate unrealized loss of \$1,847,000. This compares to an amortized cost of \$79,310,000 and a market value of \$79,565,000 for an unrealized gain of \$255,000 as of December 31, 2007 for those investment securities classified as Available for Sale. Management has evaluated the securities with an unrealized loss and concluded that none of these securities have impairment that is considered other than temporary. Of the \$2,501,693 in gross unrealized losses at June 30, 2008, approximately \$442,000 of this amount relates to equity securities and \$556,000 relates to an asset backed security. Both of these securities have been in unrealized loss positions for less than twelve months. The remaining portion of the gross unrealized losses primarily relates to securities for which management has concluded are temporarily impaired due to changes in market interest rates. Management will continue to monitor these and other unrealized losses in its investment securities portfolio in future periods. To the extent that these unrealized losses are deemed to be other than temporary in future periods, we will record a charge to our income statement to reduce the cost basis of these securities to their fair value.

Cash and Cash Equivalents

The Company's cash and cash equivalents increased \$2,003,000, or 26.8%, to \$9,478,000 at June 30, 2008, compared to \$7,475,000 at December 31, 2007. Balances in due from bank accounts vary depending on the settlement of cash letters and other transactions.

Deposits

The Company receives its primary source of funding for loans and investments from its deposit accounts. Total deposits increased \$30,804,000, or 12.6%, to \$275,397,000 as of June 30, 2008 compared to \$244,593,000 as of December 31, 2007. The increase in deposits during the six months ended June 30, 2008 is primarily the result of an increase of approximately \$20,000,000 in brokered deposits combined with an increase in core deposits of approximately \$10,000,000. In 2008 Bank management has initiated an emphasis on acquisition of core deposits in an effort to reduce its cost of funds.

At June 30, 2008 and December 31, 2007, interest-bearing deposits comprised 88.5% and 87.6% of total deposits, respectively. Included in these amounts were brokered deposits of \$41,348,000, or 17.7%, and \$21,717,000, or 8.9%, of total deposits at June 30, 2008 and December 31, 2007, respectively. The Company takes into consideration liquidity needs, direction and level of interest rates and market conditions when pricing deposits.

Borrowings

The Company's borrowings are comprised of federal funds purchased, repurchase agreements, both short-term and long-term advances from the Federal Home Loan Bank of Atlanta and junior subordinated debentures. At June 30, 2008, total borrowings were \$127,341,000, compared with \$116,445,000 as of

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December 31, 2007. Federal funds purchased were \$2,000,000 and \$3,004,000 at June 30, 2008 and December 31, 2007, respectively. At June 30, 2008 and December 31, 2007, long term repurchase agreements were \$15,000,000. Notes payable to the Federal Home Loan Bank of Atlanta totaled \$99,000,000 as of June 30, 2008 compared to \$87,100,000 as of December 31, 2007. The weighted rate of interest for the Company's portfolio of Federal Home Loan Bank of Atlanta advances was 3.96% and 4.54% as of June 30, 2008 and December 31, 2007, respectively. The weighted average remaining maturity for Federal Home Loan Bank of Atlanta advances was 2.88 years and 2.68 years as of June 30, 2008 and December 31, 2007, respectively.

In October 2004 and December 2006, the Company issued \$6,186,000 and \$5,155,000 of junior subordinated debentures to its wholly-owned capital trusts, Greer Capital Trust I and Greer Capital Trust II, respectively, to fully and unconditionally guarantee the trust preferred securities issued by the Trusts.

The junior subordinated debentures issued in October 2004 mature in October 2034, but include an option to call the debt in October 2009. Interest payments are due quarterly to Greer Capital Trust I at the three-month LIBOR plus 220 basis points.

The junior subordinated debentures issued in December 2006 mature in December 2036, but include an option to call the debt in December 2011. Interest payments are due quarterly to Greer Capital Trust II at the three-month LIBOR plus 173 basis points.

Liquidity and Capital Resources

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring sources and uses of funds in order to meet day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities in the investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control. Liquidity is also a measure of the Company's ability to provide funds to meet the needs of depositors and borrowers. The Company's primary goal is to meet these needs at all times. In addition to these basic cash needs, the Company must meet liquidity requirements created by daily operations and regulatory requirements. Liquidity requirements of the Company are met primarily through two categories of funding; core deposits and borrowings. Core deposits include checking and savings accounts, as well as retail certificates of deposit less than \$100,000. These deposits, which are generally the result of stable consumer and commercial banking relationships, are considered to be a relatively stable component of the Company's mix of liabilities. At June 30, 2008, core deposits totaled approximately \$181 million, or 65.7%, of the Company's total deposits, compared to approximately \$171 million, or 69.9%, of the Company's total deposits as of December 31, 2007.

Greer Bancshares Incorporated, the parent holding company, has very limited liquidity needs, generally requiring liquidity only to pay limited operating expenses and dividends. The cash dividends paid to shareholders are funded by dividends from the Company's banking subsidiary. The Company purchased land in 2006 on which to build an operations center, and engaged an architect to design the building. In June 2008 management made the decision to postpone construction of the building. Therefore, the costs associated with the design of the building were expensed in second quarter 2008 earnings.

Forward-looking and Cautionary Statements

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements relate to, among other things, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of management, as well as assumptions made by, and information currently available to, management. The words "may," "will,"

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“anticipate,” “should,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “may,” and “intend,” as well as other similar words and expressions, are intended to identify forward-looking statements. Actual results may differ materially from the results discussed in the forward-looking statements. The Company’s operating performance is subject to various risks and uncertainties including, without limitation:

- significant increases in competitive pressure in the banking and financial services industries;
- changes in political conditions or the legislative or regulatory environment;
- the level of allowance for loan losses;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- changes in monetary and tax policies;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

For a description of factors which may cause actual results to differ materially from such forward-looking statements, see the Company’s Annual Report on Form 10-K for the year ended December 31, 2007, and other reports from time to time filed with or furnished to the Securities and Exchange Commission. Investors are cautioned not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made. The Company undertakes no obligation to update any forward-looking statements made in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4T. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the current disclosure controls and procedures are effective as of June 30, 2008. There have been no changes in our internal control over financial reporting during the fiscal quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II-OTHER INFORMATION**Item 1. Legal Proceedings**

The Company is involved in various legal actions arising in the normal course of business. Management believes that these proceedings will not result in a material loss to the Company.

Item 1A. Risk Factors

Information regarding risk factors appears in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward-looking and Cautionary Statements," in Part I-Item 2 of this Form 10-Q. More detailed information concerning our risk factors may be found in Part I-Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the "Form 10-K").

There have been no material changes in the risk factors previously disclosed in Part I-Item 1A of our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Our Annual Meeting of Shareholders was held on Thursday, April 24, 2008. The common shareholders voted for the election of four (4) directors to serve for terms of three (3) years each, expiring on the date of the 2011 Annual Meeting of Shareholders or until their successors have been duly elected and qualified. The results of the voting in these elections are set forth below.

Nominees for Three Year Terms Expiring in 2011

<u>Nominee</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Withheld</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
Gary M. Griffin	1,454,388	—	44,926	—	—
Kenneth M. Harper	1,454,388	—	44,926	—	—
R. Dennis Hennett	1,454,388	—	44,926	—	—
David M. Rogers	1,451,898	—	47,416	—	—

The terms of office of the following directors continued after the meeting:

Class of 2009

Mark S. Ashmore
Harold K. James
Steven M. Bateman
Raj K. S. Dhillon

Class of 2010

Walter M. Burch
Paul D. Lister
C. Don Wall
Theron C. Smith, III

Table of Contents**Item 5. Other Information**

Not applicable

Item 6. Exhibits

- 31.1* Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC §1350, as adopted pursuant to the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GREER BANCSHARES INCORPORATED

Dated: August 13, 2008

/s/ Kenneth M. Harper
Kenneth M. Harper
Chief Executive Officer

Dated: August 13, 2008

/s/ J. Richard Medlock, Jr.
J. Richard Medlock, Jr.
Chief Financial Officer

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INDEX TO EXHIBITS

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* Filed herewith.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-33021

GREER BANCSHARES INCORPORATED

(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction of
incorporation or organization)

57-1126200
(I.R.S. Employer
Identification No.)

1111 W. Poinsett Street, Greer, South Carolina
(Address of principal executive offices)

29650
(Zip Code)

(864) 877-2000

(Registrant's telephone number, including area code)

[None]

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at 4/30/08
Common Stock, \$5.00 par value per share	2,483,116 shares

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GREER BANCSHARES INCORPORATED
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Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands, except per share data)

	<u>March 31, 2008</u>	<u>December 31, 2007 *</u>
ASSETS		
Cash and due from banks	\$ 6,644	\$ 7,049
Interest-bearing deposits in banks	1,113	426
Federal funds sold	101	—
Cash and cash equivalents	<u>7,858</u>	<u>7,475</u>
Investment securities:		
Held to maturity (fair value of approximately \$18,594 and \$19,281, respectively)	18,624	19,586
Available for sale	84,948	79,565
Loans, net of allowance for loan losses of \$2,315 and \$2,233, respectively	270,841	260,778
Premises and equipment, net	6,569	6,573
Accrued interest receivable	2,098	2,448
Restricted stock	5,087	4,943
Other assets	8,657	8,337
Total Assets	<u>\$404,682</u>	<u>\$ 389,705</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits		
Non interest-bearing	\$ 34,916	\$ 30,396
Interest-bearing	226,137	214,197
Total Deposits	<u>261,053</u>	<u>244,593</u>
Short term borrowings	—	3,004
Long term borrowings	114,341	113,441
Other liabilities	4,554	4,231
Total Liabilities	<u>379,948</u>	<u>365,269</u>
Stockholders' Equity:		
Preferred stock – par value \$5 per share, 1,000,000 shares authorized	—	—
Common stock – par value \$5 per share, 10,000,000 shares authorized, 2,483,116 and 2,481,836 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	12,416	12,409
Additional paid in capital	3,296	3,260
Retained earnings	8,932	8,610
Accumulated other comprehensive income	90	157
Total Stockholders' Equity	<u>24,734</u>	<u>24,436</u>
Total Liabilities and Stockholders' Equity	<u>\$404,682</u>	<u>\$ 389,705</u>

* This information is derived from Audited Consolidated Financial Statements.

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
 Consolidated Statements of Income
 (Unaudited)
 (Dollars in thousands, except per share data)

	<u>For Three Months Ended</u>	
	<u>3/31/08</u>	<u>3/31/07</u>
Interest Income:		
Loans (including fees)	\$ 4,803	\$ 5,004
Investment securities:		
Taxable	1,096	782
Exempt from federal income tax	240	245
Federal funds sold	29	57
Other	5	10
Total interest income	<u>6,173</u>	<u>6,098</u>
Interest Expense:		
Interest on deposit accounts	2,084	2,057
Interest on short term borrowings	19	123
Interest on long term borrowings	1,249	925
Total interest expense	<u>3,352</u>	<u>3,105</u>
Net interest income	2,821	2,993
Provision for loan losses	87	190
Net interest income after provision for loan losses	<u>2,734</u>	<u>2,803</u>
Noninterest income:		
Customer service fees	219	222
Gain on sale of investment securities	101	—
Other operating income	530	366
Total noninterest income	<u>850</u>	<u>588</u>
Noninterest expenses:		
Salaries and employee benefits	1,476	1,572
Occupancy and equipment	229	215
Postage and supplies	81	69
Marketing expenses	93	84
Directors fees	67	60
Professional fees	110	109
Other noninterest expenses	418	335
Total noninterest expenses	<u>2,474</u>	<u>2,444</u>
Income before income taxes	<u>1,110</u>	<u>947</u>
Provision for income taxes:	291	237
Net income	<u>\$ 819</u>	<u>\$ 710</u>
Basic net income per share of common stock	<u>\$.33</u>	<u>\$.29</u>
Diluted net income per share of common stock	<u>\$.33</u>	<u>\$.28</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
 Consolidated Statements of Comprehensive Income
 (Unaudited)
 (Dollars in thousands)

	For Three Months Ended	
	3/31/08	3/31/07
Net Income	\$ 819	\$ 710
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) on investment securities	(130)	86
Less reclassification adjustments for gains included in net income	63	—
Other comprehensive income (loss)	(67)	86
Comprehensive Income	\$ 752	\$ 796

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
 Consolidated Statement of Changes in Stockholders' Equity
 For the Three Months Ended March 31, 2008
 (Unaudited)
 (Dollars in thousands, except per share data)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
Balances at 12/31/2007	\$12,409	\$ 3,260	\$ 8,610	\$ 157	\$ 24,436
Cumulative effect of a change in accounting principle (Note 5)	—	—	(75)	—	(75)
Net income	—	—	819	—	819
Other comprehensive loss, net of tax	—	—	—	(67)	(67)
Stock exercised pursuant to stock option plan	7	6	—	—	13
Stock based compensation	—	30	—	—	30
Cash dividends (\$.17 per share)	—	—	(422)	—	(422)
Balances at 3/31/08	<u>\$12,416</u>	<u>\$ 3,296</u>	<u>\$ 8,932</u>	<u>\$ 90</u>	<u>\$ 24,734</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED
 Consolidated Statements of Cash Flows
 (Unaudited)
 (Dollars in thousands)

	<u>For the Three Months Ended</u>	
	<u>3/31/08</u>	<u>3/31/07</u>
Operating activities		
Net income	\$ 819	\$ 710
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	114	108
Gain on sale of securities	(101)	—
Provision for loan losses	87	190
Deferred income tax (benefit)	99	(102)
Stock based compensation	30	72
Increase in cash surrender value of life insurance	(62)	(54)
Net change in:		
Accrued interest receivable	350	214
Other assets	(29)	27
Accrued interest payable	330	154
Other liabilities	(41)	(499)
Net cash provided by operating activities	<u>1,596</u>	<u>820</u>
Investing activities		
Activity in available-for-sale securities:		
Sales	8,459	—
Maturities, payment and calls	2,067	1,512
Purchases	(15,916)	—
Activity in held to maturity securities:		
Maturities, payment and calls	962	995
Purchase of restricted stock	(144)	68
Net increase in loans	(10,478)	(549)
Purchase of life insurance	—	(1,000)
Purchase of premises and equipment	(110)	(94)
Net cash provided (used) by investing activities	<u>(15,160)</u>	<u>932</u>
Financing Activities		
Net increase in deposits	16,460	10,118
Repayment of notes payable to FHLB	(14,900)	(2,513)
Proceeds from notes payable to FHLB	15,800	—
Net decrease in short term borrowings	(3,004)	(5,640)
Proceeds from exercise of stock options	13	45
Tax benefit from stock option exercise	—	8
Cash dividends paid	(422)	(421)
Net cash provided by financing activities	<u>13,947</u>	<u>1,597</u>
Net increase in cash and cash equivalents	383	3,349
Cash and equivalents, beginning of period	<u>7,475</u>	<u>11,690</u>
Cash and equivalents, end of period	<u>\$ 7,858</u>	<u>\$ 15,039</u>

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GREER BANCSHARES INCORPORATED
 Consolidated Statements of Cash Flows-Continued
 (Unaudited)
 (Dollars in thousands)

	<u>For the Three Months Ended</u>	
	<u>3/31/08</u>	<u>3/31/07</u>
CASH PAID FOR		
Income taxes	\$ 274	\$ 447
Interest	<u>\$ 3,022</u>	<u>\$ 2,951</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Real estate acquired in satisfaction of mortgage	<u>\$ 328</u>	<u>\$ —</u>
Unrealized gains (losses) before tax	<u>\$ (67)</u>	<u>\$ 86</u>
Adoption of new accounting principle charged to retained earnings (Note 5)	<u>\$ (75)</u>	<u>\$ —</u>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**GREER BANCSHARES INCORPORATED**
Notes to Consolidated Financial Statements**Note 1 – Basis of Presentation**

Greer Bancshares Incorporated (the “Company”) is a one-bank holding company for Greer State Bank (the “Bank”). The Company currently engages primarily in owning and managing the Bank.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. The statements of income and comprehensive income for the interim periods are not necessarily indicative of the results that may be expected for the entire year or any other future interim period.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the Company for the year ended December 31, 2007, which are included in the 2007 Annual Report on Form 10-K.

During the first quarter, the Company made the decision to consider federal funds sold as cash equivalents and to make the same characterization in the 2007 quarterly financial statements. This resulted in net cash used by investing activities for the 3 months ended March 31, 2007 increasing from \$(7,718,000) to net cash provided by investing activities of \$932,000. Cash and cash equivalents at the end of the quarter ended March 31, 2007 increased to \$15,039,000 as a result of this change.

Note 2 – Net Income per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during each period presented. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of potential common stock options, using the treasury stock method. The weighted average common shares outstanding for the three months ended March 31, 2008 and March 31, 2007 were 2,482,671 and 2,473,810, respectively (basic) and 2,482,671 and 2,513,538, respectively (diluted). Anti-dilutive options totaling 283,024 and 63,300 have been excluded from the income per share calculation for the three months ended March 31, 2008 and March 31, 2007, respectively.

Note 3 – Income Taxes

The Company files a consolidated federal income tax return and separate state income tax returns. Income taxes are allocated to each company as if filed separately for federal purposes and based on the separate returns filed for state purposes.

Certain items of income and expense for financial reporting are recognized differently for income tax purposes (principally the provision for loan losses, deferred compensation and depreciation). Provisions for deferred taxes are made in recognition of such temporary differences as required under Statement of Financial Accounting Standard (“SFAS”) No. 109, *Accounting for Income Taxes*. Current income taxes are recorded based on amounts due with the current income tax returns. The need for a valuation allowance is considered when it is determined more likely than not that a deferred tax asset will not be realized.

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Note 4 – Fair Value

Effective January 1, 2008, the Company adopted SFAS No.157, *Fair Value Measurements*, (SFAS 157), and SFAS No. 159 *The Fair Value Option for Financial Assets and Liabilities*, (SFAS 159). SFAS No. 157, which was issued in September 2006, establishes a framework for using fair value. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 159, which was issued in February 2007, generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. Upon adoption of SFAS 159, the Company did not elect to adopt the fair value option for any financial instruments.

SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts and residential mortgage loans held-for-sale.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, impaired loans and highly structured or long-term derivative contracts.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investments Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices of like or similar securities, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*,

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(SFAS 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At March 31, 2008, the one impaired loan was evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraisal value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets and liabilities measured at fair value:

<u>(Amounts in thousands)</u> <u>Description</u>	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>3/31/2008</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available for sale securities	\$ 84,948	\$ —	\$ 84,948	\$ —

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Corporation may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

<u>(Amounts in thousands)</u> <u>Description</u>	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>3/31/2008</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Impaired loans	\$ 1,354	\$ —	\$ —	\$ 1,354

Note 5 – New Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that affect accounting, reporting and disclosure of financial information by the Company.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”), Implementation Issue No. E23, *Hedging – General: Issues Involving the Application of the Shortcut Method under Paragraph 68* (“Issue E23”). Issue E23 amends SFAS 133 to explicitly permit use of the shortcut method for hedging relationships in which interest rate swaps have nonzero fair value at the inception of the hedging relationship, provided certain conditions are met. Issue E23 was effective for hedging relationships designated on or after January 1, 2008. The implementation of this guidance did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (“SFAS 161”). SFAS 161 expands quarterly disclosure requirements in SFAS 133 about an entity’s derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact of SFAS 161 on its consolidated financial position and results of operations.

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The Emerging Issues Task Force (“EITF”) reached a consensus at its September 2006 meeting regarding EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The scope of EITF 06-4 is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Therefore, this EITF would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee’s active service period with an employer. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company adopted EITF 06-04 at the beginning of 2008 and calculated the impact on beginning retained earnings to be \$75,031 on January 1, 2008.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**RESULTS OF OPERATIONS****Overview**

The following discussion describes and analyzes the results of operations and financial condition for the quarter ended March 31, 2008 as compared to the quarter ended March 31, 2007. You are encouraged to read this discussion and analysis in conjunction with the financial statements and the related notes included in this report. Throughout this discussion, amounts are rounded to the nearest thousand, except per share data or percentages.

Like most community banks, most of our income is derived from interest received on loans and investments. The primary source of funds for making these loans and investments is deposits, most of which are interest-bearing. Consequently, one of the key measures of our success is net interest income, or the difference between the income on interest-earning assets, such as loans and investments, and the expense on interest-bearing liabilities, such as deposits and Federal Home Loan Bank advances. Another key measure is the spread between the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities.

Of course, there are risks inherent in all loans, so an allowance for loan losses is maintained to absorb probable losses on existing loans that may become uncollectible. This allowance is established and maintained by charging a provision for loan losses against current operating earnings. (See “Provision for Loan Losses” for a detailed discussion of this process.)

In addition to earning interest on loans and investments, income is also earned through fees and other charges to the Bank’s customers. The various components of this non-interest income, as well as non-interest expense, are described in the following discussion.

The Company reported consolidated net income of \$819,000, or \$.33 per diluted share, for the quarter ended March 31, 2008, compared to \$710,000, or \$.28 per diluted share, for the quarter ended March 31, 2007, an increase of \$109,000, or 15.35%.

Interest Income, Interest Expense and Net Interest Income

The Company’s total interest income for the quarter ended March 31, 2008 was \$6,173,000, compared to \$6,098,000 for the quarter ended March 31, 2007, an increase of \$75,000 or 1.2%. Interest and fees on loans is the largest component of total interest income and decreased \$201,000 or 4.0%, to \$4,803,000 for the quarter ended March 31, 2008, compared to \$5,004,000 for the quarter ended March 31, 2007. The decline in interest and fees on loans for the three months ended March 31, 2008 was due primarily to the 300 basis points reduction in the federal funds rate by the Federal Open Market Committee since the first quarter of 2007. This drastic rate reduction, which occurred in the six-month period from September 18, 2007 until March 18, 2008, affected approximately \$123

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million in loans indexed to the Wall Street Journal Prime Rate, which were immediately repriced. The decrease in interest and fees on the loans indexed to prime was slightly offset by interest and fees received from an increase of approximately \$25,244,000 in average loans outstanding during the period, compared with the three month period ended March 31, 2007. The average yield on the Company's loan portfolio for the three months ended March 31, 2008 and March 31, 2007 was 6.52% and 8.05%, respectively.

Interest income on investment securities increased by \$309,000 in the three months ended March 31, 2008 compared to the three months ended March 31, 2007. This increase is due primarily to an approximate increase of \$18,500,000 in the average balance of investment securities for the three months ended March 31, 2008 compared to the same period in 2007. The yield curve for market interest rates steepened during the past several months and allowed opportunities for bond swap transactions in the Bank's investment portfolio which resulted in an increase in the average yield on the investment portfolio and gains on the sale of securities. In addition, approximately \$7,000,000 was invested in fixed rate mortgage-backed securities in March 2008.

The Company's total interest expense for the three months ended March 31, 2008 was \$3,352,000, compared to \$3,105,000 for the three months ended March 31, 2007, an increase of \$247,000, or 8.0%. The largest component of the Company's interest expense is interest expense on deposits. For the three months ended March 31, 2008, interest expense on deposits was \$2,084,000, compared to \$2,057,000 for the three months ended March 31, 2007, a slight increase of \$27,000 or 1.3%. The slight increase in interest expense on deposits is due primarily to an increase in average certificates of deposit outstanding during the three months ended March 31, 2008 compared to the same period in 2007, offset by declines in weighted average rates paid as a result of decreases in market interest rate. The average weighted yield on the certificate of deposit portfolio on March 31, 2008 was 4.52%, compared with 4.85% on March 31, 2007.

For the three months ended March 31, 2008, interest expense on short-term borrowings was \$19,000, compared to \$123,000 for the three months ended March 31, 2007, or a decline of 84.6%. The primary reason for the decline in interest expense on short-term borrowings during the three month period was due to the purchase of long term, callable borrowings which were obtained at lower interest rates, and were used to replace short term repurchase agreements.

Net interest income, which is the difference between interest earned on assets and the interest paid for the liabilities used to fund those assets, measures the spread earned on lending and investing activities and is the primary contributor to the Company's earnings. Net interest income before provision for loan losses decreased \$172,000, or 5.7%, for the quarter ended March 31, 2008. The Company's balance sheet is asset sensitive in the short term, meaning assets reprice faster than liabilities, largely due to the amount of variable rate loans in the loan portfolio. Balance sheets that are asset sensitive typically produce more earnings as interest rates rise and likewise earnings decline as interest rates fall. (See the above discussion of interest rate cuts).

Provision for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem credits. On a quarterly basis, the Bank's Board of Directors reviews and approves the appropriate level for the Bank's allowance for loan losses based upon management's recommendations and the results of the internal monitoring and reporting system. Management also monitors historical statistical data for both the Bank and other financial institutions. The adequacy of the allowance for loan losses and the effectiveness of the monitoring and analysis system are also reviewed by the Bank's regulators and the Company's internal auditor.

The allowance for loan losses is based upon judgments and assumptions of risk elements in the portfolio, future economic conditions and other factors affecting borrowers. The process includes identification and analysis of loss potential in various portfolio segments utilizing a credit risk grading process and specific reviews and evaluations of significant problem credits. In addition, management monitors the overall portfolio quality through observable trends in delinquencies, charge-offs and general conditions in the market area.

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The provision for loan losses charged to operations during the three months ended March 31, 2008 was \$87,000, compared to \$190,000 for the same period in 2007. Provisions in the first quarter of 2008 were made based on the results of the new loan loss reserve model which was adopted in June 2007, compared to the provision for the three months ended March 31, 2007 which was based on a less sophisticated calculation.

Noninterest Income

Noninterest income increased \$262,000, or 44.6% for the quarter ended March 31, 2008 compared to the quarter ended March 31, 2007. The primary reasons for the increase in the noninterest income are the gain on the sale of investment securities of \$101,000 and a gain of \$153,000 on the sale of an interest rate floor, which is included in other operating income.

Noninterest Expenses

Total noninterest expenses for the three months ended March 31, 2008 increased slightly compared to the three months ended March 31, 2007. The largest component of noninterest expenses, salaries and employee benefits, decreased \$96,000, or 6.1%, for the three months ended March 31, 2008, compared to the three months ended March 31, 2007. The decrease in salaries and benefits during the three months ended March 31, 2008 compared to the same period in 2007 is primarily attributable to the reversal of an accrual of incentive payment that was not paid due to the departure of employees. This reversal was slightly offset by annual salary adjustments. This decrease in salaries and employee benefits was offset by an increase of other noninterest expenses of \$83,000, or 24.8%, for the three months period ended March 31, 2008 compared to the same period in 2007. The primary reason for the increase is a result of an increase in the FDIC insurance assessment.

Income tax expense was comparable for the three months ended March 31, 2008 and March 31, 2007 due to comparable quarterly income before taxes for the same periods.

BALANCE SHEET REVIEW

Loans

Outstanding loans represent the largest component of earning assets at 76.8% of total earning assets as of March 31, 2008. Gross loans totaled \$273,156,000 as of March 31, 2008, which is an increase of \$10,145,000, or 3.9%, over gross loans of \$263,011,000 as of December 31, 2007. Adjustable rate loans totaled 64.6% of the loan portfolio as of March 31, 2008. Of the adjustable rate loans in the portfolio, \$132,850,000, or 48.6% of the loan portfolio, are tied to the prime rate index. As discussed previously, the prime rate was reduced 300 basis points since March 31, 2007. Management is focusing on strategies of reducing funding costs to mitigate the effect the reduced loan interest income will have on earnings. The Company's loan portfolio consists primarily of real estate mortgage loans, commercial loans and consumer loans. Substantially all of these loans are to borrowers located in South Carolina and are concentrated in the Company's local market area. Greer State Bank does not originate, service or buy sub-prime mortgage instruments.

Allowance for Loan Losses

The allowance for loan losses was \$2,315,000 and \$2,233,000, or .85% of gross loans outstanding at March 31, 2008 and December 31, 2007, respectively. As discussed above in "Provision for Loan Losses," after several months of data entry and testing, the Company implemented a new loan loss model in June 2007 which has more complex features to provide greater precision and increased objectivity.

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Internal reviews and evaluations of the Company's loan portfolio for the purpose of identifying potential problem loans, external reviews by federal and state banking examiners, management's consideration of current economic conditions and other relevant risk factors are used in evaluating the adequacy of the allowance for loan losses. The level of loan loss reserves is monitored on an on-going basis. The evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Actual losses will undoubtedly vary from the estimates. Also, there is a possibility that charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time. If delinquencies and defaults increase, an increase in the loan loss provision may be required, which would adversely affect the Company's results of operations and financial condition.

At March 31, 2008, the Company had \$3,332,000 in non-accruing loans, impaired loans for \$4,457,000 and no loans more than 90 days past due and still accruing interest. This compares to \$2,702,000 in non-accruing loans, one impaired loan for \$1,354,000 and \$100,000 in loans more than 90 days past due and still accruing interest at December 31, 2007. Non-performing loans consisted of \$2,449,000 in mortgage loans, \$457,000 in commercial loans and \$426,000 in consumer loans at March 31, 2008. Non-performing loans and Other Real Estate Owned as a percentage of average assets were 0.83% and 0.75% at March 31, 2008 and December 31, 2007, respectively.

Net charge-offs for the first three months of 2008 were approximately \$4,000. Non-performing loans as a percentage of net loan loss reserve were 143.9% and 125.5% as of March 31, 2008 and December 31, 2007, respectively.

Securities

The investment portfolio is an important contributor to the earnings of the Company. The Company strives to maintain a portfolio that provides necessary liquidity for the Company while maximizing income consistent with the ability of the Company's capital structure to accept nominal amounts of investment risk. During past years when loan demand has not been strong, the Company has utilized the investment portfolio as a means for investing "excess" funds for higher yields, instead of accepting low overnight investment rates. It is management's intent, however, to channel a significant percentage of the Company's earning assets into the loan portfolio as loan demand allows. As of March 31, 2008, investment securities totaled \$103,572,000 or 27.4% of total earning assets. Investment securities increased \$4,421,000 or 4.5% from \$99,151,000 as of December 31, 2007, due to the purchase of \$7,000,000 in mortgage backed securities offset by the maturity of one municipal security for \$250,000 and cash inflows from principal prepayments on mortgage backed securities.

An increase in longer term market interest rates since December 31, 2007 resulted in lower net unrealized gains in the Company's investment portfolio. At March 31, 2008, the Company's investment securities classified as Available for Sale had an amortized cost of \$84,801,000 and a market value of \$84,948,000 for an aggregate unrealized gain of \$147,000. This compares to an amortized cost of \$79,310,000 and a market value of \$79,565,000 for an unrealized gain of \$255,000 as of December 31, 2007 for those investment securities classified as Available for Sale.

Cash and Cash Equivalents

The Company's cash and cash equivalents increased \$383,000, or 5.1%, to \$7,858,000 at March 31, 2008, compared to \$7,475,000 at December 31, 2007. Cash and cash equivalents include demand and time deposits (with original maturities of ninety days or less) at other financial institutions and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Deposits

The Company receives its primary source of funding for loans and investments from its deposit accounts. Total deposits increased \$16,460,000, or 6.7%, to \$261,053,000 as of March 31, 2008, compared to \$244,593,000 as of December 31, 2007. The increase in deposits during the three months ended March 31, 2008 is primarily the result of an increase of approximately \$8 million in brokered deposits over \$100,000 combined with an increase in core deposits of approximately \$9 million of which \$2.5 million represents the introduction of a new interest-bearing checking product at the end of 2007.

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At March 31, 2008 and December 31, 2007, interest-bearing deposits comprised 86.6% and 87.6% of total deposits, respectively. Included in these amounts were brokered deposits of \$29,581,000, or 11.3%, and \$21,717,000, or 8.9%, of total deposits at March 31, 2008 and December 31, 2007, respectively. The Company takes into consideration liquidity needs, direction and level of interest rates and market conditions when pricing deposits.

Borrowings

The Company's borrowings are comprised of federal funds purchased, repurchase agreements, both short-term and long-term advances from the Federal Home Loan Bank of Atlanta and junior subordinated debentures. At March 31, 2008, total borrowings were \$114,341,000, compared with \$116,445,000 as of December 31, 2007. Federal funds purchased were \$3,004,000 at December 31, 2007. There were no federal funds purchased at March 31, 2008. At March 31, 2008 and December 31, 2007 there was \$15,000,000 in long term repurchase agreements. Notes payable to the Federal Home Loan Bank of Atlanta totaled \$88,000,000 as of March 31, 2008 compared to \$87,100,000 as of December 31, 2007. The weighted rate of interest for the Company's portfolio of Federal Home Loan Bank of Atlanta advances was 4.02% and 4.54% as of March 31, 2008 and December 31, 2007, respectively. The weighted remaining maturity for Federal Home Loan Bank of Atlanta advances was 2.73 years and 2.68 years as of March 31, 2008 and December 31, 2007, respectively.

In October 2004 and December 2006, the Company issued \$6.186 million and \$5.155 million of junior subordinated debentures to its wholly-owned capital trusts, Greer Capital Trust I and Greer Capital Trust II, respectively, to fully and unconditionally guarantee the trust preferred securities issued by the capital trusts.

The junior subordinated debentures issued in October 2004 mature in October 2034, but include an option to call the debt in October 2009. Interest payments are due quarterly to Greer Capital Trust I at the three-month LIBOR plus 220 basis points.

The junior subordinated debentures issued in December 2006 mature in December 2036, but include an option to call the debt in December 2011. Interest payments are due quarterly to Greer Capital Trust II at the three-month LIBOR plus 173 basis points.

Liquidity and Capital Resources

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring sources and uses of funds in order to meet day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities in the investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control. Liquidity is also a measure of the Company's ability to provide funds to meet the needs of depositors and borrowers. The Company's primary goal is to meet these needs at all times. In addition to these basic cash needs, the Company must meet liquidity requirements created by daily operations and regulatory requirements. Liquidity requirements of the Company are met primarily through two categories of funding; core deposits and borrowings. Core deposits include checking and savings accounts, as well as retail certificates of deposit less than \$100,000. These deposits, which are generally the result of stable consumer and commercial banking relationships, are considered to be a relatively stable component of the Company's mix of liabilities. At March 31, 2008, core deposits totaled approximately \$180 million, or 69.0%, of the Company's total deposits, compared to approximately \$171 million, or 69.9%, of the Company's total deposits as of December 31, 2007.

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Greer Bancshares Incorporated, the parent holding company, has very limited liquidity needs, generally requiring liquidity only to pay limited operating expenses and dividends. The cash dividends paid to shareholders are funded by dividends from the Company's banking subsidiary. The Company purchased land in 2006 on which to build an operations center. The cost, which will be funded internally or possibly with borrowing from a correspondent bank, and construction date have not yet been determined.

Forward-looking and Cautionary Statements

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements relate to, among other things, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of management, as well as assumptions made by, and information currently available to, management. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "estimate," "continue," "may," and "intend," as well as other similar words and expressions, are intended to identify forward-looking statements. Actual results may differ materially from the results discussed in the forward-looking statements. The Company's operating performance is subject to various risks and uncertainties including, without limitation:

- significant increases in competitive pressure in the banking and financial services industries;
- changes in political conditions or the legislative or regulatory environment;
- the level of allowance for loan losses;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- changes in monetary and tax policies;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

For a description of factors which may cause actual results to differ materially from such forward-looking statements, see the Company's Annual Report on Form 10-K for the year ended December 31, 2007, and other reports from time to time filed with or furnished to the Securities and Exchange Commission. Investors are cautioned not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made. The Company undertakes no obligation to update any forward-looking statements made in this report.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

Item 4T. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the current disclosure controls and procedures are effective as of March 31, 2008. There have been no changes in our internal controls over financial reporting during the fiscal quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II-OTHER INFORMATION**Item 1. Legal Proceedings**

The Company is involved in various claims and legal actions arising in the normal course of business. Management believes that these proceedings will not result in a material loss to the Company.

Item 1A. Risk Factors

Information regarding risk factors appears in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward-looking and Cautionary Statements," in Part I-Item 2 of this Form 10-Q. More detailed information concerning our risk factors may be found in Part I-Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the "Form 10-K").

There have been no material changes in the risk factors previously disclosed in Part I-Item 1A of our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

Not applicable

Table of Contents**Item 6. Exhibits**

- 31.1* Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC §1350, as adopted pursuant to the Sarbanes-Oxley Act of 2002.

* Filed herewith.

Table of Contents**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GREER BANCSHARES INCORPORATED

Dated: May 14, 2008

/s/ Kenneth M. Harper

Kenneth M. Harper

President and Chief Executive Officer

Dated: May 14, 2008

/s/ J. Richard Medlock, Jr.

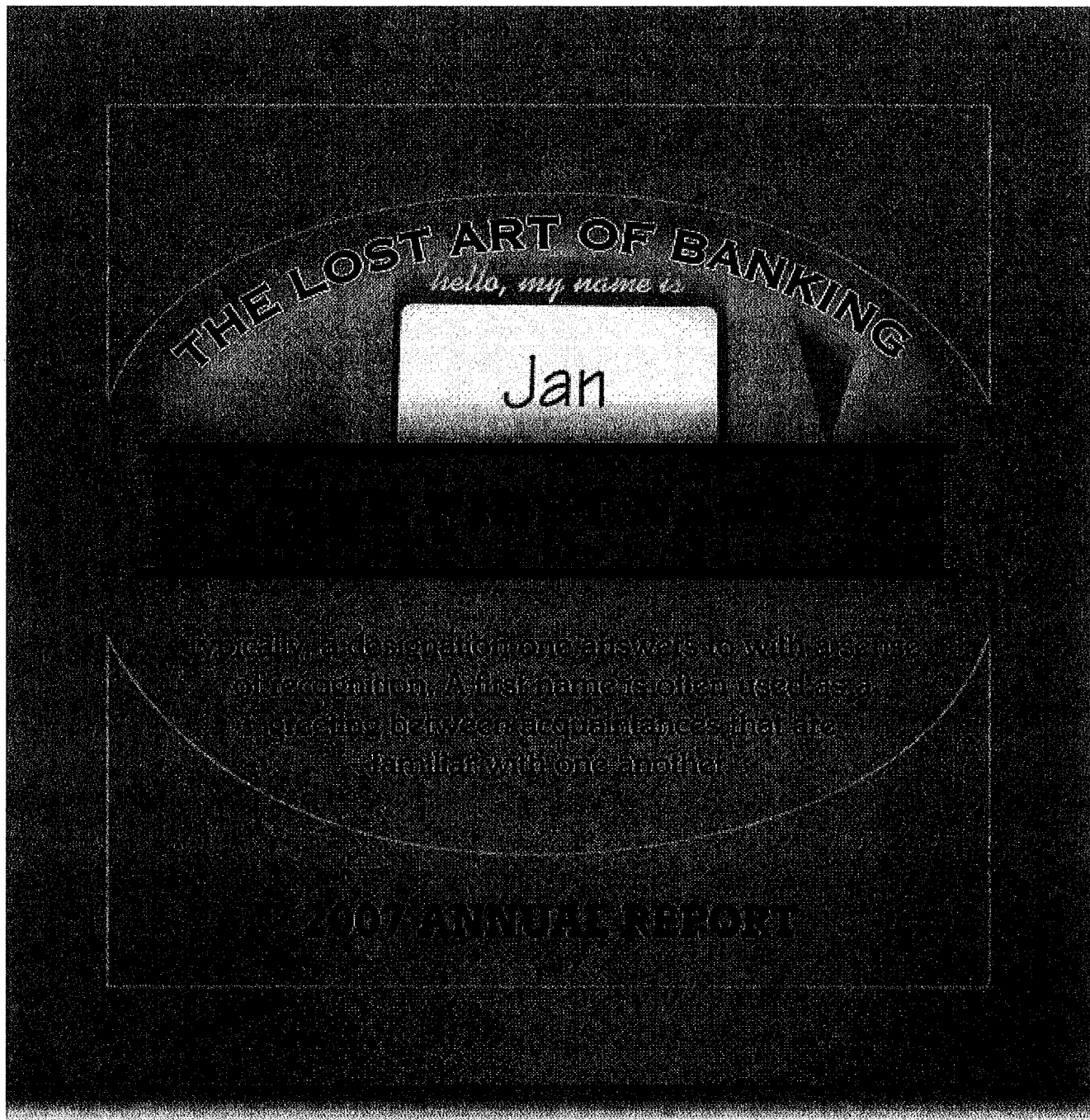
J. Richard Medlock, Jr.

Chief Financial Officer

Table of Contents**INDEX TO EXHIBITS**

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- 32* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC §1350, as adopted pursuant to the Sarbanes-Oxley Act of 2002.

* Filed herewith.



Find it in Greer.

Letter to Shareholders
Greer Bancshares Incorporated
March 28, 2008

Dear Shareholders and Friends:

The Bank completed its nineteenth year of serving the banking needs in Greer and the surrounding areas in 2007. While it was a very challenging year due to a large second quarter loan loss and the economic downturn that resulted in lower interest rates, the Company experienced progress in several areas, some of which include:


- Total assets increased in 2007 to approximately \$390 million, an increase of 8.6%. The Bank's five year growth plan, which was adopted in late 2004, set a growth goal of \$425 million in assets by the end of 2009. As of the end of 2007, the Bank had achieved 92% of the five year goal in three years, and only needs \$35 million in additional asset growth in the next two years to reach the \$425 million goal.
- In September 2007 the Bank employed two experienced commercial lenders to open a commercial and construction loan production office on the east side of Greer in order to better service business customers in that market and to attract new business relationships in the surrounding area. Plans are to open a full-service office in that area in twelve to eighteen months, when sufficient new business is gained at that office.
- The Bank continued to make enhancements to its electronic banking services in 2007. An electronic checking account, "e-Bonus Checking", was developed to offer a checking account that features electronic statements, ATM transactions nationwide at no cost to customers and an interest rate competitive with rates paid on time deposits. The Bank now offers on-line account applications for this product. In 2008 the Bank plans to additionally enhance its deposit platform system, which will serve to provide greater efficiency to the Bank and our clients in the account opening process.
- Despite the large loan loss mentioned above, deeper and more rapid Federal Reserve interest rate cuts than projected as a result of the significant slowing of our national economy and more modest loan growth than anticipated, the Company was able to generate net income of \$2,605,625 in 2007.

To summarize, even though 2007 was disappointing in terms of earnings, progress was made in many areas that will benefit the Company in the future.

At present, it appears 2008 will be another challenging year for the economy and for banking. In January 2008 the Federal Reserve cut the overnight interest rate by 125 basis points, and many economists are forecasting additional cuts of at least 100 basis points by mid-year. In early 2008 some economists have stated the economy is in recession or will soon be in recession. Additional interest rate cuts and/or a recession will cause "pressure" on earnings; however, we will continue to manage with a long term vision and adjust to changes in the economy in ways that are of most benefit to the Company.

Thank you for your interest in Greer Bancshares Incorporated. Your comments and suggestions for improving your Company and improving communications with you are always welcome.

Sincerely,



Kenneth M. Harper
President & Chief Executive Officer

Board of Directors

David M. Rogers	Chairman/Joshua's Way, Inc., President
Mark S. Ashmore	Ashmore Bros. Inc./Century Concrete, President
Steven M. Bateman	Steven M. Bateman, CPA/Owner
Walter M. Burch	The Greer Citizen/Retired
Raj K. S. Dhillon	Motel Owner and Land Developer
Gary M. Griffin	Mutual Home Stores, Vice President
Kenneth M. Harper	Greer Bancshares Inc. and Greer State Bank, President & CEO
R. Dennis Hennett	Greer Bancshares Inc. and Greer State Bank/Retired
Harold K. James	James Agency, Inc., Real Estate and Insurance, Vice President/Broker in Charge
Paul D. Lister	Paul D. Lister, CPA, LLC
Theron C. Smith, III	Eye Associates of Carolina, PA, President
C. Don Wall	Professional Pharmacy of Greer, Inc., Vice President

Greer Bancshares Incorporated Executive Officers

Kenneth M. Harper	President & Chief Executive Officer
J. Richard Medlock, Jr.	Chief Financial Officer

Greer State Bank Officers

Kenneth M. Harper	President & Chief Executive Officer
Victor K. Grout	Executive Vice President & Commercial Lending/Risk Management
J. Richard Medlock, Jr.	Executive Vice President & Chief Financial Officer
William S. Harrill, Jr.	Senior Vice President/Mortgage Lending
J. William Hughes	Senior Vice President/Consumer Lending
Hilda W. Marcos	Senior Vice President/Senior Professional Banker
Greg Sisk	Senior Vice President/Community Executive - Taylors/Retail Banking Manager
Chris M. Talley	Senior Vice President & Chief Operations Officer
E. Pierce Williams, Jr.	Senior Vice President/Commercial Banking
Jim Boyd	Vice President/Commercial Lending
Brad Cantrell	Vice President/Credit Analyst
Rick Danner	Vice President/Human Resources & Security
Debra Day	Vice President/Compliance
Judy A. Edwards	Vice President/Risk Management Administrator
David Faucette	Vice President/Internal Auditor
John Gifford	Vice President/Greer Financial Services
Lola C. Hart	Vice President/Controller
Robert M. Lee	Vice President/Information Technology
Tim Lincolnhol	Vice President/Community Banking
Kelly C. Long	Vice President/Branch Manager of Buncombe Road Office
Sandra D. Mason	Vice President/Operations Officer
Denise W. Plumblee	Vice President/Corporate Training Director
Scott Presley	Vice President/Construction Lending
Elizabeth C. Sayce	Vice President/Manager, Loan Administration
Carole Stroud	Vice President/Branch Manager of Poinsett Office
Beth C. Waters	Vice President/Marketing Director

(2)

Greer State Bank Officers (continued)

Thomas L. Williams	Vice President/Branch Manager of North Main Office
Travis Barbare	Assistant Vice President/Consumer Lending
Christy H. Blackwell	Assistant Vice President/Branch Manager of Taylors Office
Sue H. Gaines	Assistant Vice President/Mortgage Lending Officer
Scott Greene	Assistant Vice President/Credit Administration
Terri N. Grady	Assistant Vice President/Operations
Ann S. Miller	Assistant Vice President/Manager EDP & Item Processing
Marvin E. Robinson, Jr.	Assistant Vice President/Commercial Lending
Joy Jordan	Banking Officer/Loan Production
Lourdes LoPinto	Banking Officer
Donna Miller	Internet Banking Officer

Greer State Bank Staff

Meredith Alexander	Grace Edwards	Jennifer Kemp	Christal Ray
Jason Baldwin	Jessica Estola	Angela Lynn	Patsy Robinson
Jolynne Beck	Sherry Forrester	Nikita Mack	Tonda Rogers
Marsha Bennett	Candice Good	Cari Matson	Linda Rorie
Charlotte Betts	Marie Good	David McCammon	Denise Ross
Shea Boyce	Willie Greer	Donna McMakin	Luke Rumsey
Nancy Brown	Patsy Hairston	Cindy Morrell	Mindi Smith
Mindi Calvert	Vince Harris	Joy Myers	Tammy Smith
Melissa Carroll	Leanna Harrison	Linda Oliver	Teresa Smith
Lena Cody	Cindy Hart	Jinita Patel	Tammy Thompson
Maurry Cook	Doris Hendricks	Cindi Patterson	Kristi Twiddy
Angie Coleman	Carey Henry	Brandi Prevatte	Ann Vaughn
Karen Corn	Heather Henson	Gail S. Pruitt	Pat Vaughn
Sarah Crutchfield	Theresa Hice	Ann Rainey	Pat Wellmon
Brooke Cudd	Tonya Kellett	Nalani Ramza	Marie Wilson
			Lisa Wiles

Our Vision:
A better life for all

Our Mission:
Exceptional banking for everyday people

Our Values:

Character: Whatever we do, we will do with integrity.

Commitment: Whatever we do, we will do with dedication.

Competence: Whatever we do, we will do with excellence.

(3)

- Report of Independent Registered Public Accounting Firm -

To the Board of Directors
Greer Bancshares Incorporated and Subsidiary
Greer, South Carolina

We have audited the accompanying consolidated balance sheets of Greer Bancshares Incorporated and Subsidiary (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Greer Bancshares Incorporated and Subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21 to the consolidated financial statements, effective in the fourth quarter of 2006, the Company changed its method of quantifying misstatements of prior year consolidated financial statements. The Company adopted the dual method, as required by SEC Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements."

Dixon Hughes PLLC

Asheville, North Carolina
March 25, 2008

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY

Consolidated Balance Sheets

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Cash and due from banks	\$ 7,049,411	\$ 10,914,066
Interest-bearing deposits in banks	425,965	776,477
Investment securities:		
Held to maturity (fair value of approximately \$19,280,878 and \$22,790,311, respectively)	19,586,460	23,581,468
Available for sale	79,564,947	60,185,223
Loans, net of allowance for loan losses of \$2,232,703 and \$1,801,287, respectively	260,777,824	244,056,635
Premises and equipment, net	6,572,810	6,631,721
Accrued interest receivable	2,447,911	2,298,855
Restricted stock	4,943,014	3,948,914
Other assets	8,337,020	7,269,028
Total assets	<u>\$389,705,362</u>	<u>\$359,662,387</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Deposits:		
Non interest-bearing	\$ 30,395,986	\$ 29,816,377
Interest-bearing	214,197,174	210,471,514
Total deposits	244,593,160	240,287,891
Short term borrowings	3,004,000	14,171,875
Long term borrowings	113,441,000	77,854,514
Other liabilities	4,231,680	4,805,879
Total Liabilities	<u>365,269,840</u>	<u>337,120,159</u>
Commitments and contingencies - Notes 10 and 11		
Stockholders' Equity:		
Preferred stock – par value \$5 per share, 1,000,000 shares authorized; none issued	—	—
Common stock – par value \$5 per share, 10,000,000 shares authorized; 2,481,836 and 2,472,671 shares issued and outstanding at December 31, 2007 and 2006, respectively	12,409,180	12,363,355
Additional paid in capital	3,259,895	3,039,690
Retained earnings	8,609,670	7,273,436
Accumulated other comprehensive income (loss)	156,777	(134,253)
Total Stockholders' Equity	<u>24,435,522</u>	<u>22,542,228</u>
Total Liabilities and Stockholders' Equity	<u>\$389,705,362</u>	<u>\$359,662,387</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY

Consolidated Statements of Income

	For the Years Ended December 31,		
	2007	2006	2005
Interest income:			
Loans, including fees	\$20,652,576	\$18,620,395	\$11,694,822
Investment securities:			
Taxable	3,071,097	2,618,935	2,467,494
Tax-exempt	979,027	908,436	984,894
Federal funds sold	92,112	34,428	96,113
Other	41,144	33,415	64,360
Total interest income	24,835,956	22,215,609	15,307,683
Interest expense:			
Interest on deposit accounts	8,178,964	6,653,779	3,226,358
Interest on short term borrowings	505,852	565,472	219,349
Interest on long term borrowings	4,056,328	3,372,381	2,763,917
Total interest expense	12,741,144	10,591,632	6,209,624
Net interest income	12,094,812	11,623,977	9,098,059
Provision for loan losses	1,810,883	597,000	424,194
Net interest income after provision for loan losses	10,283,929	11,026,977	8,673,865
Noninterest income:			
Customer service fees	905,131	936,978	982,321
Gain on sale of investment securities	—	78,269	342,394
Other noninterest income	1,593,961	1,324,756	1,131,938
Total noninterest income	2,499,092	2,340,003	2,456,653
Noninterest expenses:			
Salaries and employee benefits	5,733,309	5,444,426	4,637,950
Occupancy and equipment	934,951	875,103	754,102
Postage and supplies	314,625	303,842	283,471
Marketing expenses	362,982	335,685	239,344
Directors fees	209,457	194,698	178,498
Professional fees	397,891	371,714	393,539
Other noninterest expenses	1,275,613	1,396,751	1,093,838
Total noninterest expenses	9,228,828	8,922,219	7,580,742
Income before income taxes	3,554,193	4,444,761	3,549,776
Provision for income taxes:	948,568	1,291,955	755,223
Net income	\$ 2,605,625	\$ 3,152,806	\$ 2,794,553
Basic net income per share of common stock	\$ 1.05	\$ 1.28	\$ 1.14
Diluted net income per share of common stock	\$ 1.04	\$ 1.21	\$ 1.12
Weighted average shares outstanding:			
Basic	2,479,051	2,462,688	2,442,078
Diluted	2,509,270	2,517,549	2,504,856

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2007, 2006 and 2005

	Common Stock		Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2004	2,432,261	\$12,161,305	\$2,513,304	\$ 5,520,915	\$ 837,703	\$21,033,227
Net income	—	—	—	2,794,553	—	2,794,553
Other comprehensive income, net of tax:						
Unrealized holding loss on investment securities net of income tax benefit of approximately \$517,000	—	—	—	—	(821,812)	(821,812)
Less reclassification adjustments for gains included in net income, net of income tax expense of approximately \$130,000	—	—	—	—	(212,284)	(212,284)
Comprehensive income						1,760,457
Stock exercised pursuant to stock option plan	18,819	94,095	164,207	—	—	258,302
Stock granted to employees	2,500	12,500	26,250	—	—	38,750
Tax benefit of stock options exercised	—	—	38,117	—	—	38,117
Dividends declared (\$.64 per share)	—	—	—	(1,564,543)	—	(1,564,543)
Balance at December 31, 2005	2,453,580	12,267,900	2,741,878	6,750,925	(196,393)	21,564,310
Cumulative effect of adoption of SAB 108, net of tax benefit of \$278,978	—	—	—	(541,547)	—	(541,547)
Net income	—	—	—	3,152,806	—	3,152,806
Other comprehensive income, net of tax:						
Unrealized holding gain on investment securities net of income taxes of approximately \$24,000	—	—	—	—	110,666	110,666
Less reclassification adjustments for gains included in net income, net of income taxes of approximately \$30,000	—	—	—	—	(48,526)	(48,526)
Comprehensive income						3,214,946
Stock exercised pursuant to stock option plan	19,091	95,455	206,646	—	—	302,101
Tax benefit of stock options exercised	—	—	19,155	—	—	19,155
Stock based compensation	—	—	72,011	—	—	72,011
Dividends declared (\$.85 per share)	—	—	—	(2,088,748)	—	(2,088,748)
Balance at December 31, 2006	2,472,671	12,363,355	3,039,690	7,273,436	(134,253)	22,542,228
Net income	—	—	—	2,605,625	—	2,605,625
Other comprehensive income, net of tax:						
Unrealized holding gain on investment securities net of income taxes of approximately \$182,000	—	—	—	—	291,030	291,030
Comprehensive income						2,896,655
Stock exercised pursuant to stock option plan	9,165	45,825	46,732	—	—	92,557
Tax benefit of stock options exercised	—	—	8,082	—	—	8,082
Stock based compensation	—	—	165,391	—	—	165,391
Dividends declared (\$.51 per share)	—	—	—	(1,269,391)	—	(1,269,391)
Balance at December 31, 2007	<u>2,481,836</u>	<u>\$12,409,180</u>	<u>\$3,259,895</u>	<u>\$ 8,609,670</u>	<u>\$ 156,777</u>	<u>\$24,435,522</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY

Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2007	2006	2005
Operating activities:			
Net income	\$ 2,605,625	\$ 3,152,806	\$ 2,794,553
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	472,199	472,933	399,471
Gain on sale of investment securities	—	(78,269)	(342,394)
Gain on sale of real estate held for sale	—	—	(68,672)
Provision for loan losses	1,810,883	597,000	424,194
Deferred income taxes (benefit)	(171,537)	16,000	(189,942)
Stock-based compensation	165,391	72,011	38,750
Increase in cash surrender value of life insurance	(233,943)	(187,737)	(173,859)
Net change in:			
Accrued interest receivable	(149,056)	(683,420)	(477,497)
Other assets	197,296	(536,449)	(185,953)
Accrued interest payable	340,427	852,640	709,869
Other liabilities	(501,216)	396,725	231,414
Net cash provided by operating activities	<u>4,536,069</u>	<u>4,074,240</u>	<u>3,159,934</u>
Investing activities:			
Activity in available-for-sale securities:			
Sales	—	11,987,953	17,065,375
Maturities, prepayments and calls	5,379,696	6,222,462	5,527,015
Purchases	(24,286,198)	(28,673,364)	(36,420,064)
Activity in held to maturity securities:			
Maturities, prepayments and calls	3,995,008	4,900,393	6,992,686
Proceeds from sale of real estate held for sale	—	—	310,470
Net decrease in federal funds sold	—	—	650,000
Purchase of restricted stock	(994,100)	(440,100)	(388,800)
Net increase in loans	(18,574,072)	(47,066,731)	(59,333,470)
Purchase of premises and equipment	(413,288)	(1,358,044)	(1,793,182)
Purchase of life insurance	(1,000,000)	—	(723,608)
Net cash used for investing activities	<u>(35,892,954)</u>	<u>(54,427,431)</u>	<u>(68,113,578)</u>

(continued)

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued

	For the Years Ended December 31,		
	2007	2006	2005
Financing activities:			
Net increase in deposits	\$ 4,305,269	\$41,101,170	\$48,926,785
Net increase (decrease) in short term borrowings	(11,167,875)	3,652,108	10,519,767
Proceeds from other long term borrowings	15,000,000	—	—
Repayment of notes payable to FHLB	(14,713,514)	(3,404,055)	(8,107,813)
Proceeds from notes payable to FHLB	35,300,000	10,250,000	16,000,000
Proceeds from issuance of subordinated debentures	—	5,000,000	—
Proceeds from exercise of stock options	92,557	302,101	258,302
Tax benefit from stock option exercise	8,082	19,155	—
Cash dividends paid	(1,682,801)	(1,675,338)	(1,564,543)
Net cash provided by financing activities	<u>27,141,718</u>	<u>55,245,141</u>	<u>66,032,498</u>
Net increase (decrease) in cash and due from banks	<u>(4,215,167)</u>	<u>4,891,950</u>	<u>1,078,854</u>
Cash and due from banks at beginning of year	11,690,543	6,798,593	5,719,739
Cash and due from banks at end of year	<u>\$ 7,475,376</u>	<u>\$11,690,543</u>	<u>\$ 6,798,593</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 12,400,717	\$ 9,738,992	\$ 5,499,755
Income taxes	\$ 829,258	\$ 1,797,695	\$ 919,761
Non-cash investing and financing activities:			
Real estate acquired in satisfaction of mortgage loans	\$ 42,000	\$ —	\$ 30,000
Investment in trust	\$ —	\$ 155,000	\$ —
Change in valuation of fair value hedge	\$ —	\$ —	\$ 410,889
Dividends payable	\$ —	\$ (413,410)	\$ —
Change in beginning retained earnings (net of tax)	\$ —	\$ (541,547)	\$ —
Loans to facilitate sale of real estate	\$ —	\$ —	\$ 197,452
Change in other comprehensive income (net of tax)	\$ 291,030	\$ 62,140	\$ (1,034,096)

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY

Notes to Consolidated Financial Statements
December 31, 2007, 2006 and 2005

1. Summary of Significant Accounting Policies

Organization - Greer State Bank (the "Bank") was organized under a state banking charter in August 1988, and commenced operations on January 3, 1989. Greer Bancshares Incorporated is a South Carolina corporation formed in July 2001, primarily to hold all of the capital stock of Greer State Bank. The Bank engages in commercial and retail banking, emphasizing the needs of small to medium businesses, professional concerns and individuals, primarily in Greer and surrounding areas in the upstate of South Carolina. The accompanying consolidated financial statements include the accounts of the holding company and its wholly owned subsidiary (herein referred to as the "Company").

In October 2004 and December 2006, Greer Capital Trust I and Greer Capital Trust II (the "Trusts") were formed, respectively. The Trusts were formed as part of the process of the issuance of trust preferred securities. During 2004, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation Nos. 46 and 46R ("FIN 46 and 46R"), *Consolidation of Variable Interest Entities*. Under the provisions of FIN 46 and 46R, the Company has not consolidated the Trusts. The junior subordinated debt issued by the Company to the Trusts is included in long-term debt. The equity investment in the Trusts is included in other assets.

Nature of Operations - The primary activity of the holding company is to hold its investment in the Bank. The Bank operates under a state bank charter and provides full banking services. The Bank is subject to regulation by the Federal Deposit Insurance Corporation ("FDIC") and the South Carolina Board of Financial Institutions.

Greer Financial Services, a division of the Bank, provides financial management services and non-deposit product sales.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiary and, in consolidation, all significant intercompany items are eliminated.

Business Segments - The Company reports all activities as one business segment. In determining the appropriateness of segment definition, the materiality of the potential segment and components of the business about which financial information is available and regularly evaluated relative to resource allocation and performance assessment is considered.

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**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY****Notes to Consolidated Financial Statements, Continued**

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, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks" and "Interest-bearing deposits in banks." Cash and cash equivalents have an original maturity of three months or less.

Securities Held to Maturity - Bonds, notes and debentures for which there is the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity or to call dates.

Realized gains and losses on the sale of held-to-maturity securities are determined using the specific-identification method.

Securities Available for Sale - Available-for-sale securities are reported at fair value and consist of bonds, notes, debentures and certain equity securities not classified as trading securities or as held-to-maturity securities.

Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of stockholders' equity. Realized gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or to call dates.

Other Than Temporary Impairment - Declines in the fair value of individual held-to-maturity and available-for-sale securities below cost that are other than temporary are reflected as write-downs of the individual securities to fair value. Related write-downs are included in income. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair values.

**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY****Notes to Consolidated Financial Statements, Continued**

Concentrations of Credit Risk - The Bank makes loans to individuals and small businesses located primarily in upstate South Carolina for various personal and commercial purposes resulting in a diversified loan portfolio. The borrowers' ability to repay their loans is not dependent upon any specific economic sector.

Comprehensive Income - Comprehensive income reflects the change in equity during the year arising from transactions and events other than investments by and distributions to shareholders. It consists of net income plus certain other changes in assets and liabilities that are reported as separate components of stockholders' equity rather than as income or expense. The statement of changes in stockholders' equity includes the components of comprehensive income. The accumulated other comprehensive income and loss at December 31, 2007 and 2006 consists solely of unrealized gains and losses on investment securities, respectively.

Loans and Interest Income - The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans throughout the Greater Greer area of the upstate of South Carolina. The ability of our debtors to honor their contracts is dependent upon the general economic conditions in this area. Loans are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses, deferred loan fees and any unearned discounts. Interest income is accrued and taken into income based upon the interest method.

The accrual of interest on loans is discontinued when, in the judgment of management, the interest will not be collectible in the normal course of business. Accrual of interest of such loans is typically discontinued when the loan is 90 days past due or impaired. All interest accrued, but not collected for loans that are placed on non-accrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses - The allowance for loan losses is based on management's ongoing evaluation of the loan portfolio and reflects an amount that, in management's opinion, is adequate to absorb probable losses in the existing portfolio. Additions to the allowance for loan losses are provided by charges to earnings. Loan losses are charged against the allowance when the ultimate uncollectibility of a loan balance is determined. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a monthly basis by management. The evaluation includes the periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, impairment and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision.

**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY****Notes to Consolidated Financial Statements, Continued**

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for the necessary allowance. Accordingly, individual consumer and residential loans are not separately evaluated for impairment.

Premises and Equipment - Land is carried at cost. Premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is charged using the straight-line method over the useful lives (three to thirty-nine years) of the assets. Additions to premises and equipment and major replacements or improvements are capitalized at cost. Maintenance, repairs and minor replacements are expensed when incurred. Gains and losses on routine dispositions are reflected in current earnings.

Real Estate Held for Sale - Real estate held for sale is stated at the lower of cost or net realizable value at the time of foreclosure. Market values of real estate held for sale are reviewed regularly and allowances for losses are established when the carrying value exceeds the estimated net realizable value. Gains and losses on the sale of real estate held for sale are recorded at the time of sale.

Restricted Stock - Restricted stock consists of non-marketable equity securities including investments in the stock of the Federal Home Loan Bank ("FHLB"), Community Bankers Bank and Community Financial Services, Inc. These stocks have no ready market and no quoted market value. Because of the redemption provisions of the restricted stock, the Bank estimates that fair value equals cost for these investments resulting in no impairment at December 31, 2007. Investment in the Federal Home Loan Bank is a condition of borrowing from the Federal Home Loan Bank. The stock is pledged to collateralize such borrowings. At December 31, 2007 and 2006, the investment in the Federal Home Loan Bank stock was \$4,586,200 and \$3,592,100, respectively. At December 31, 2007 and 2006, the investments in Community Bankers Bank and Community Financial Services, Inc. were \$45,400 and \$311,414, respectively. Dividends received on these stocks are included in interest income.

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**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY****Notes to Consolidated Financial Statements, Continued**

Stock-Based Compensation - Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), *Share-Based Payment*, ("SFAS No. 123R") which was issued by the FASB in December 2004. SFAS No. 123R revises SFAS No. 123, *Accounting for Stock Based Compensation*, and supersedes APB No. 25, *Accounting for Stock Issued to Employees*, and its related interpretations. SFAS No. 123R requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). SFAS No. 123R also requires measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award. SFAS No. 123R also amends SFAS No. 95, *Statement of Cash Flows*, to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

Income Taxes - The Company files a consolidated federal income tax return and separate state income tax returns. Income taxes are allocated to each company as if filed separately for federal purposes and based on the separate returns filed for state purposes.

Certain items of income and expense for financial reporting are recognized differently for income tax purposes (principally the provision for loan losses, deferred compensation and depreciation). Provisions for deferred taxes are made in recognition of such temporary differences as required under SFAS No. 109, *Accounting for Income Taxes*. Current income taxes are recorded based on amounts due with the current income tax returns. The need for a valuation allowance is considered when it is determined more likely than not that a deferred tax asset will not be realized.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective January 1, 2007, resulting in no adjustment to beginning retained earnings.

There are no uncertain tax positions for the open tax years that fall below the "more-likely-than-not" threshold prescribed by FIN 48 as of December 31, 2007. The Company accounts for tax penalties and interest on tax obligations as a component of income tax expense. The Company has recognized no penalties or interest for the periods presented. The Company is no longer subject to U.S. federal or state examinations by tax authorities for the tax years before 2003.

**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY****Notes to Consolidated Financial Statements, Continued**

Earnings Per Share of Common Stock - Basic and diluted earnings per share of common stock are presented after giving retroactive effect to stock splits and dividends. The assumed conversion of stock options creates the difference between basic and diluted net income per share. Income per share is calculated by dividing net income by the weighted average number of common shares outstanding for each period presented. Anti-dilutive options totaling 149,300, 64,800 and 17,944 have been excluded from the income per share calculation for the periods ended December 31, 2007, 2006 and 2005, respectively.

Off-Balance Sheet Credit Related Financial Instruments - In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Derivatives - The Company utilizes derivative contracts to manage interest rate risk. These instruments consisted of interest rate swaps and swaptions in 2004, 2005 and 2006 prior to their sale in December 2006. In January 2006, an interest rate floor was purchased. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or referenced interest rate. The Company used interest rate swaps and swaptions as fair value hedges for certain fixed rate Federal Home Loan Bank advances. The interest rate floor contract is a derivative used to hedge cash flows of certain prime based loans. The floor contract terminates on January 30, 2009. The Bank does not utilize derivatives for trading purposes.

The derivatives did not qualify for hedge accounting under SFAS 133 (see Note 21). As a result, the derivatives are recorded at fair value with adjustments to earnings.

The net interest payable or receivable on interest rate swaps that are designated as hedges is accrued and recognized as an adjustment to the interest expense of the related liability and flow through the income statement for each specific reporting period.

Reclassification - Certain amounts in the 2006 and 2005 consolidated financial statements have been reclassified to conform to the 2007 presentation. The reclassifications had no effect on net income or stockholders' equity as previously reported.

**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY**
Notes to Consolidated Financial Statements, Continued

Recent Accounting Pronouncements - The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157, as amended by FSP 157-2 for nonfinancial assets and liabilities, is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. The Company must adopt these new requirements no later than the first quarter of 2008. The Company has not yet determined the effect of adopting SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this standard 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. This statement is effective as of the beginning of fiscal years beginning after November 15, 2007, with early adoption permitted under certain circumstances. The Company did not choose to early adopt this standard and has not yet determined the effect of adopting SFAS 159 on its consolidated financial statements.

2. Investment Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of investment securities are as follows:

	December 31, 2007			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Held to maturity:				
Mortgage backed securities	\$19,586,460	\$ 5,874	\$311,456	\$19,280,878
Available for sale:				
United States Government and other agency obligations	\$ 6,666,525	\$104,321	\$ —	\$ 6,770,846
Mortgage-backed securities	41,136,175	99,058	101,395	41,133,838
Municipal securities	22,428,114	266,486	81,953	22,612,647
Equity securities	8,062,885	33,115	—	8,096,000
Corporate bonds	1,016,328	—	64,712	951,616
	<u>\$79,310,027</u>	<u>\$502,980</u>	<u>\$248,060</u>	<u>\$79,564,947</u>

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	December 31, 2006			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Held to maturity:				
Mortgage backed securities	\$23,581,468	\$ —	\$791,157	\$22,790,311
Available for sale:				
United States Government and other agency obligations	\$ 6,643,267	\$ 35,989	\$ 78,800	\$ 6,600,456
Mortgage-backed securities	29,291,665	21,928	447,227	28,866,366
Municipal securities	22,436,035	313,772	23,774	22,726,033
Corporate bonds	2,032,555	—	40,187	1,992,368
	<u>\$60,403,522</u>	<u>\$371,689</u>	<u>\$589,988</u>	<u>\$60,185,223</u>

The amortized cost and estimated fair value of investment securities at December 31, 2007 by contractual maturity for debt securities are shown below. Mortgage backed securities have not been scheduled since expected maturities will differ from contractual maturities because borrowers may have the right to prepay the obligations.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year	\$ 2,528,440	\$ 2,520,987	\$ —	\$ —
Over 1 year through 5 years	2,220,552	2,190,867	—	—
Alter 5 years through 10 years	8,537,469	8,762,409	—	—
Over 10 years	24,887,391	24,956,846	—	—
	38,173,852	38,431,109	—	—
Mortgage backed securities	41,136,175	41,133,838	19,586,460	19,280,878
Total	<u>\$79,310,027</u>	<u>\$79,564,947</u>	<u>\$19,586,460</u>	<u>\$19,280,878</u>

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The fair value of securities with temporary impairment at December 31, 2007 and 2006 is shown below:

	Less Than Twelve Months		Over Twelve Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2007				
Description of securities:				
Mortgage backed securities	\$14,376,707	\$ 32,161	\$23,190,461	\$380,690
Corporate bonds	—	—	951,616	64,712
Municipal securities	3,367,296	11,549	2,599,853	70,404
Total	<u>\$17,744,003</u>	<u>\$ 43,710</u>	<u>\$26,741,930</u>	<u>\$515,806</u>
2006				
Description of securities:				
U.S. Government and other agency obligations	\$ 1,750,751	\$ 3,734	\$ 2,165,049	\$ 75,066
Mortgage backed securities	14,400,615	108,181	33,257,341	1,130,203
Corporate bonds	—	—	1,992,368	40,187
Municipal securities	3,372,564	9,929	2,851,518	13,845
Total	<u>\$19,523,930</u>	<u>\$121,844</u>	<u>\$40,266,276</u>	<u>\$1,259,301</u>

Management believes all of the unrealized losses as of December 31, 2007 and 2006 are temporary and as a result of temporary changes in the market. The number of securities with unrealized losses was forty-four and sixty-six at December 31, 2007 and 2006, respectively. Thirty-three are mortgage-backed securities, nine are municipal securities and two are corporate bonds at December 31, 2007. Two are agency obligations, forty-six are mortgage-backed securities, fourteen are municipal securities and four are corporate bonds at December 31, 2006. The temporary impairment is due primarily to changes in the short and long term interest rate environment since the purchase of the securities and is not related to credit issues of the issuer. The Bank has sufficient cash and investments showing unrealized gains and borrowing sources to provide sufficient liquidity to hold the securities until maturity if necessary.

Investment securities with an aggregate book value of approximately \$62,615,000 and \$57,510,000 at December 31, 2007 and 2006, respectively, were pledged to secure public deposits and Federal Home Loan Bank borrowings.

**GREER BANCSHARES INCORPORATED
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Gross realized gains, gross realized losses and sale proceeds for available for sale securities for the years ended December 31 are summarized as follows. These net gains or losses are shown in noninterest income as gain on sale of available for sale securities.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Gross realized gains	\$—	\$ 204,484	\$ 409,970
Gross realized losses	—	126,215	67,576
Net gain on available for sale securities	<u>\$—</u>	<u>\$ 73,269</u>	<u>\$ 342,394</u>
Sale proceeds	<u>\$—</u>	<u>\$11,987,953</u>	<u>\$17,065,375</u>

3. Net Loans

A summary of loans outstanding by major classification follows:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Real estate	\$199,723,710	\$180,400,938
Commercial and industrial (non-real estate)	51,029,503	49,954,767
Installment loans to individuals for household, family and other personal expenditures	10,890,207	10,853,743
All other loans	<u>1,367,107</u>	<u>4,648,474</u>
	263,010,527	245,857,922
Allowance for loan losses	<u>(2,232,703)</u>	<u>(1,801,287)</u>
	<u>\$260,777,824</u>	<u>\$244,056,635</u>

The change in the allowance for loan losses is summarized as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 1,801,287	\$1,415,897	\$1,136,258
Provision charged to income	1,810,883	597,000	424,194
Recoveries on loans	142,671	41,690	15,762
Loans charged off	<u>(1,522,138)</u>	<u>(253,300)</u>	<u>(160,317)</u>
Balance, end of year	<u>\$ 2,232,703</u>	<u>\$1,801,287</u>	<u>\$1,415,897</u>

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At December 31, 2007 and 2006, non-accrual loans totaled approximately \$2,702,000 and \$843,000, respectively. The gross interest income that would have been recorded under the original terms of the non-accrual loans amounted to approximately \$124,000 in 2007, \$38,000 in 2006 and \$45,000 in 2005.

The Bank had impaired loans at December 31, 2007 and 2006 with outstanding balances of \$1,353,794 and \$1,316,398, respectively. The average amount of impaired loans outstanding during 2007 and 2006 was \$768,599 and \$687,376, respectively. There was no interest income recognized on the impaired loans during 2007, 2006 and 2005. The amount of the valuation allowance allocated to the impaired loans was \$64,844 and \$263,280 at December 31, 2007 and 2006, respectively.

4. Premises and Equipment

Premises and equipment are summarized as follows:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 1,460,177	\$ 1,460,177
Construction in process	253,219	248,942
Buildings and improvements	5,006,439	4,975,288
Equipment	1,463,474	1,404,523
Furniture and fixtures	815,328	801,002
Electronic data processing	3,266,567	2,961,984
	<u>12,265,204</u>	<u>11,851,916</u>
Less accumulated depreciation	<u>(5,692,394)</u>	<u>(5,220,195)</u>
	<u>\$ 6,572,810</u>	<u>\$ 6,631,721</u>

5. Other Assets

Other assets at December 31 consist of the following:

	<u>2007</u>	<u>2006</u>
Prepaid expenses	\$ 251,240	\$ 293,457
Bank owned life insurance	6,378,604	5,144,661
Other	568,168	490,640
Income tax receivable	122,733	406,185
Deferred taxes	1,016,275	934,085
	<u>\$8,337,020</u>	<u>\$7,269,028</u>

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**GREER BANCSHARES INCORPORATED
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During 2007, the Company reclassified approximately \$71,000 between current and deferred taxes.

6. Time Deposits

At December 31, 2007 and 2006, time deposits of \$100,000 or more totaled approximately \$74,341,000 and \$80,815,000, respectively. The Bank had brokered deposits of approximately \$22 million at December 31, 2007 and \$35 million at December 31, 2006.

Contractual maturities at December 31, 2006 of time deposits are summarized as follows:

12 months or less	\$134,638,999
1-3 years	<u>5,506,028</u>
	<u>\$140,145,027</u>

7. Short Term Borrowings

At December 31, 2007, short term borrowings consisted of federal funds. The outstanding balances and related information for these borrowings are summarized as follows:

	Federal Funds Purchased		
	2007	2006	2005
Outstanding balance at December 31	\$3,004,000	\$5,317,000	\$ 1,931,000
Weighted average rate	4.60%	5.63%	4.60%
Maximum month - end outstanding	\$4,781,000	\$7,461,000	\$12,373,000
Approximate average amounts outstanding	\$1,175,000	\$1,861,000	\$ 1,261,000
Weighted average rate for the year	4.18%	5.28%	3.76%

Federal funds purchased generally mature within one to thirty days from the transaction date.

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Notes to Consolidated Financial Statements, Continued
8. Long Term Borrowings

At December 31, 2007, long term borrowings consisted of fixed and variable rate FHLB advances and reverse repurchase agreements. The outstanding balances and related information for these borrowings are summarized as follows:

	FHLB Advances		Reverse Repurchase Agreements	
	2007	2006	2007	2006
Outstanding balance	\$ 87,100,000	\$ 66,513,514	\$15,000,000	\$—
Stated interest rate or range	3.41%-5.92%	2.74%-6.67%	3.60%	—

The Bank has pledged as collateral FHLB stock, certain investment securities and has entered into a blanket collateral agreement whereby qualifying mortgages with a book value of at least 135 percent of total advances, free of other encumbrances, will be maintained.

The contractual maturities at December 31, 2007, are as follows:

2008	\$ 29,600,000
2009	10,000,000
2010	6,000,000
2011	18,000,000
2012	11,500,000
Thereafter	<u>27,000,000</u>
	<u>\$102,100,000</u>

In October 2004 and December 2006, the Company issued \$6.186 and \$5.155 million of junior subordinated debentures to its wholly-owned capital Trusts, Greer Capital Trust I and Greer Capital Trust II, respectively, to fully and unconditionally guarantee the trust preferred securities issued by the Trusts. These long-term obligations qualify as total risk based capital for the Company. Also, see the detailed discussion regarding the accounting treatment of the Trusts in the summary of significant accounting policies.

The junior subordinated debentures issued in October 2004 mature in October 2034, but include an option to call the debt in October 2009. Interest payments are due quarterly to Greer Capital Trust I at the three-month LIBOR plus 220 basis points.

The junior subordinated debentures issued in December 2006 mature in December 2036, but include an option to call the debt in December 2011. Interest payments are due quarterly to Greer Capital Trust II at the three-month LIBOR plus 173 basis points.

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Notes to Consolidated Financial Statements, Continued
9. Unused Lines of Credit

As of December 31, 2007, the Bank had an unused short-term line of credit to purchase federal funds from correspondent banks totaling \$ 13.6 million and other unused short term lines of credit from other financial institutions totaling \$6 million.

The Bank has the ability to borrow an additional \$19.7 million from the Federal Home Loan Bank. The borrowings are available by pledging collateral and purchasing additional stock in the Federal Home Loan Bank.

10. Off-Balance Sheet Activities, Commitments and Contingencies

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk. 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 accompanying balance sheets. The contract amounts of those instruments reflect the extent of involvement in particular classes of financial instruments. Management uses the same credit policies in making commitments as for making loans. Commitments to extend credit in the future represent financial instruments involving credit risk. A summary of commitments at December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Commitments to extend credit	\$62,721,000	\$46,876,000
Standby letters of credit	5,099,000	4,474,000
	<u>\$67,820,000</u>	<u>\$51,350,000</u>

Commitments to extend credit are agreements to lend as long as there is no violation of the conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, obtained upon extension of credit is based on our credit evaluation.

Standby letters of credit 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 public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances that management deems necessary. Newly issued or modified guarantees are to be recorded on the Company's balance sheet at fair value at inception. As of December 31, 2007 and 2006, no liability has been recorded related to these guarantees.

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**GREER BANCSHARES INCORPORATED
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Concentrations of Credit Risk - Substantially all loans and commitments to extend credit have been granted to customers in the Bank's market area and such customers are generally depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The primary focus is toward consumer and small business transactions, and accordingly, there are not a significant number of credits to any single borrower or group of related borrowers in excess of \$2,500,000.

From time to time, the Bank has cash and cash equivalents on deposit with financial institutions that exceed federally insured limits.

Litigation - The Company is a party to litigation and claims arising in the normal course of business. After consultation with legal counsel, management believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

11. Stockholders' Equity

The Company has 1,000,000 authorized but unissued shares of preferred stock (par value \$5). Should preferred stock be issued, the Company's directors will set the designation of terms, conditions and amounts.

12. Benefit Plans

Defined Contribution Plan - The Bank has a 401(k) Profit Sharing Plan for the benefit of employees. Subject to annual approval by the Board of Directors, employee contributions of up to 5% of compensation are matched in accordance with plan guidelines. Matching contributions of \$152,356, \$137,963 and \$89,991 were charged to expense during 2007, 2006 and 2005, respectively.

Stock Option Plan - The Company adopted SFAS No. 123R using the modified prospective application as permitted under SFAS No. 123R. Accordingly, amounts prior to January 1, 2006 have not been restated. Under this application, the Company is required to record compensation expense for the fair value of all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

Prior to the adoption of SFAS No. 123R, the Company used the intrinsic value method as prescribed by APB Opinion No. 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of the Company's common stock on the date of grant.

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**GREER BANCSHARES INCORPORATED
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Effective April 27, 2006, the Directors' Incentive Stock Option Plan (the "Directors' Incentive Plan") was terminated. Outstanding options issued under the former Directors' Incentive Plan will be honored in accordance with the terms and conditions in effect at the time they were granted, except that they are not subject to reissuance. At December 31, 2007, there were 51,000 options outstanding that had been issued under the terminated Directors' Incentive Plan.

Effective April 28, 2005, the Greer State Bank Employee Incentive Stock Option Plan (the "Plan") was terminated. Outstanding options issued under the former Plan will be honored in accordance with the terms and conditions in effect at the time they were granted, except that they are not subject to reissuance. At December 31, 2007, there were 25,658 options outstanding that had been issued under the terminated Plan.

Effective April 28, 2005, the Company adopted the 2005 Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan provides for the granting of statutory incentive stock options within the meaning of Section 422 of the Internal Revenue Code as well as non-statutory stock options. The Incentive Plan authorized the initial issuance of options and stock awards to acquire up to 250,000 shares of common stock of the Company. The Incentive Plan provides that beginning with the annual meeting of the shareholders in 2006 and continuing for the next eight annual meetings, the aggregate number of shares of common stock that can be issued under the Incentive Plan will automatically be increased by a number of shares equal to the least of (1) 2% of the diluted shares outstanding, (2) 20,000 shares or (3) a lesser number of shares determined by the Compensation Committee of the Board. "Diluted shares outstanding" means the sum of (a) the number of shares of common stock outstanding on the date of the applicable annual meeting of shareholders, (b) the number of shares of common stock issuable on such date assuming all outstanding shares of preferred stock and convertible notes are then converted, and (c) the additional number of shares of common stock that would be outstanding as a result of any outstanding options or warrants during the fiscal year of such meeting using the treasury stock method. In 2007 the number of available stock awards under this plan increased by 20,000.

Under the Incentive Plan, awards may be granted for a term of up to ten years from the effective date of grant. The Compensation Committee has the discretion as to the exercise date of any awards granted. The per-share exercise price of incentive stock options may not be less than the fair value of a share of common stock on the date the option is granted. The per-share exercise price of nonqualified stock options may not be less than 85% of the fair value of a share on the effective date of grant. Any options that expire unexercised or are canceled become available for reissuance. No awards may be granted more than ten years after the date the Incentive Plan was approved by the Board of Directors, which was September 24, 2004. At December 31, 2007, the Company had 37,700 awards available for grant under the Incentive Plan.

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Vesting under the plan is discretionary based upon a determination by the Compensation Committee.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected life at the time of grant. Volatility is based on the average long-term implied volatilities of the Company using historical volatility as a guide. The expected life is based on previous option exercise experience. The following table illustrates the assumptions for the Black-Scholes model used in determining the fair value of options granted to employees for the years ended December 31, 2007, 2006 and 2005, respectively. The weighted-average grant-date fair value of options granted during the years ended December 31, 2007, 2006 and 2005 was \$2.62, \$4.78 and \$4.04, respectively.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Dividend yield	3.10%	3.02%	3.00%
Risk-free interest rate	4.60%	4.81%	4.10%
Volatility	9.38%	12.50%	12.50%
Expected life (years)	7.5	5.7	7.3

A summary of option activity under the stock option plans discussed above as of December 31, 2007, and changes during the year ended December 31, 2007, is presented below:

	<u>Options Available</u>	<u>Options Outstanding</u>	<u>Exercise Price Range</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 2006	110,700	243,743	\$6.83-27.50	\$ 18.71
Exercised	—	(9,165)	6.83-18.67	10.10
Authorized	20,000	—	—	—
Forfeited	6,000	(9,325)	5.50-27.50	19.96
Granted	(99,000)	99,000	5.75-21.75	20.98
Balance at December 31, 2007	<u>37,700</u>	<u>324,253</u>	<u>\$6.83-27.50</u>	<u>\$ 19.58</u>

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The following table sets forth the exercise prices, the number of options outstanding and the number of options exercisable at December 31, 2007:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>		<u>Options Exercisable</u>		
	<u>Number of Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Contractual Life Remaining (Years)</u>	<u>Number of Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$6.58-12.58	8,433	\$ 10.88	0.74	7,832	\$ 10.75
\$15.50-18.67	162,520	16.34	5.92	93,444	16.27
\$19.30-27.50	153,300	23.50	7.94	63,700	25.63
Total/Wtd Avg	<u>324,253</u>	<u>\$ 19.58</u>	<u>6.45</u>	<u>164,976</u>	<u>\$ 19.62</u>

The following table sets forth information pertaining to the Company's exercisable options and options expected to vest:

	<u>December 31, 2007</u>
Aggregate intrinsic value of outstanding options	\$ 38,952
Aggregate intrinsic value of exercisable options	\$ 37,197
Weighted average remaining life of all options	7.31

The total intrinsic value of options exercised during the twelve month period ended December 31, 2007, 2006 and 2005 was approximately \$50,000, \$142,000 and \$172,000, respectively.

As of December 31, 2007, there was approximately \$370,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 4.13 years. The total fair value of shares vested during the years ended December 31, 2007, 2006 and 2005 was approximately \$165,000, \$72,000 and \$300,000, respectively. The deferred tax benefit related to non-incentive stock options was approximately \$2,200, \$2,200 and \$1,600 for years ended December 31, 2007, 2006 and 2005, respectively.

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For purposes of disclosures pursuant to SFAS No. 123, the estimated fair value of the options is amortized to expense over the options' vesting period using the straight line method. The following table illustrates the effect on net income available to common stockholders if the Company had applied the fair value recognition provisions of SFAS No. 123 with respect to the year ended December 31, 2005.

	Year Ended December 31 (000's) Except Per Share Data 2005
Net income, as reported	\$ 2,795
Add: Stock-based employee compensation expense included in reported net income, net of related income tax effects	24
Less: Stock-based employee compensation expense determined under fair value based method of all awards, net of related income tax effects	(282)
Proforma net income	<u>\$ 2,537</u>
Earnings per share—basic, as reported	<u>\$ 1.14</u>
Earnings per share—diluted, as reported	<u>\$ 1.12</u>
Earnings per share—diluted, proforma	<u>\$ 1.07</u>
Earnings per share—diluted, proforma	<u>\$ 1.05</u>

Non-Qualified Plans - The Company has established certain non-qualified benefit plans for certain key executive officers and directors. The benefits under the plans are computed and payable under certain terms as specified in each agreement. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of each agreement until the initial payments are made at the normal retirement dates. Compensation expense related to these plans of approximately \$231,000, \$142,000 and \$221,000 was recorded during fiscal years 2007, 2006 and 2005, respectively. The total liability under these plans was approximately \$1,107,000 at December 31, 2007 and is included in other liabilities in the accompanying consolidated balance sheets.

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The Bank has purchased and is the owner and beneficiary of certain life insurance policies that will be used to finance the benefits under these agreements. Income earned on the life insurance policies, which is exempt from federal and state income tax, of approximately \$234,000, \$188,000 and \$174,000 for the years ended December 31, 2007, 2006 and 2005, respectively, is included in other income.

13. Income Taxes

The components of the provision for income taxes are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current income tax expense:			
State	\$ 142,900	\$ 155,500	\$ 149,000
Federal	<u>977,205</u>	<u>1,120,455</u>	<u>796,165</u>
	1,120,105	1,275,955	945,165
Deferred Federal income tax expense (benefit)	<u>(171,537)</u>	<u>16,000</u>	<u>(189,942)</u>
Provision for income taxes	<u>\$ 948,568</u>	<u>\$ 1,291,955</u>	<u>\$ 755,223</u>

The provision for income taxes differs from the amount of income tax computed at the federal statutory rate due to the following:

	<u>2007</u>		<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percent of Income Before Tax</u>	<u>Amount</u>	<u>Percent of Income Before Tax</u>	<u>Amount</u>	<u>Percent of Income Before Tax</u>
Income before income taxes	<u>\$3,554,193</u>		<u>\$4,444,261</u>		<u>\$3,549,776</u>	
Tax at statutory rate	\$1,208,000	34.0%	\$1,511,000	34.0%	\$1,207,000	34.0%
Tax effect of:						
Federally tax exempt interest income	(296,000)	(8.4)	(297,000)	(6.7)	(302,000)	(8.5)
State taxes, net of federal benefit	94,000	1.9	103,000	2.3	98,000	2.8
Reversal of valuation allowance	—	.0	—	.0	(130,500)	(3.7)
Other—net	<u>(57,432)</u>	<u>(.8)</u>	<u>(25,045)</u>	<u>(.6)</u>	<u>(177,277)</u>	<u>(3.3)</u>
Income tax provision	<u>\$ 948,568</u>	<u>26.7%</u>	<u>\$ 1,291,955</u>	<u>29.0%</u>	<u>\$ 755,223</u>	<u>21.3%</u>

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**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY**
Notes to Consolidated Financial Statements, Continued

Deferred tax assets are included in other assets and consist of the following:

	December 31,	
	2007	2006
Deferred tax assets:		
Bad debts	\$ 519,000	\$ 473,000
Investment securities	—	84,046
Deferred compensation	809,000	666,000
Other	23,421	—
	<u>1,351,421</u>	<u>1,223,046</u>
Deferred tax liabilities:		
Depreciation	161,000	145,000
Prepaid expenses	76,000	123,000
Investment securities	98,146	—
Other	—	20,961
	<u>335,146</u>	<u>288,961</u>
Net deferred tax asset	<u>\$1,016,275</u>	<u>\$ 934,085</u>

14. Other Non-interest Income

Other non-interest income for the years ended December 31, 2007, 2006 and 2005 consists of the following:

	2007	2006	2005
Earnings on life insurance policies	\$ 233,943	\$ 187,737	\$ 173,859
Card service income	318,653	242,650	168,802
Safe deposit box rental	25,953	21,146	20,363
Investment services	698,173	508,920	410,798
Other fees	317,239	364,303	358,116
	<u>\$1,593,961</u>	<u>\$1,324,756</u>	<u>\$1,131,938</u>

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**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY**
Notes to Consolidated Financial Statements, Continued
15. Other Non-interest Expenses

Other non-interest expense for the years ended December 31 consists of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Loan department expenses	\$ 143,392	\$ 160,472	\$ 146,618
General operating expenses	419,966	512,962	468,018
Educational expenses	87,559	68,064	63,971
Credit card expense	133,347	127,103	109,344
Travel and entertainment	116,617	119,193	99,240
Telephone expense	125,280	128,216	92,277
Internet banking expense	130,425	150,059	78,448
Other expense	119,027	130,682	35,922
	<u>\$1,275,613</u>	<u>\$1,396,751</u>	<u>\$1,093,838</u>

16. Transactions with Directors and Executive Officers

Our directors and executive officers are customers of and had transactions with the Bank in the ordinary course of business. Included in such transactions are outstanding loans and commitments, all of which were made on comparable terms, including interest rate and collateral, as those prevailing at the time for our other customers and did not involve more than normal risk of collectibility or present other unfavorable features.

Aggregate loan transactions with these related parties are as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning	\$4,780,487	\$5,811,253
Advances	555,075	223,611
Repayments	(981,807)	(823,877)
Other	(640,000)	(430,500)
Balance, ending	<u>\$3,713,755</u>	<u>\$4,780,487</u>

Other includes closed or reduced lines of credit.

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**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY**
Notes to Consolidated Financial Statements, Continued

Included in the balances outstanding are directors and executive officers available unused lines of credit totaling approximately \$587,000 and \$1,261,000 at December 31, 2007 and 2006, respectively.

The Company has an unfunded Deferred Compensation Plan which allows electing directors to annually defer directors' fees, which are then eligible for various future payment plans as chosen by the director. The Deferred Compensation Plan, which was revised effective January 1, 2007, provides for a two-tiered deferred compensation system as follows:

	<u>Tier Level</u>	<u>Maximum Deferral Amount</u>	<u>Interest Rate</u>	<u>Interest Rate Floor</u>	<u>Interest Rate Ceiling</u>
(1) (2)	One	\$9,000	80% ROAE	5%	10%
(2)	Two	> \$9,000	Prime - 3%	None	None

(1) ROAE represents return on average equity of the Company for the previous year.

(2) Upon attaining age 65, a director may no longer defer any fees. Fees previously deferred will continue to earn interest after age 65 as provided for by the respective tiers.

All fees deferred prior to January 1, 2007 are treated as Tier 1. Deferrals, including interest, under the Plan during 2007, 2006 and 2005, totaled approximately \$183,000, \$225,000 and \$173,000, respectively. The balance of total deferred director fees was \$1,238,255 and \$1,054,824 at December 31, 2007 and 2006, respectively.

17. Employment Agreement

The Company has entered into employment agreements with certain key executive officers to ensure a stable and competent management base. The agreements provide for benefits as spelled out in the contracts and can be terminated by the Board of Directors with 180 days written notice, or can be terminated immediately for cause. In the event of a change in control of Company, as outlined in the agreements, the acquirer will be bound to the terms of the contracts.

18. Regulatory Matters

Dividends - The Bank's ability to pay cash dividends to the Holding Company is restricted by state banking regulations to the amount of the Bank's retained earnings and statutory capital requirements. At December 31, 2007, the Bank's retained earnings were approximately \$11,429,000.

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**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY**
Notes to Consolidated Financial Statements, Continued

Capital Requirements - The Holding Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require maintaining minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2007, that all capital adequacy requirements are met to which the Holding Company and Bank are subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed that category. The actual capital amounts (in thousands) and ratios and minimum regulatory amounts (in thousands) and ratios are presented as follows:

	Actual		For Capital Adequacy Purposes Minimum		To Be Well Capitalized Under Prompt Corrective Action Provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bank:						
As of December 31, 2007						
Total risk-based capital (to risk-weighted assets)	\$36,035	11.8%	\$ 24,344	8.0%	\$ 30,431	10.0%
Tier 1 capital (to risk-weighted assets)	\$33,802	11.1%	\$ 12,172	4.0%	\$ 18,258	6.0%
Tier 1 capital (to average assets)	\$33,802	9.2%	\$ 14,732	4.0%	\$ 18,415	5.0%
As of December 31, 2006						
Total risk-based capital (to risk-weighted assets)	\$33,819	12.3%	\$ 22,036	8.0%	\$ 27,545	10.0%
Tier 1 capital (to risk-weighted assets)	\$32,018	11.6%	\$ 11,018	4.0%	\$ 16,527	6.0%
Tier 1 capital (to average assets)	\$32,018	9.2%	\$ 13,914	4.0%	\$ 17,393	5.0%

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**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY****Notes to Consolidated Financial Statements, Continued**

The Holding Company is also subject to certain capital requirements. At December 31, 2007 the Tier 1 risk-based capital ratio, Tier 1 capital ratio and the total risk based capital ratio were 10.8%, 9.0% and 12.4%, respectively.

The Bank is required by the Federal Reserve Bank to maintain average cash reserve balances at the Federal Reserve Bank and in working funds based upon a percentage of deposits. The required amount of these reserve balances at December 31, 2007 was approximately \$100,000.

19. Fair Value of Financial Instruments

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of fair value information, whether or not recognized in the balance sheet, when it is practicable to estimate the fair value. SFAS 107 defines a financial instrument as cash, evidence of an ownership interest in an entity, or contractual obligations that require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including common stock, premises and equipment, real estate held for sale and other assets and liabilities. The following methods and assumptions were used in estimating fair values of financial instruments:

- Fair value approximates carrying amount for cash and due from banks due to the short-term nature of the instruments.
- Investment securities are valued using quoted fair market prices.
- Fair value for variable rate loans that re-price frequently and for loans that mature in less than one year is based on the carrying amount. Fair value for mortgage loans, personal loans and all other loans (primarily commercial) is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate the rates currently offered for similar loans of comparable terms and credit quality.
- Due to the redemptive provisions of the restricted stock, fair value equals cost. The carrying amount is adjusted for any other than temporary declines in value.
- The carrying amount for the cash surrender value of life insurance is a reasonable estimate of fair value.
- The carrying value for accrued interest receivable and payable is a reasonable estimate of fair value.
- Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying amount. Certificate of deposit accounts maturing within one year are valued at their carrying amount. Certificate of deposit accounts maturing after one year are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY**
Notes to Consolidated Financial Statements, Continued

- Fair value for federal funds sold and purchased and repurchase agreements is based on the carrying amount since these instruments typically mature within three days from the transaction date.
- Fair value for variable rate long-term debt that re-prices frequently is based on the carrying amount. Fair value for fixed rate debt is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate rates currently offered for similar loans of comparable terms and credit quality.
- Fair values for derivatives are based on the present value of future cash flows based on the interest rate spread between the fixed rate and the floating rate.

Management uses its best judgment in estimating fair value based on the above assumptions. Thus, the fair values presented may not be the amounts that could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses that would be incurred in an actual sale or settlement are not taken into consideration in the fair values presented. The estimated fair values of the Company's financial instruments are as follows:

	December 31,			
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	\$ 7,475,376	\$ 7,475,376	\$ 11,690,543	\$ 11,690,543
Investment securities	99,151,407	98,845,825	83,766,691	82,975,534
Loans - net	260,777,824	258,592,187	244,056,635	241,898,123
Restricted stock	4,943,014	4,943,014	3,948,914	3,948,914
Accrued interest receivable	2,447,911	2,447,911	2,298,855	2,298,855
Bank owned life insurance	6,378,604	6,378,604	5,144,662	5,144,662
Derivatives	97,122	97,122	20,520	20,520
Financial liabilities				
Deposits	\$244,593,160	\$244,691,290	\$240,287,891	\$240,236,111
Federal funds purchased	3,004,000	3,004,000	5,317,000	5,317,000
Repurchase agreements	15,000,000	15,000,000	8,854,875	8,854,875
Notes payable to FHLB	87,100,000	88,262,966	66,513,514	66,823,045
Junior subordinated debentures	11,341,000	11,341,000	11,341,000	11,341,000
Accrued interest payable	2,585,968	2,585,968	2,245,541	2,245,541

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**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY****Notes to Consolidated Financial Statements, Continued****20. Derivatives**

The Bank used interest rate swap contracts to hedge fixed rate Federal Home Loan Bank advances in 2004, 2005 and 2006 until the sale of the fair value derivative instruments in December 2006. The change in fair value recognized into earnings as a component of noninterest income from 1/1/06 through the date of adoption of SAB 108 (see Note 21) was \$51,961. There was no gain or loss on the sale of the fair value derivative instruments. The interest rate swap contracts provided for the Bank to make payments at a variable rate maturity determined by a specified index (three month LIBOR) in exchange for receiving payments at a fixed rate of 3.18%. During 2006 and 2005 the Bank recognized approximately (\$267,000) and (\$17,000), respectively, as an increase of interest expense on Federal Home Loan Bank Advances as a result of the use of these contracts. See Note 21.

The Bank also purchased an interest rate floor in January 2006 to be used as a hedge for approximately \$50 million in prime-based loans.

Although on-balance sheet derivative financial instruments do not expose the Company to credit risk equal to the notional amount, such agreements generate credit risk to the extent of any fair value gain in an on-balance sheet derivative financial instrument if the counterparty fails to perform. Such risk is minimized through the creditworthiness of the counterparties and the consistent monitoring of these agreements.

21. Adoption of Staff Accounting Bulletin Number 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 was issued in order to eliminate the diversity of practice surrounding public companies' quantifying financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the "rollover" method and the "iron curtain" method. The roll-over method focuses primarily on the impact of a misstatement on the income statement including the reversing effect of prior year misstatements. But its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. We have previously used the rollover method for quantifying identified financial statement misstatements.

**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY**
Notes to Consolidated Financial Statements, Continued

SAB 108 establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the iron curtain and the rollover methods.

SAB 108 permits public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been used or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings.

The Company adopted SAB 108 during the quarter ended December 31, 2006 and elected to use the cumulative effect transition method in connection with the preparation of the consolidated financial statements for the year ended December 31, 2006. The following table summarizes the effects (up to January 1, 2006) of applying the guidance in SAB 108.

	Period in Which the Misstatement Originated (1)			Adjustment Recorded as of January 1 2006
	2003	2004	2005	
Interest rate swap (2)	\$ (197)	\$ (213)	\$ (411)	\$ (821)
Income tax effect of misstatement (3)	67	72	140	279
Impact on net income	<u>\$ (130)</u>	<u>\$ (141)</u>	<u>\$ (271)</u>	<u>\$ —</u>
Retained earnings (4)				<u>\$ (542)</u>

- (1) The error was previously evaluated under the rollover method and concluded it was immaterial.
- (2) The interest rate swaps were incorrectly accounted for using hedge accounting. As a result, interest rate swap valuation expense was understated \$197,290, \$212,545 and \$410,889, for the years ended December 31, 2003, 2004 and 2005, respectively.
- (3) As a result of the misstatement described, the provision for income taxes was overstated \$67,079, \$72,265 and \$139,702 for the years ended December 31, 2003, 2004 and 2005, respectively.
- (4) Represents the net reduction to retained earnings recorded as of January 1, 2006 to record the initial application of SAB 108.

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GREER BANCSHARES INCORPORATED
AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

22. **Condensed Parent Company Financial Information**

The following condensed financial information for Greer Bancshares Incorporated (Parent Company only) should be read in conjunction with the consolidated financial statements and the notes thereto.

**Parent Company Only
Condensed Balance Sheets**

	December 31,	
	<u>2007</u>	<u>2006</u>
Assets:		
Cash and cash equivalents	\$ 38,496	\$ 86,173
Investment in Trusts	341,000	341,000
Equity in net assets of Bank subsidiary	33,958,834	31,884,994
Taxes receivable	148,982	231,391
Premises and equipment	1,445,676	1,439,499
Other assets	—	416,468
Total assets	<u>\$35,932,988</u>	<u>\$34,399,525</u>
Liabilities and stockholders' equity:		
Liabilities:		
Junior subordinated debentures	\$11,341,000	\$11,341,000
Interest payable	156,209	101,839
Other liabilities	257	414,458
Total liabilities	11,497,466	11,857,297
Stockholders' equity	<u>24,435,522</u>	<u>22,542,228</u>
Total liabilities and stockholders' equity	<u>\$35,932,988</u>	<u>\$34,399,525</u>

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**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY**
Notes to Consolidated Financial Statements, Continued
**Parent Company Only
Condensed Statements of Income**

	Year Ended December 31,		
	2007	2006	2005
Income:			
Lease income from Bank subsidiary	\$ 60,000	\$ 60,000	\$ 25,000
Dividends from Bank subsidiary	1,572,949	2,588,748	1,764,545
Total income	<u>1,632,949</u>	<u>2,648,748</u>	<u>1,789,545</u>
Expenses:			
Interest on long-term borrowings	821,271	444,453	339,567
Non-interest expense	124,702	58,916	72,892
Total expenses	<u>945,973</u>	<u>503,369</u>	<u>412,459</u>
Income before taxes	686,976	2,145,379	1,377,086
Income tax benefit	<u>(301,231)</u>	<u>(150,385)</u>	<u>(140,236)</u>
Income before equity earnings	988,207	2,295,764	1,517,322
Equity in undistributed earnings of Bank subsidiary	<u>1,617,418</u>	<u>857,042</u>	<u>1,277,231</u>
Net income	<u>\$2,605,625</u>	<u>\$3,152,806</u>	<u>2,794,553</u>

**Parent Company Only
Condensed Statements of Cash Flows**

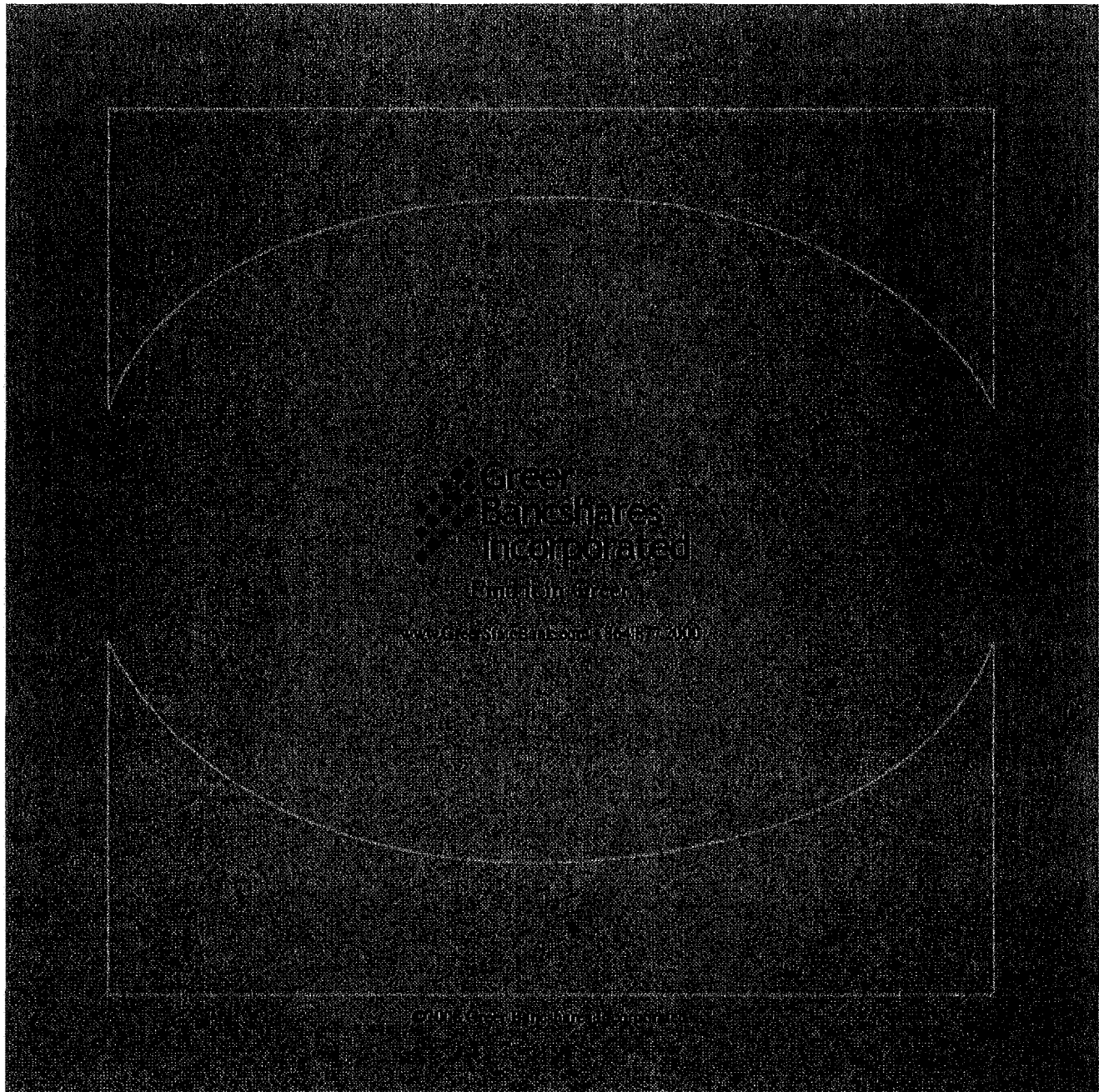
	Year Ended December 31,		
	2007	2006	2005
Operating activities:			
Net income	\$ 2,605,625	\$3,152,806	\$ 2,794,553
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity earnings of Bank subsidiary	(1,617,418)	(857,042)	(1,277,231)
Change in operating assets and liabilities	552,455	(366,422)	(70,478)
Net cash provided by operating activities	<u>1,540,662</u>	<u>1,929,342</u>	<u>1,446,844</u>

(continued)

**GREER BANCSHARES INCORPORATED
AND SUBSIDIARY**
Notes to Consolidated Financial Statements, Continued

	Year Ended December 31,		
	2007	2006	2005
Investing activities:			
Purchase of premises	\$ (2,750)	\$ (561,629)	\$ —
Construction in process	(3,427)	(244,042)	—
Proceeds from sale of construction in process to Bank subsidiary	—	—	49,653
Investment in Bank subsidiary	—	(5,000,000)	—
Net cash used by investing activities	<u>(6,177)</u>	<u>(5,805,671)</u>	<u>49,653</u>
Financing activities:			
Proceeds from the issuance of long- term debt	—	5,000,000	—
Cash dividends paid	(1,682,801)	(1,675,338)	(1,564,543)
Proceeds from exercise of stock options	92,557	302,101	258,302
Tax benefit from stock options exercised	8,082	19,155	—
Net cash provided (used) by financing activities	<u>(1,582,162)</u>	<u>3,645,918</u>	<u>(1,306,241)</u>
Net increase (decrease) in cash and cash equivalents	<u>(47,677)</u>	<u>(230,411)</u>	<u>190,256</u>
Cash and cash equivalents beginning of year	<u>86,173</u>	<u>316,584</u>	<u>126,328</u>
Cash and cash equivalents at end of year	<u>\$ 38,496</u>	<u>\$ 86,173</u>	<u>\$ 316,584</u>
Non-cash investing and financing activities:			
Investment in trust	\$ —	\$ 155,000	\$ —
Dividends payable	\$ —	\$ (413,410)	\$ —
Change in other comprehensive income	<u>\$ 291,030</u>	<u>\$ 62,140</u>	<u>\$(1,034,096)</u>

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**THE ATTACHED INFORMATION CONSTITUTES A PORTION OF GREER
BANCSHARES INCORPORATED'S ANNUAL REPORT TO SHAREHOLDERS FOR
THE YEAR ENDED DECEMBER 31, 2007.**

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GREER BANCSHARES INCORPORATED

Selected Financial Data

The following table sets forth certain selected financial data concerning Greer Bancshares Incorporated. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations.

December 31, (Dollars in thousands, except per share data)	2007	2006	2005	2004	2003
SUMMARY OF OPERATIONS					
Interest and fee income	\$ 24,836	\$ 22,216	\$ 15,308	\$ 11,100	\$ 10,139
Interest expense	12,741	10,592	6,210	3,849	3,618
Net interest income	12,095	11,624	9,098	7,251	6,521
Provision for loan losses	1,811	597	424	251	10
Net interest income after provision for loan losses	10,284	11,027	8,674	7,000	6,511
Noninterest income	2,499	2,340	2,457	2,224	1,902
Noninterest expense	10,177	10,214	8,336	6,664	6,181
Net income	<u>\$ 2,606</u>	<u>\$ 3,153</u>	<u>\$ 2,795</u>	<u>\$ 2,560</u>	<u>\$ 2,232</u>
PER SHARE DATA					
Earnings:					
Basic	\$ 1.05	\$ 1.28	\$ 1.14	\$ 1.05	\$ 0.92
Diluted	1.04	1.25	1.12	1.05	0.92
Dividends declared (including unpaid)	0.51	0.85	0.64	0.45	0.67
Book value	9.85	9.12	8.79	8.65	7.68
Weighted average shares outstanding:					
Basic	2,479,051	2,462,688	2,442,078	2,428,833	2,415,803
Diluted	2,509,270	2,517,549	2,504,856	2,447,589	2,438,631
SELECTED ACTUAL YEAR END BALANCES					
Total assets	\$ 389,705	\$ 359,662	\$ 299,447	\$ 231,291	\$ 214,134
Loans	263,011	245,858	199,003	139,646	115,565
Allowance for loan losses	2,233	1,801	1,416	1,136	1,298
Available for sale securities	79,565	60,185	49,543	37,054	66,760
Held to maturity securities	19,586	23,581	28,482	35,474	17,263
Deposits	244,593	240,288	199,187	150,260	152,961
Borrowings	105,104	80,685	69,367	52,185	40,057
Subordinated debt	11,341	11,341	6,186	6,186	—
Stockholders' equity	24,436	22,542	21,564	21,033	19,708
SELECTED AVERAGE BALANCES					
Assets	\$ 359,683	\$ 330,984	\$ 271,695	\$ 225,647	\$ 200,217
Deposits	239,327	227,269	172,189	157,179	140,310
Stockholders' equity	23,419	21,153	20,389	19,872	18,398
FINANCIAL RATIOS					
Return on average assets	.72%	.95%	1.03%	1.14%	1.11%
Return on average equity	11.13%	14.90%	13.71%	12.88%	12.13%
Average equity to average assets	6.51%	6.40%	7.50%	8.86%	9.19%
Dividend payout ratio	48.57%	66.41%	56.14%	42.86%	72.83%

GREER BANCSHARES INCORPORATED**Management's Discussion and Analysis of Financial Condition and Results of Operations****Description of the Company's Business**

Greer State Bank (the "Bank") was organized under a state banking charter in August 1988, and commenced operations on January 3, 1989. Greer Bancshares Incorporated is a South Carolina corporation formed in July 2001, primarily to hold all of the capital stock of Greer State Bank. Greer Bancshares Incorporated and the Bank, its wholly-owned subsidiary, are herein referred to as the "Company." In October 2004 and December 2006, Greer Capital Trust I and Greer Capital Trust II (the "Trusts") were formed, respectively. The Trusts were formed as part of the process of the issuance of trust preferred securities. The Bank engages in commercial and retail banking, emphasizing the needs of small to medium businesses, professional concerns and individuals, primarily in Greer and surrounding areas in the upstate of South Carolina. The Company currently engages in no other business other than owning and managing the Bank. Greer Financial Services, a division of the Bank, provides financial management services and non-deposit product sales.

There were no significant changes to the Company's business in 2007.

Critical Accounting Policies**General**

The financial condition and results of operations presented in the consolidated financial statements, the accompanying notes to the consolidated financial statements and this section are, to a large degree, dependent upon the Company's accounting policies. The selection and application of these accounting policies involve judgments, estimates and uncertainties that are susceptible to change. Those accounting policies that are believed to be the most important to the portrayal and understanding of the Company's financial condition and results of operations are discussed below. These critical accounting policies require management's most difficult, subjective and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of a materially different financial condition or results of operations is a reasonable likelihood.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting:

- Statement of Financial Accounting Standard ("SFAS") No. 5, *Accounting for Contingencies*, which requires that losses be accrued when they are probable of occurring and estimatable; and
- SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The allowance for loan losses is based on management's ongoing evaluation of the loan portfolio and reflects an amount that, in management's opinion, is adequate to absorb probable losses in the existing portfolio. Additions to the allowance for loan losses are provided by charges to earnings. Loan losses are charges against the allowance when the ultimate uncollectibility of the loan balance is determined. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a monthly basis by management. The evaluation includes the periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, impairment and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting

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scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, individual consumer and residential loans are not separately identified for impairment.

Results of Operations

This discussion and analysis is intended to assist the reader in understanding the financial condition and results of operations of Greer Bancshares Incorporated and its wholly-owned subsidiary, Greer State Bank. The commentary should be read in conjunction with the consolidated financial statements and the related notes and the other statistical information in this report.

The following discussion describes our results of operations for 2007 as compared to 2006 and 2006 compared to 2005. The Company's financial condition as of December 31, 2007 as compared to December 31, 2006 is also analyzed. Like most community banks, the Bank derives most of its income from interest received on loans and investments. The primary source of funds for making these loans and investments is deposits, of which interest is paid on approximately 88 percent. The Bank also utilizes Federal Home Loan Bank advances, federal funds purchased and repurchase agreements for funding loans and investments. One of the key measures of success is net interest income, or the difference between the income on interest-earning assets, such as loans and investments, and the expense on interest-bearing liabilities, such as deposits and other borrowings. Another key measure is the spread between the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities.

A number of tables have been included to assist in the description of these measures. For example, the "Average Balances" table shows the average balances during 2007, 2006 and 2005 of each category of assets and liabilities, as well as the yield earned or the rate paid with respect to each category. A review of this table shows that loans typically provide higher interest yields than do other types of interest earning assets, resulting in management's intent to channel a substantial percentage of funding sources into the loan portfolio. Similarly, the "Analysis of Changes in Net Interest Income" table demonstrates the impact of changing interest rates and the changing volume of assets and liabilities during the years shown. Finally, a number of tables have been included that provide detail about the Company's investment securities, loans, deposits and other borrowings.

There are risks inherent in all loans. Therefore, an allowance for loan losses is maintained to absorb probable losses on existing loans that may become uncollectible. The allowance is established and maintained by charging a provision for loan losses against operating earnings. A detailed discussion of this process is included, as well as tables, describing the allowance for loan losses.

In addition to earning interest on loans and investments, income is earned through fees and other charges collected for services provided to customers. Various components of this noninterest income, as well as noninterest expense, are described in the following discussion.

The following discussion and analysis also identifies significant factors that have affected the financial position and operating results during the periods included in the accompanying financial statements. Therefore, this discussion and analysis should be read in conjunction with the consolidated financial statements and the related notes and the other statistical information also included in this report.

Year ended December 31, 2007 compared with year ended December 31, 2006

Net income for the year ended December 31, 2007 was \$2,605,625 or \$1.04 per diluted share, compared to \$3,152,806 or \$1.25 per diluted share for the year ended December 31, 2006, which was a decrease of \$547,181 or 17.4%. The decrease in net income in 2007 is due primarily to the charge-off of a loan in the amount of \$1,287,398. (See "Provision for Loan Losses" for more details.) Net interest income increased \$470,835 or 4.1%, to \$12,094,812 for the year ended December 31, 2007 due to an increase of \$28.1

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million in average earning assets. Noninterest income increased \$159,089, or 6.8%, to \$2,499,092 for the year ended December 31, 2007. This increase in noninterest income was primarily due to increases in earnings on life insurance policies as the result of purchasing two additional policies, card service income increases and increased fee income from Greer Financial Services. Noninterest expenses had a slight increase of \$306,609, or 3.4%.

Year ended December 31, 2006 compared with year ended December 31, 2005

Net income for the year ended December 31, 2006 was \$3,152,806 or \$1.25 per diluted share, compared to \$2,794,553, or \$1.12 per diluted share for the year ended December 31, 2005, which was an increase of \$358,253 or 12.9%. The improvement in net income was primarily the result of continued growth in the Bank's loan portfolio. Net interest income increased \$2,525,918 or 27.8%, to \$11,623,977 for the year ended December 31, 2006. Noninterest income decreased \$116,650, or 4.7%, to \$2,340,003 for the year ended December 31, 2006. This decrease in noninterest income was primarily due to a decrease in the gain on sale of investment securities. Noninterest expenses increased \$1,341,477, or 17.7%, primarily due to an increase of \$806,476, or 17.4%, in salaries and benefits. The increase in salaries and benefits related primarily to the addition of five full-time equivalent employees during 2006 which were needed to support growth of \$60,215,441 in the Company's total assets, combined with annual salary adjustments for existing employees.

Net Interest Income

Net interest income, the difference between interest earned and interest paid, is the largest component of the Company's earnings and changes in that area have the greatest impact on net income. Variations in the volume and mix of assets and liabilities and their relative sensitivity to interest rate movements determine changes in net interest income. Interest rate spread and net interest margin are two significant elements in analyzing net interest income. Interest rate spread is the difference between the yield on average earning assets and the rate on average interest bearing liabilities. Net interest margin is calculated as net interest income divided by average earning assets.

Net interest income increased from \$11,623,977 for the year ended December 31, 2006 to \$12,094,812 for the year ended December 31, 2007. The increase in net interest income of \$470,835, or 4.1%, was the result of moderate loan growth combined with investment securities purchases which was partially offset by increased borrowings to fund the asset growth. In addition, during the second half of 2007, the Federal Open Market Committee lowered the federal funds rate three times for a total of 100 basis points. The prime lending rate, which generally moves up and down with changes in the federal funds rate, also decreased 100 basis points during the year. At December 31, 2007, the Bank had approximately \$128 million in loans indexed to the Wall Street Journal prime rate. The Bank's loan portfolio increased by approximately \$17.2 million, or 7.0%, during 2007, which contributed to an increase of approximately \$2,032,000 in interest income on loans.

Net interest income increased from \$9,098,059 for the year ended December 31, 2005 to \$11,623,977 for the year ended December 31, 2006. The increase in net interest income of \$2,525,918 or 27.8% was the result of the significant growth in the loan portfolio experienced during 2006, as well as an increase in lending rates. During 2006, the Federal Open Market Committee raised the federal funds rate four times for a total of 100 basis points. The prime lending rate, which generally moves up and down with changes in the federal funds rate, also increased 100 basis points during the year. At December 31, 2006, the Bank had approximately \$132 million in loans indexed to the Wall Street Journal prime rate. The Bank's loan portfolio increased by approximately \$46.9 million, or 23.5%, during 2006, which contributed to an increase of approximately \$6,926,000 in interest income on loans. Increases in interest rates during the last half of 2005 and the first half of 2006 also directly affected the increase in interest income.

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The following table sets forth for the periods indicated, the weighted-average yields earned, the weighted-average yields paid, the net interest spread and the net interest margin on earning assets. The table also indicates the average monthly balance and the interest income or expense by specific categories.

Average Balances, Income, Expenses, and Rates

Year Ended December 31, (Dollars in Thousands)	2007			2006			2005		
	Average Balance	Income/ Expense	Yield/ Rate (1)	Average Balance	Income/ Expense	Yield/ Rate (1)	Average Balance	Income/ Expense	Yield/ Rate (1)
Assets:									
Interest Earning Assets:									
Taxable Investments	\$ 62,044	\$ 3,071	4.95%	\$ 57,036	\$ 2,619	4.59%	\$ 59,317	\$ 2,468	4.16%
Non-Taxable Investments	22,491	979	6.59%	20,703	908	6.65%	21,995	985	6.79%
Int. Bearing Deposits in other banks	858	41	4.78%	803	33	4.11%	2,219	64	2.88%
Federal Funds Sold	1,823	92	5.05%	658	34	5.17%	3,578	96	2.68%
Loans (2)	249,583	20,653	8.28%	229,467	18,621	8.11%	161,909	11,695	8.04%
Total Interest Earning Assets	336,799	24,836	7.53%	308,667	22,215	7.36%	249,018	15,308	6.89%
Other noninterest-earning assets	22,884			22,317			17,564		
Total Assets	<u>\$359,683</u>			<u>\$330,984</u>			<u>\$266,582</u>		
Liabilities and Stockholder's Equity									
Interest Bearing Liabilities:									
NOW Accounts	\$ 29,096	239	0.82%	\$ 36,908	273	0.74%	\$ 29,864	192	0.64%
Money Market and Savings	41,207	1,362	3.31%	35,434	918	2.59%	29,566	524	1.77%
Time Deposits	133,788	6,578	4.92%	124,217	5,463	4.40%	81,948	2,511	3.06%
Federal Funds Purchased	1,175	49	4.18%	1,861	98	5.27%	1,261	47	3.73%
Repurchase Agreements	9,723	499	5.13%	8,684	467	5.38%	4,716	172	3.65%
FHLB Borrowings	69,922	3,193	4.57%	60,662	2,928	4.83%	58,850	2,424	4.12%
Other Long Term Debt	11,341	821	7.24%	6,200	444	7.16%	6,186	340	5.50%
Total Interest Bearing Liabilities	296,252	12,741	4.30%	273,966	10,591	3.87%	212,391	6,210	2.92%
Noninterest-Bearing Liabilities:									
Demand Deposits	35,394			30,710			30,811		
Other Liabilities	4,618			5,155			2,531		
Total Noninterest-Bearing Liabilities	40,012			35,865			33,342		
Total Liabilities	336,264			309,831			245,733		
Stockholders' Equity	23,419			21,153			20,849		
Total Liabilities and Stockholders' Equity	<u>\$359,683</u>			<u>\$330,984</u>			<u>\$266,582</u>		
Net Interest Spread			3.23%			3.49%			3.97%
Net Interest Income		<u>\$12,095</u>			<u>\$11,624</u>			<u>\$ 9,098</u>	
Net Interest Yield			3.75%			3.93%			3.79%

(1) All yields/rates are computed on a tax equivalent basis at a federal tax rate of 34%.

(2) The effect of loans in nonaccrual status and fees collected is not significant to the computations. All loans and deposits are domestic.

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The following table sets forth the effect that the varying levels of earning assets and interest-bearing liabilities and the changes in applicable rates have had on changes in net interest income during the periods indicated. The net changes in net interest income in this expand the differences in net interest income in the previous table, "Average Balances, Income, Expenses, and Rates."

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Analysis of Changes in Net Interest Income

Year Ended December 31, (Dollars in Thousands)	2007 Compared with 2006 Variance Due to			2006 Compared with 2005 Variance Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Taxable Investments	\$ 230	\$ 222	\$ 452	\$ (95)	\$ 246	\$ 151
Non-Taxable Investments	78	(7)	71	(58)	(19)	(77)
Interest-Bearing Deposits in other banks	2	6	8	(41)	10	(31)
Federal Funds Sold	60	(2)	58	(78)	16	(62)
Loans	<u>1,631</u>	<u>400</u>	<u>2,031</u>	<u>4,881</u>	<u>2,046</u>	<u>6,927</u>
Total	2,001	619	2,620	4,609	2,299	6,908
Interest Expense:						
NOW Accounts	(58)	24	(34)	45	36	81
Money Market and Savings	150	294	444	104	290	394
Time Deposits	421	694	1,115	1,295	1,658	2,953
Federal Funds Purchased	(36)	(13)	(49)	22	29	51
Repurchase Agreements	56	(24)	32	145	150	295
FHLB Borrowings	446	(182)	264	75	429	504
Other Long Term Debt	<u>368</u>	<u>9</u>	<u>377</u>	<u>1</u>	<u>103</u>	<u>104</u>
Total	<u>1,347</u>	<u>802</u>	<u>2,149</u>	<u>1,687</u>	<u>2,695</u>	<u>4,382</u>
Net Interest Income	<u>\$ 654</u>	<u>\$(183)</u>	<u>\$ 471</u>	<u>\$2,922</u>	<u>\$(396)</u>	<u>\$2,526</u>

The rate/volume variances (change in volume times change in rate) have been allocated to the change attributable to rate

The Company monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on net interest income. The principal monitoring technique employed by the Company is the use of an interest rate risk management model which measures the effects that movements in interest rates will have on net interest income and the present value of equity. Included in the interest rate risk management reports generated by the model is a report that measures interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates.

The table included above shows the changes in interest income and expense during 2007 and 2006, and allocates the appropriate amount of income or expense to changes in rate or changes in volume. In 2007 interest income increased by approximately \$2,620,000 and interest expense increased by approximately \$2,149,000, which resulted in an increase of approximately \$471,000 in net interest income. The increase in interest income is attributable to increases in the volume and rate. The majority of the increase in interest income is due to increases in volume. The increase in interest income was partially offset by increased interest expense due mainly to increased volume in interest bearing liabilities. Earning assets increased in 2007 by approximately \$32,187,000, and interest-bearing liabilities increased by approximately \$28,144,000. Market interest rates decreased during 2007 as the Federal Open Market Committee decreased its target for the federal funds rate by a total of 100 basis points.

In 2006 interest income increased by approximately \$6,908,000 and interest expense increased by approximately \$4,382,000, which resulted in an increase of approximately \$2,526,000 in net interest income. The increase in interest income is attributable to increases in the volume and rate. The increase in interest income due to the increase in volume was slightly offset by increased interest

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expense due to an increase in rates paid on interest bearing liabilities. Earning assets increased in 2006 by approximately \$52,810,000, and interest-bearing liabilities increased by approximately \$57,772,000. Market interest rates increased during 2006 as the Federal Open Market Committee increased its target for the federal funds rate by a total of 100 basis points. Interest rate increases accounted for \$2,299,000 of the increase in interest income and \$2,695,000 of the increase in interest expense.

Provision for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem credits. On a quarterly basis, the Bank's Board of Directors reviews and approves the appropriate level for the Bank's allowance for loan losses based upon management's recommendations and the results of the internal monitoring and reporting system. Management also monitors historical statistical data for both the Bank and other financial institutions. The adequacy of the allowance for loan losses and the effectiveness of the monitoring and analysis system are also reviewed by the Bank's regulators and the Company's internal auditor.

Additions to the allowance for loan losses, which are expensed as the provision for loan losses on the income statement, are made as needed to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. Loan losses and recoveries are charged or credited directly to the allowance. The amount of the provision is a function of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, the amount of loan losses actually charged against the reserve during a given period and current as well as anticipated economic conditions. During 2007, the Bank provided \$1,810,883 for loan losses, raising the balance to \$2,232,703 at December 31, 2007 after charging off current year net bad debts of \$1,379,467. The reserve for loan losses was approximately .85% and .73% of total loans for the years ended December 31, 2007 and 2006, respectively. Non-performing loans (i.e., loans ninety days or more past due and loans on non-accrual status) as a percentage of average assets increased from December 31, 2006 to December 31, 2007 from .26% to .69%. The Company's loan loss reserve model indicated the reserve was adequate at December 31, 2007.

The Bank's allowance for loan losses is based upon judgments and assumptions of risk elements in the portfolio, future economic conditions and other factors affecting borrowers. The process includes identification and analysis of loss potential in various portfolio segments utilizing a credit risk grading process and specific reviews and evaluations of significant problem credits. In addition, management monitors the overall portfolio quality through observable trends in delinquencies, charge-offs and general conditions in the market area.

Based on present information and ongoing evaluation, management considers the allowance for loan losses to be adequate to meet presently known and inherent risks in the loan portfolio. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions about future events that it believes to be reasonable, but which may or may not prove to be accurate. Actual losses will undoubtedly vary from the estimates. Also, there is a possibility that charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required. The Company does not allocate the allowance for loan losses to specific categories of loans but evaluates the adequacy on an overall portfolio basis utilizing a risk grading system.

Noninterest Income

Noninterest income for the year ended December 31, 2007 was \$2,499,092 compared to \$2,340,003 for the year ended December 31, 2006, an increase of \$159,089 or 6.8%. Service charges and customer service fees relating to deposit accounts, which declined from \$936,978 for the year ended December 31, 2006, to \$905,131 for the year ended December 31, 2007, were the most significant portion of noninterest income. The majority of the decline in customer service fees was due to a decline of \$64,080 in non-sufficient funds fees, which was partially offset by reductions in waivers of overdraft fees. Other operating income, which is included in total noninterest income, increased from \$1,324,756 in 2006 to \$1,593,961 in 2007. The largest component of other operating income is income from the Bank's financial management services division, which increased \$189,253 to \$698,173 in 2007. In addition, net earnings on bank owned life insurance, which is included in other noninterest income, increased from \$187,737 in 2006 to \$233,943 in 2007, due to the purchase of two additional \$500,000 policies in January 2007.

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Noninterest income for the year ended December 31, 2006 was \$2,340,003 compared to \$2,456,653 for the year ended December 31, 2005, a decrease of \$116,650 or 4.8%. Service charges and customer service fees relating to deposit accounts, which declined from \$982,321 for the year ended December 31, 2005, to \$936,978 for the year ended December 31, 2006, were the most significant portion of noninterest income. The majority of the decline in customer service fees was due to a decline of \$80,803 in non-sufficient funds fees, which was partially offset by increases in business account service charges. Gains on the sale of investment securities were \$342,394 in 2005, compared to \$78,269 in 2006. Investment securities were sold to help fund the significant growth in the loan portfolio experienced during 2005. The loan growth in 2006 was funded primarily by increased deposits. Other operating income, which is included in total noninterest income, increased from \$1,131,938 in 2005 to \$1,324,756 in 2006. The largest component of other operating income is income from the Bank's financial management services division, which increased from \$410,798 in 2005 to \$508,920 in 2006. Another significant component of other operating income is net earnings on bank owned life insurance, which increased from \$173,859 in 2005 to \$187,737 in 2006, due to the purchase of one additional policy for approximately \$724,000 in June 2005.

Noninterest Expenses

Noninterest expenses were \$9,228,828 for the year ended December 31, 2007 compared to \$8,922,219 for the year ended December 31, 2006. This increase was comprised primarily of salaries and employee benefits totaling \$5,733,309 for the year ended December 31, 2007 compared to \$5,444,426 for the year ended December 31, 2006. The increase in salaries and benefits was due primarily to the addition of seven full-time equivalent employees during 2007 to enhance the Bank's credit risk management function and to staff a local loan production office which opened in September 2007. Additional noninterest expenses that increased due to the opening of the loan production office include occupancy and equipment, postage and supplies and marketing. These increases were partially offset by a decrease of \$121,138 in other noninterest expenses due primarily to the increase of \$76,602 in market value of the interest rate floor at December 31, 2007.

Noninterest expenses were \$8,922,219 for the year ended December 31, 2006 compared to \$7,580,742 for the year ended December 31, 2005. This increase was comprised primarily of salaries and employee benefits totaling \$5,444,426 for the year ended December 31, 2006 compared to \$4,637,950 for the year ended December 31, 2005. The increase in salaries and benefits was due to the addition of five full-time equivalent employees during 2006 to support the growth experienced by the Company. Included in noninterest expenses was a 40.3% increase in marketing expenses. Marketing expenses increased as the result of increased marketing efforts designed to assist the growth of the Company. Another component of noninterest expenses is internet banking fees which increased \$107,580 due to a system conversion. A total of \$84,480 was expensed to record changes in the value of the interest rate floor.

Income Taxes

For the year ended December 31, 2007, the Company recorded income tax expense in the amount of \$948,568, or an effective tax rate of 26.7% compared to a 29.1% effective tax rate in 2006. The \$343,387 decrease in tax expense for the year ended December 31, 2007 compared to 2006 was primarily created by the increased loan loss provision which increased the ratio of non-taxable income to pre-tax income.

For the year ended December 31, 2006, the Company recorded income tax expense in the amount of \$1,291,955, or an effective tax rate of 29.1% compared to a 21.3% effective tax rate in 2005. A one time reversal of a valuation allowance reduced the effective tax rate from 24.9% to 21.3% in 2005. The effective tax rate for 2006 was higher than previous years due to the decline in tax-exempt income in 2006 resulting from the sale of \$5,599,000 in tax-exempt municipal securities during 2006 in combination with the 2005 reversal of the valuation allowance.

Capital Resources

Total capital of the Company increased in 2007 by net income of \$2,605,625, \$266,030 from stock based activity and the change in accumulated other comprehensive income of \$291,030. The Company paid cash dividends on April 15, June 15, September 15 and December 15, 2007 totaling \$1,682,801 or \$.68 per share. Total capital of the Company increased in 2006 by net income of \$3,152,806, \$393,267 from stock based activity and the change in accumulated other comprehensive income of \$62,140. In addition, the Company paid cash dividends on April 15, June 15, September 15 and December 15, 2006 totaling \$1,675,338 or \$.68 per share and declared cash dividends to be paid on March 15, 2007 totaling \$413,410, or \$.17 per share. The Company adopted SEC Staff Accounting Bulletin ("SAB") 108 in December 2006. See Note 21 in the accompanying 2007 Annual Report. As a result of the adoption, retained earnings was decreased January 1, 2006 for the cumulative effect of a material misstatement under the "iron curtain method" related to derivatives of \$541,547, net of tax.

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The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital of the Company consists of common shareholders' equity minus unrealized gains plus unrealized losses on securities available for sale. In addition to Tier 1 capital requirements, Tier 2 capital consists of the allowance for loan losses subject to certain limitations. A bank holding company's qualifying capital base for purposes of its risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital. The holding company and banking subsidiary are also required to maintain capital at a minimum level based on average assets, which is known as the leverage ratio. Only the strongest bank holding companies and banks are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 100 to 200 basis points above the minimum.

In October 2004 and December 2006, the Company issued \$6.186 million and \$5.155 million of junior subordinated debentures to its wholly-owned capital Trusts, Greer Capital Trust I and Greer Capital Trust II, respectively, to fully and unconditionally guarantee the trust preferred securities issued by the Trusts. These long term obligations qualify as total risk based capital for the Company. In addition, all proceeds received from the issuance were invested in the Bank as additional capital.

Greer State Bank and the holding company exceeded the Federal Reserve's fully phased-in regulatory capital requirements at December 31, 2007, 2006 and 2005 as set forth in the following table.

Risk-Based Capital Ratios*(Dollars in thousands)*

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bank			
Tier 1 Capital	\$ 33,802	\$ 32,018	\$ 26,632
Tier 2 Capital	2,233	1,801	1,406
Total Qualifying Capital	<u>\$ 36,035</u>	<u>\$ 33,819</u>	<u>\$ 28,038</u>
Risk-adjusted total assets (including off-balance-sheet exposures)	<u>\$304,305</u>	<u>\$275,443</u>	<u>\$230,014</u>
Tier 1 risk-based capital ratio	11.11%	11.62%	11.58%
Total risk-based capital ratio	11.84%	12.28%	12.19%
Tier 1 leverage ratio	9.20%	9.20%	9.07%
Greer Bancshares			
Tier 1 risk-based capital ratio	10.84%	11.25%	12.03%
Total risk-based capital ratio	12.37%	12.92%	12.64%
Tier 1 leverage ratio	8.97%	8.93%	9.45%

GREER BANCSHARES INCORPORATED**Liquidity**

The Company manages its liquidity from both the asset and liability side of the balance sheet through the coordination of the relative maturities of its assets and liabilities. Short-term liquidity needs are generally met from cash, due from banks, federal funds purchased and sold and deposit levels. The Company has federal funds lines in place totaling \$16.6 million, the ability to borrow additional funds from the Federal Home Loan Bank of up to 30% of the Bank's assets and also has a repurchase line totaling \$20 million. Use of the FHLB and reverse repurchase lines requires the pledging of acceptable collateral. As of December 31, 2007, the Company had approximately \$21,600,000 in available collateral. Management has established policies and procedures governing the length of time to maturity on loans and investments and has established policies regarding the use of alternative funding sources. In the opinion of management, the deposit base and lines of credit can adequately support short-term liquidity needs.

Impact of Off-Balance Sheet Instruments

The Company has certain off-balance-sheet instruments in the form of contractual commitments to extend credit to customers. These legally binding commitments have set expiration dates and are at predetermined interest rates. The underwriting criteria for these commitments are the same as for loans in the loan portfolio. Collateral is also obtained, if necessary, based on the credit evaluation of each borrower. Although many of the commitments will expire unused, management believes there are adequate resources to fund these commitments. At December 31, 2007 and 2006, the Company's commitments to extend credit totaled approximately \$67,820,000 and \$51,350,000, respectively.

Impact of On-Balance Sheet Instruments

The Company utilizes derivative contracts to manage interest rate risk. These instruments consisted of interest rate swaps and swaptions in 2005 and 2006 prior to their sale in December 2006. In January 2006, an interest rate floor was purchased. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or referenced interest rate. The Company used interest rate swaps and swaptions as fair value hedges for certain fixed rate Federal Home Loan Bank advances. The interest rate floor contract is a derivative used to hedge cash flows of certain prime based loans. The floor contract terminates on January 30, 2009. The Bank does not utilize derivatives for trading purposes.

The derivatives did not qualify for hedge accounting under SFAS 133. As a result, the derivatives are recorded at fair value with adjustments to earnings.

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Investment Portfolio

The following tables summarize the carrying value and estimated market value of investment securities and weighted-average yields of those securities at December 31, 2007. The yields are based upon amortized cost. The yield on securities of state and political subdivisions is presented on a tax equivalent basis using a federal income tax rate of 34%. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment Securities Portfolio Composition

(Dollars in Thousands) December 31, 2007	Due One Year or Less	One Year Through Five Years	Five Years through Ten Years	After Ten Years	Total	Estimated Market Value	Average Maturity in Years
Held-To-Maturity							
Mortgage- backed securities	\$ —	\$ —	\$ 4,035	\$ 15,551	\$ 19,586	\$ 19,281	10.82
Available-For-Sale							
U.S. Govt and other agency obligations	\$ 1,776	\$ —	\$ 4,891	\$ —	\$ 6,667	\$ 6,771	13.73
Mortgage-backed securities	—	40	3,497	37,599	41,136	41,134	15.38
Municipal securities	250	1,707	3,648	16,823	22,428	22,613	11.28
Equity securities	—	—	—	8,063	8,063	8,096	38.03
Corporate securities	502	514	—	—	1,016	951	1.29
Total	<u>\$ 2,528</u>	<u>\$ 2,261</u>	<u>\$ 12,036</u>	<u>\$ 62,485</u>	<u>\$ 79,310</u>	<u>\$ 79,565</u>	
Held-To-Maturity							
<u>Weighted Average Yields:</u>							
Mortgage-backed securities	— %	— %	4.51%	4.68%	4.59%		
Available-For-Sale							
<u>Weighted Average Yields:</u>							
U.S. Govt and other agency obligations	5.00%	— %	5.28%	— %	5.19%		
Mortgage-backed securities	—	5.96%	4.67%	5.26%	5.05%		
Municipal securities	6.59%	6.81%	7.05%	6.48%	6.68%		
Equity securities	— %	— %	— %	8.42%	8.42%		
Corporate Securities	5.04%	5.70%	— %	— %	5.37%		

Loan Portfolio

Credit Risk Management

Credit risk entails both general risk, which is inherent in the process of lending, and risk that is specific to individual borrowers. The management of credit risk involves both the process of loan underwriting and loan administration. The Company manages credit risk through a strategy of making loans within its primary marketplace and within its limits of expertise. Although management seeks to avoid concentrations of credit by loan type or industry through diversification, a substantial portion of the borrowers' ability to honor the terms of their loans is dependent on the business and economic conditions in Greenville and Spartanburg Counties and the surrounding areas comprising the Company's marketplace. Additionally, since real estate is considered by the Company as the most desirable non-monetary collateral, a significant portion of loans are collateralized by real estate; however, the cash flow of the borrower or the business enterprise is generally considered as the primary source of repayment. Generally, the value of real estate is not considered by the Company as the primary source of repayment for performing loans. Management also seeks to limit total exposure to individual and affiliated borrowers. Risk specific to individual borrowers is managed through the loan underwriting process and through an ongoing analysis of the borrower's ability to service the debt as well as the value of the pledged collateral.

GREER BANCSHARES INCORPORATED

The Bank's loan officers and loan administration staff are charged with monitoring the loan portfolio and identifying changes in the economy or in a borrower's circumstances which may affect the ability to repay the debt or the value of the pledged collateral. In order to assess and monitor the degree of risk in the loan portfolio, several credit risk identification and monitoring processes are utilized. The Company uses an outside consultant, a former Office of the Comptroller of the Currency ("OCC") bank examiner, to perform loan reviews on a monthly basis.

Lending Activities

The Company extends credit primarily to consumers and small to medium businesses in Greenville and Spartanburg Counties and, to a limited extent, customers in surrounding areas.

The Company's corporate office is located in Greer, South Carolina, and its service area is mixed in nature. The Greenville-Spartanburg area is a regional business center whose economy contains elements of manufacturing, higher education, regional health care and distribution facilities. Outside the incorporated city limits of Greer, the economy includes manufacturing, agriculture and industry. No particular category or segment of the economy previously described is expected to grow or contract disproportionately in 2008.

Total loans outstanding were \$263,010,527 and \$245,857,922 at December 31, 2007 and 2006, respectively. There are no significant concentrations of loans in the loan portfolio to any particular individuals or industry or group of related individuals or industries.

The Company's ratio of loans to deposits was 107.5% and 102.3% at December 31, 2007 and 2006, respectively. The loan to deposit ratio is used to monitor a financial institution's potential profitability and efficiency of asset distribution and utilization. Generally, a higher loan to deposit ratio is indicative of higher interest income since loans yield a higher return than alternative investment vehicles. Management has concentrated on maintaining quality in the loan portfolio while continuing to increase the deposit base. The increase in the loans to deposits ratio is due primarily to funding the majority of the loan growth with advances from the Federal Home Loan Bank.

The following table summarizes the composition of the loan portfolio by category at the dates indicated.

Loan Portfolio Composition

December 31,	2007		2006		2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<i>(Dollars in Thousands)</i>										
Commercial	\$ 50,512	19.21%	\$ 49,954	20.32%	\$ 43,509	21.86%	\$ 31,188	22.33%	\$ 28,122	24.33%
Real Estate- Construction/Land	73,095	27.79%	59,625	24.26%	42,980	21.60%	28,362	20.31%	15,288	13.23%
Real Estate Mortgage:										
Residential 1-4	74,809	28.44%	68,926	28.04%	58,898	29.60%	40,772	29.20%	36,777	31.82%
Multi-Family	223	0.08%	608	0.25%	921	0.46%	1,636	1.17%	1,732	1.50%
Nonfarm/Nonresidential	52,141	19.82%	51,244	20.84%	40,374	20.29%	26,810	19.20%	21,099	18.26%
Installment Loans to Individuals	10,864	4.13%	10,853	4.41%	10,476	5.26%	9,694	6.94%	9,154	7.92%
Lease Financing	696	0.27%	796	0.32%	899	0.45%	977	0.70%	931	0.81%
Obligations of State and Political										
Subdivisions	494	0.19%	571	0.23%	104	0.05%	207	0.15%	2,462	2.13%
Other	177	.07%	3,281	1.33%	842	.43%	—	—	—	—
Total Loans	\$263,011	100.00%	\$245,858	100.00%	\$199,003	100.00%	\$139,646	100.00%	\$115,565	100.00%

The Company's loan portfolio contains a significant percentage of real estate mortgage loans. Real estate loans increased by approximately \$19,865,000, or 11.01%, to approximately \$200,268,000 during the twelve months ended December 31, 2007. At December 31, 2007 real estate mortgage loans represented 76.14% of the total loan portfolio compared to 73.38% at December 31, 2006. The increase in real estate mortgage loans as a percentage of total loans can be attributed to the demand in the Company's

GREER BANCSHARES INCORPORATED

market area for commercial and residential construction, which is the result of a stable local economy. In an effort to effectively manage its interest rate risk, over the past several years the Company has not offered in-house long-term fixed rate mortgage loans; however, the Company has offered five-year and seven-year balloon mortgage loan products at attractive rates. The Company continues to offer fixed rate long term mortgages through an investor loan program.

The Company also has a significant amount of commercial and industrial loans. Commercial and industrial loans increased slightly during 2007 compared to the 2006. Commercial and industrial loans comprised 19.21% and 20.32% of the total loan portfolio at December 31, 2007 and 2006, respectively.

Maturities and Sensitivity of Loans to Changes in Interest Rates

The following table summarizes the loan maturity distribution for the selected categories as of December 31, 2007. The Company has a total of approximately \$127,920,000 in loans indexed to the Wall Street Journal Prime rate.

December 31, 2007 (Dollars in Thousands)	Commercial		Real Estate- Construction/Land		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Due One Year or Less:	\$32,320	63.98%	\$61,286	83.84%	\$ 93,606	75.73%
Due One Year through Five Years:						
Fixed Rate	16,216	32.10%	6,944	9.50%	23,160	18.74%
Variable Rate	1	.00%	2,768	3.79%	2,769	2.24%
Due After Five Years:						
Fixed Rate	1,975	3.92%	2,097	2.87%	4,072	3.29%
Variable Rate	—	0.00%	—	0.00%	—	0.00%
Total	<u>\$50,512</u>	<u>100.00%</u>	<u>\$73,095</u>	<u>100.00%</u>	<u>123,607</u>	<u>100.00%</u>

Risk Elements

The accrual of interest on loans is discontinued when, in management's judgment, the interest will not be collectible in the normal course of business. Accrual of interest of such loans is typically discontinued when the loan is 90 days past due or impaired. All interest accrued, but not collected for loans that are placed on nonaccrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table states the approximate aggregate amount of loans in each of the following categories at December 31:

	2007	2006	2005	2004	2003
Nonaccrual loans	\$2,702,000	\$ 843,000	\$484,000	\$567,000	\$1,249,000
90 days or more past due and still accruing	\$ 100,000	\$ 700	\$ 32,000	\$ 388	\$ —
Impaired loans	\$1,354,000	\$1,316,000	\$ —	\$ —	\$ —

Nonaccrual loans at December 31, 2007 includes the one impaired commercial real estate loan.

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The following table sets forth certain information with respect to the allowance for loan losses and the composition of charge-offs and recoveries for each of the last five years.

Summary of Loan Loss Experience

(Dollars in Thousands)

	2007	2006	2004	2004	2003
Total loans outstanding at end of year	<u>\$263,011</u>	<u>\$245,858</u>	<u>\$199,003</u>	<u>\$139,646</u>	<u>\$115,565</u>
Average loans outstanding	<u>\$249,583</u>	<u>\$229,467</u>	<u>\$161,909</u>	<u>\$124,170</u>	<u>\$107,961</u>
Balance, beginning of year	\$ 1,801	\$ 1,416	\$ 1,136	\$ 1,298	\$ 1,081
Loans charged-off					
Commercial and industrial	1,338	177	24	347	92
Real estate - mortgage	107	0	20	31	20
Consumer	<u>77</u>	<u>77</u>	<u>114</u>	<u>42</u>	<u>35</u>
Total loans charged-off	<u>1,522</u>	<u>254</u>	<u>158</u>	<u>420</u>	<u>147</u>
Recoveries of previous loan losses					
Commercial and industrial	128	1	4	4	352
Real estate - mortgage	0	0	0	0	0
Consumer	<u>15</u>	<u>41</u>	<u>10</u>	<u>3</u>	<u>2</u>
Total loan recoveries	<u>143</u>	<u>42</u>	<u>14</u>	<u>7</u>	<u>354</u>
Net charge-offs	<u>1,379</u>	<u>212</u>	<u>144</u>	<u>413</u>	<u>(207)</u>
Provision charged to operations	<u>1,811</u>	<u>597</u>	<u>424</u>	<u>251</u>	<u>10</u>
Balance, end of year	<u>\$ 2,233</u>	<u>\$ 1,801</u>	<u>\$ 1,416</u>	<u>\$ 1,136</u>	<u>\$ 1,298</u>
Ratios:					
Allowance for loan losses to average loans	0.89%	0.78%	0.87%	0.91%	1.20%
Allowance for loan losses to period end loans	0.85%	0.73%	0.71%	0.81%	1.12%
Net charge offs to average loans	0.55%	0.09%	0.09%	0.33%	-0.19%

The allowance for loan losses is maintained at a level determined by management to be adequate to provide for probable losses inherent in the loan portfolio. The allowance is maintained through the provision for loan losses which is a charge to operations. The potential for loss in the portfolio reflects the risks and uncertainties inherent in the extension of credit.

The Bank's provision and allowance for loan losses is subjective in nature and relies on judgments and assumptions about future economic conditions and other factors affecting borrowers. Management is not aware of any trends, material risks or uncertainties affecting the loan portfolio nor is management aware of any information about any significant borrowers which causes serious doubts as to the ability of the borrower to comply with the loan repayment terms. However, it should be noted that no assurances can be made that future charges to the allowance for loan losses or provisions for loan losses may not be significant to a particular accounting period.

Interest is discontinued on impaired loans when management determines that a borrower may be unable to meet payments as they become due. As of December 31, 2007 the Bank had one impaired commercial real estate loan with an outstanding balance of \$1,353,794. The average amount of impaired loans outstanding during 2007 was \$768,599. There was no interest income recognized on the impaired loan.

Deposits

Average deposits were approximately \$239,327,000 and \$227,269,000 during 2007 and 2006, respectively. NOW accounts decreased approximately \$7,812,000, or 21.17% from December 31, 2007 compared to December 31, 2006. This significant decrease was offset by increases in demand deposits and money market and savings accounts of \$10,457,000, or 15.81%, and \$5,767,000, or 9.55%, respectively for the same period. New deposit products were introduced in 2007 resulting in both new deposit money and account reclassification.

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Contractual maturities of all time deposits at December 31, 2007 were as follows: twelve months or less - \$134,638,999, over twelve months through thirty-six months - \$5,506,028, and over thirty-six months - \$0.

The following table summarizes the Bank's average deposits by categories at the dates indicated:

Year Ended December 31,	2007		2006		2005	
	Average Balance	Percent	Average Balance	Percent	Average Balance	Percent
<i>(Dollars in thousands)</i>						
Noninterest-Bearing Deposits Demand Deposits	\$ 35,394	14.03%	\$ 30,710	13.51%	\$ 30,811	17.90%
Interest Bearing Liabilities NOW Accounts	29,096	12.90%	36,908	16.24%	29,864	17.34%
Money Market and Savings	41,207	17.21%	35,434	15.59%	29,566	17.17%
Time Deposits	133,788	55.86%	124,217	54.66%	81,948	47.59%
Total Deposits	<u>\$239,485</u>	<u>100.00%</u>	<u>\$227,269</u>	<u>100.00%</u>	<u>\$172,189</u>	<u>100.00%</u>

Core deposits, which exclude time deposits of \$100,000 or more, provide a relatively stable funding source for the loan portfolio and other earning assets. Core deposits were approximately \$171,127,000, \$163,255,000, and \$135,003,000 at December 31, 2007, 2006 and 2005, respectively.

Time deposits over \$100,000 totaled approximately \$74,341,000, \$80,815,000 and \$64,184,000 at December 31, 2007, 2006 and 2005, respectively. Scheduled maturities were as follows:

Year Ended December 31, <i>(Dollars in thousands)</i>	2007	2006	2005
Maturing in 3 months or less	\$18,385	\$20,132	\$12,506
Maturing after 3 months but less than 6 months	22,206	29,229	13,192
Maturing after 6 months but less than 12 months	30,402	21,932	12,177
Maturing after 12 months	3,348	9,522	26,309
Total	<u>\$74,341</u>	<u>\$80,815</u>	<u>\$64,184</u>

Short-Term Borrowings

At December 31, 2007, the Company had purchased federal funds totaling \$3,004,000. At December 31, 2006 the Company had purchased federal funds totaling \$5,317,000 and \$8,854,875 in securities sold under agreements to repurchase. At December 31, 2005 the Company had purchased federal funds totaling \$1,931,000 and \$8,588,767 in securities sold under agreements to repurchase

The related information for these borrowings during 2007 is summarized as follows:

Average balance outstanding during the year	Federal Funds Purchased
Average rate paid during the year	<u>\$1,175,000</u>
Average rate on year end balance	4.18%
	4.60%

GREER BANCSHARES INCORPORATED**Long Term Borrowings**

At December 31, 2007 and December 31, 2006, the Company had fixed rate notes payable totaling \$80,100,000 and \$59,513,514, respectively, to Federal Home Loan Bank ("FHLB"). Interest rates on the advances ranged from 3.41% to 5.92% and 2.74% to 6.67% at December 31, 2007 and 2006, respectively. At December 31, 2007, the Company had fixed rate reverse repurchase agreements totaling \$15,000,000 with a stated interest rate of 3.60%. At December 31, 2007, the Company had variable rate notes payable totaling \$7,000,000 to FHLB. A note for \$2,000,000 was indexed to the 3 month LIBOR rate and was 5.05% on December 31, 2007. A note for \$5,000,000 was indexed to the Wall Street Journal prime rate and was 4.40% on December 31, 2007. During 2006, interest expense on some of these fixed rate notes was increased by \$266,992, and in 2005 was reduced by \$16,798, through the utilization of interest rate swaps. For financial statement purposes interest expense or interest income from the swaps has been netted against the interest expense on FHLB borrowings. The Company has pledged its 1 to 4 family residential mortgages, commercial real estate mortgages, home equity lines of credit and certain mortgage-backed securities as collateral against the FHLB borrowings.

In October 2004 and December 2006, the Company issued \$6,186,000 and \$5,155,000 of junior subordinated debentures to its wholly-owned capital Trusts, Greer Capital Trust I and Greer Capital Trust II, respectively, to fully and unconditionally guarantee the trust preferred securities issued by the Trusts. These long-term obligations currently qualify as total risk based capital for the Company.

The junior subordinated debentures issued in October 2004 mature in October 2034, but include an option to call the debt in October 2009. Interest payments are due quarterly to Greer Capital Trust I at three-month LIBOR plus 220 basis points.

The junior subordinated debentures issued in December 2006 mature in December 2036, but include an option to call the debt in December 2011. Interest payments are due quarterly to Greer Capital Trust II at the three-month LIBOR plus 173 basis points.

Accounting and Financial Reporting Issues

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157, as amended by FSP 157-2 for nonfinancial assets and liabilities, is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. The Company must adopt these new requirements no later than the first quarter of 2008. The Company did not choose to early adopt this standard and has not yet determined the effect of adopting SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this standard 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. This statement is effective as of the beginning of fiscal years beginning after November 15, 2007, with early adoption permitted under certain circumstances. The Company did not choose to early adopt this standard and has not yet determined the effect of adopting SFAS 159 on its consolidated financial statements.

STOCK INFORMATION AND DIVIDEND HISTORY

The common stock of Greer Bancshares Incorporated is traded in the over-the-counter market and quoted on the OTC Bulletin Board (symbol: GRBS). As of February 25, 2008, there were 1,164 record holders of our common stock, \$5.00 par value per share.

The following table sets forth the high and low "bid" prices per share of the common stock for each quarterly period during the past two fiscal years, as reported on NASDAQ.com. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

GREER BANCSHARES INCORPORATED

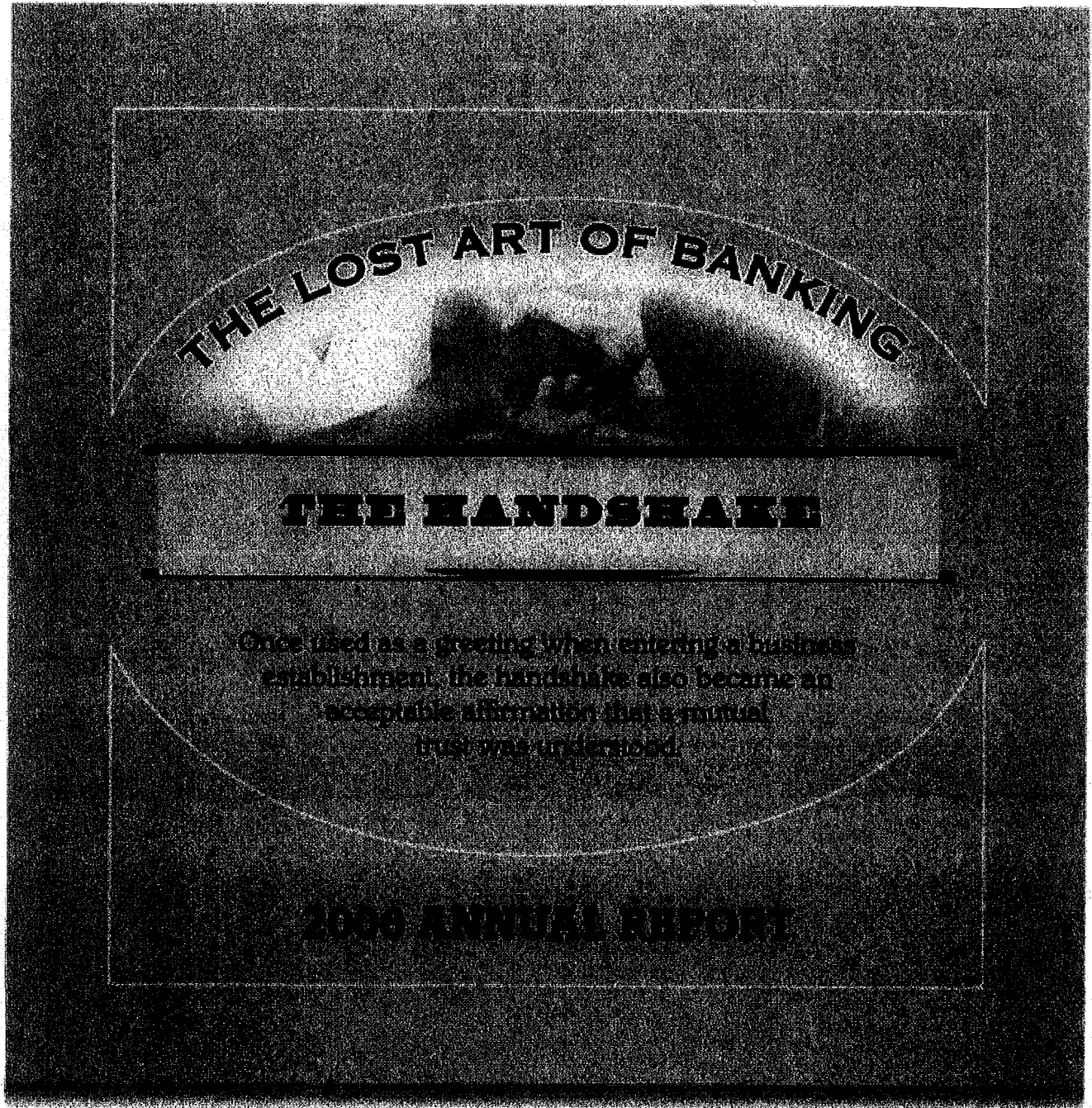
Quarter	2007		Quarter	2006	
	High	Low		High	Low
First	\$24.00	\$21.25	First	\$28.25	\$26.25
Second	\$23.00	\$21.33	Second	\$27.00	\$21.75
Third	\$21.75	\$16.25	Third	\$23.00	\$22.00
Fourth	\$18.50	\$13.00	Fourth	\$24.50	\$21.50

Beginning in 1992, the Company has declared annual cash and/or stock dividends or stock splits. In 2005, the Company paid 16 cents per share cash dividends in April, June, September and December for total cash dividends in 2005 of 64 cents per share. In 2006, the Company paid 17 cents per share cash dividends in March, June, September and December for total cash dividends in 2006 of 68 cents per share and declared dividends to be paid in March 2007 of 17 cents per share. In 2007, the Company paid 17 cents per share cash dividends in April, June, September and December for total cash dividends in 2007 of 68 cents per share.

The Company's ability to continue to pay cash dividends is dependent upon receiving cash dividends from the Bank. Federal and state banking regulations restrict the amount of cash dividends that can be paid to the Company from the Bank. The payment of dividends in the future is subject to earnings, capital requirements, financial condition and such other factors as the Board of Directors of Greer Bancshares Incorporated, the Commissioner of Banking for South Carolina and the FDIC may deem relevant.

Forward Looking Information

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on many assumptions and estimates and are not guarantees of future performance. Actual results may differ materially from those projected in any forward-looking statements, as they will depend on many factors about which there is uncertainty, including many factors which are beyond management's control. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," and "estimate," as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties include, but are not limited to: significant increases in competitive pressure in the banking and financial services industries; changes in the interest rate environment which could reduce anticipated or actual margins; changes in political conditions or the legislative or regulatory environment; general economic conditions, either nationally or regionally and especially in the Company's primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality; changes occurring in business conditions and inflation; changes in technology; changes in monetary and tax policies; the level of allowance for loan loss; the rate of delinquencies and amounts of charge-offs; the rates of loan growth; adverse changes in asset quality and resulting credit risk-related losses and expenses; changes in the securities markets; and other risks and uncertainties detailed from time to time in the Company's filings with the Securities and Exchange Commission.



Find it in Greer.

<http://www.greer.com>

Dear Shareholders and Friends,

The 2006 Annual Report to Shareholders will provide you with a significant amount of information about the financial performance and business of the Company. The Annual Report is filled with numbers, charts, statistics, and explanatory material. All of these details are important. But, as you review the details, we want you to keep in mind the bigger picture of what we do as a Company. The bigger picture is set out in the Board-approved Vision, Mission, and Values.

Our Vision: A better life for all

Our ultimate desire is to make life better for all of the people whose lives are affected by what we do as a Company. We want to make life better for our shareholders by providing excellent returns on their investment. We want to improve the lives of our employees by providing a livelihood that enables them to care for themselves and their families through enjoyable and meaningful employment. We want to enhance the lives of our customers by giving them exceptional service in the management of their finances. We want to improve the quality of life in our community by supporting important community initiatives and charitable organizations.

Our Mission: Exceptional banking for everyday people

We can only accomplish our Vision by effectively carrying out our Mission. We strive to provide excellent and exceptional service to all of our customers. By working harder, doing our job better, and caring more for those we serve, we are able to attract and retain customers who appreciate what we offer to them as a Company. By providing exceptional banking services, we also enhance our financial performance as a Company which then enables us to provide a better life for all.

Our Values:

Character: Whatever we do, we will do with integrity.

Commitment: Whatever we do, we will do with dedication.

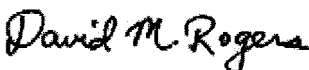
Competence: Whatever we do, we will do with excellence.

Courtesy: Whatever we do, we will do with respect and kindness.

Our values are important virtues that must pervade every aspect of our business. Our character creates trust among our customers. Our commitment assures people that we will be diligent in serving them. Our competence appeals to those who want top notch banking services. Our courtesy attracts people from every walk of life who know that they will always be treated with dignity.

In conclusion, we must remember that banking is about financial performance: return on equity, return on assets, growth in assets, net income, etc. But let us never forget that banking, rightly understood, is about so much more: a better life for all.

Toward a better life,



David M. Rogers
Chairman of the Board

Letter to Shareholders
Greer Bancshares Incorporated
March 23, 2007

Dear Shareholders and Friends:

We are pleased to report that 2006 was another year of significant growth and progress for your Company. As of year-end 2006,

- total assets reached \$359 million, up 20.1% over year-end 2005, marking two consecutive years of 20% plus growth;
- total outstanding loans grew to \$244 million, up 23.5%;
- total deposits reached \$240 million, up 20.6%; and
- net annual income was \$3,152,806, up 12.8% over 2005; and, earnings per common diluted share were \$1.25, up 11.6%.

As previously reported, the Board of Directors in late 2004 adopted a five year strategic growth plan which set an ambitious goal of almost doubling the assets of Greer State Bank in five years. At year-end 2004, the Bank's assets totaled \$231 million. The strategic growth goal is to reach \$425 million in total assets by year-end 2009. We believe this asset growth is necessary to enhance the Bank's ability to achieve excellent financial performance, risk management, and return on investment for our shareholders.


We are very pleased to report that as of December 31, 2006, Greer State Bank has achieved in only two years 66% of its five-year, strategic growth goal. We believe this puts the five-year goal well within reach over the next three years.

We are also gratified to report that the Taylors Office of Greer State Bank, which opened in August of 2005, has now reached \$25 million in assets, well ahead of our initial projections. We anticipate this office will continue to perform well and enable the Bank to extend its service reach within the Taylors community.

In summary, we believe 2006 was another successful year. Your Company continued its strong growth rate while investing heavily in its future and delivering a 14.9% return on average equity. We encourage you to review the enclosed financial information and management discussion as further evidence of your Company's performance.

Finally, thank you for your interest in Greer Bancshares Incorporated. We welcome your comments for improving your Company and our communications with you.

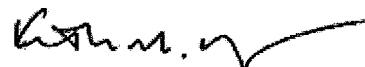
Respectfully yours,



David M. Rogers
Chairman of the Board



R. Dennis Hennett
Chief Executive Officer



Kenneth M. Harper
President

Board of Directors

David M. Rogers	Chairman/ Joshua's Way, Inc., President
Mark S. Ashmore	Ashmore Bros. Inc./ Century Concrete, President
Walter M. Burch	The Greer Citizen/ Retired
Gary M. Griffin	Mutual Home Stores, Vice President
Kenneth M. Harper	Greer Bancshares Inc. and Greer State Bank, President
R. Dennis Hennett	Greer Bancshares Inc. and Greer State Bank, Chief Executive Officer
Harold K. James	James Agency, Inc., Real Estate and Insurance, Vice President/ Broker in Charge
Paul D. Lister	Paul D. Lister, CPA, LLC
Theron C. Smith, III	Eye Associates of Carolina, PA, President
C. Don Wall	Professional Pharmacy of Greer, Inc., President

Greer Bancshares Incorporated Executive Officers

R. Dennis Hennett	Chief Executive Officer
Kenneth M. Harper	President
J. Richard Medlock, Jr.	Secretary/ Treasurer

Greer Financial Services Corporation

Roger Sims	President and Investments Representative
Jason Karr	Assistant Vice President and Financial Advisor
Jeanette Six	Registered Client Services Manager
Debra Goodrich	Administrative Assistant
Stephanie Laserna	Administrative Assistant

Bank Officers

R. Dennis Hennett	Chief Executive Officer
Kenneth M. Harper	President
J. Richard Medlock, Jr.	Executive Vice President & Chief Financial Officer
Victor K. Grout	Executive Vice President & Commercial Banking Manager
Chris M. Talley	Senior Vice President & Chief Operations Officer
E. Pierce Williams, Jr.	Senior Vice President/ Commercial Banking
Greg Sisk	Senior Vice President/ Community Executive of Taylors Office/ Retail Banking Manager
J. William Hughes	Senior Vice President/ Consumer Lending
William S. Harrill, Jr.	Senior Vice President/ Mortgage Lending
Hilda W. Marcos	Senior Vice President/ Senior Professional Banker
Kelly C. Long	Vice President/ Branch Manager of Buncombe Road Office
Thomas L. Williams	Vice President/ Branch Manager of North Main Office
Joe Copeland	Vice President/ Commercial Lending
Lola C. Hart	Vice President/ Controller
Denise W. Plumblee	Vice President/ Corporate Training Director

Bank Officers (continued)

Rick Danner	Vice President/ Human Resources & Security
Robert M. Lee	Vice President/ Information Technology
David Faucette	Vice President/ Internal Auditor
Elizabeth C. Sayce	Vice President/ Manager, Loan Administration
Sandra D. Mason	Vice President/ Operations Officer
Judy A. Edwards	Vice President/ Risk Management Administrator
Travis Barbare	Assistant Vice President/ Manager of Poinsett Office
Christy H. Blackwell	Assistant Vice President/ Manager of Taylors Office
Marvin E. Robinson, Jr.	Assistant Vice President/ Commercial Lending
Brad Cantrell	Assistant Vice President/ Credit Administration Officer
Ann S. Miller	Assistant Vice President/ Manager EDP & Item Processing
Beth C. Waters	Assistant Vice President/ Marketing Director
Sue H. Gaines	Assistant Vice President/ Mortgage Lending Officer
Terri N. Grady	Assistant Vice President/ Operations
Dixie G. Cartmell	Finance & Accounting Officer
Donna Miller	Internet Banking Officer

Bank Staff

Meredith Alexander	Sherri Groce	Cindi Patterson
Jason Baldwin	Patsy Hairston	Ashley Pond
Jolynne Beck	Vince Harris	Brandi Prevatte
Marsha Bennett	Cindy Hart	Martin Price
Charlotte Betts	Doris Hendricks	Gail S. Pruitt
Nancy Brown	Heather Henson	Ann Rainey
Tammy Budove	Theresa Hice	Nalani Ramza
Lena Cody	Debra Joines	Patsy Robinson
Maury Cook	Joy Jordan	Tonda Rogers
Karen Corn	Tonya Kellett	Linda Rorie
Terrence Cosby	Jennifer Kemp	Denise Ross
Melissa Carroll	Christy Kinard	Jeanette Six
Angie Coleman	Stephanie Laserna	Mindi Smith
Sarah Crutchfield	Jessica Long	Teresa Smith
Debra Day	Nikita Mack	Kristi Twiddy
Tammy Durham	Renee Massey	Ann Vaughn
Grace Edwards	Donna McMakin	Pat Vaughn
Candice Good	Cindy Morrell	Pat Wellmon
Debra Goodrich	Joy Myers	Marie Wilson
Lynda Green	Linda Oliver	
Willie Greer	Jinita Patel	

**Report of Independent
Registered Public Accounting Firm**

To the Board of Directors
Greer Bancshares Incorporated and Subsidiary
Greer, South Carolina

We have audited the accompanying consolidated balance sheets of Greer Bancshares Incorporated and Subsidiary (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Greer Bancshares Incorporated and Subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21 to the consolidated financial statements, during 2006 the Company changed its method of quantifying misstatements of prior year consolidated financial statements. The Company adopted the dual method for evaluating misstatements, as required by SEC Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements."

Dixon Hughes PLLC

Asheville, North Carolina
March 19, 2007

Greer Bancshares Incorporated and Subsidiary

Consolidated Balance Sheets

	December 31,	
	<u>2006</u>	<u>2005</u>
Assets		
Cash and due from banks	\$ 10,914,066	\$ 6,234,935
Interest-bearing deposits in banks	776,477	563,658
Investment securities:		
Held to maturity (fair value of approximately \$22,790,311 and \$27,533,666, respectively)	23,581,468	28,481,861
Available for sale	60,185,223	49,542,964
Loans, net of allowance for loan losses of \$1,801,287 and \$1,415,897, respectively	244,056,635	197,586,904
Premises and equipment, net	6,631,721	5,746,610
Accrued interest receivable	2,298,855	1,615,435
Restricted stock	3,948,914	3,508,814
Other assets	7,269,028	6,165,765
Total assets	<u>\$359,662,387</u>	<u>\$299,446,946</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non interest-bearing	\$ 29,816,377	\$ 30,013,747
Interest-bearing	210,471,514	169,172,974
Total deposits	240,287,891	199,186,721
Short term borrowings	14,171,875	10,519,767
Long term borrowings	77,854,514	65,033,043
Other liabilities	4,805,879	3,143,105
Total Liabilities	<u>337,120,159</u>	<u>277,882,636</u>
Commitments and contingencies - Notes 10 and 11		
Stockholders' Equity:		
Preferred stock - par value \$5 per share, 1,000,000 shares authorized; none issued	—	—
Common stock - par value \$5 per share, 10,000,000 shares authorized; 2,472,671 and 2,453,580 shares issued and outstanding at December 31, 2006 and 2005, respectively	12,363,355	12,267,900
Additional paid in capital	3,039,690	2,741,878
Retained earnings	7,273,436	6,750,925
Accumulated other comprehensive loss	(134,253)	(196,393)
Total Stockholders' Equity	<u>22,542,228</u>	<u>21,564,310</u>
Total Liabilities and Stockholders' Equity	<u>\$359,662,387</u>	<u>\$299,446,946</u>

The accompanying notes are an integral part of these consolidated financial statements.

Greer Bancshares Incorporated and Subsidiary

Consolidated Statements of Income

	For the Years Ended December 31,		
	2006	2005	2004
Interest income:			
Loans, including fees	\$18,620,395	\$11,694,822	\$ 7,615,655
Investment securities:			
Taxable	2,618,935	2,467,494	2,004,783
Tax-exempt	908,436	984,894	1,441,073
Federal funds sold	34,428	96,113	21,977
Other	33,415	64,360	16,014
Total interest income	<u>22,215,609</u>	<u>15,307,683</u>	<u>11,099,502</u>
Interest expense:			
Interest on deposit accounts	6,653,779	3,226,358	2,099,607
Interest on short term borrowings	565,472	219,349	18,885
Interest on long term borrowings	3,372,381	2,763,917	1,730,860
Total interest expense	<u>10,591,632</u>	<u>6,209,624</u>	<u>3,849,352</u>
Net interest income	11,623,977	9,098,059	7,250,150
Provision for loan losses	597,000	424,194	251,000
Net interest income after provision for loan losses	11,026,977	8,673,865	6,999,150
Noninterest income:			
Customer service fees	936,978	982,321	1,152,687
Gain on sale of investment securities	78,269	342,394	295,572
Other noninterest income	1,324,756	1,131,938	775,521
Total noninterest income	<u>2,340,003</u>	<u>2,456,653</u>	<u>2,223,780</u>
Noninterest expenses:			
Salaries and employee benefits	5,444,426	4,637,950	3,440,019
Occupancy and equipment	875,103	754,102	737,534
Postage and supplies	303,842	283,471	234,163
Marketing expenses	335,685	239,344	178,800
Directors fees	194,698	178,498	167,974
Professional fees	371,714	393,539	281,532
Other noninterest expenses	1,396,751	1,093,838	967,665
Total noninterest expenses	<u>8,922,219</u>	<u>7,580,742</u>	<u>6,007,687</u>
Income before income taxes	4,444,761	3,549,776	3,215,243
Provision for income taxes:	1,291,955	755,223	655,557
Net income	<u>\$ 3,152,806</u>	<u>\$ 2,794,553</u>	<u>\$ 2,559,686</u>
Basic net income per share of common stock	<u>\$ 1.28</u>	<u>\$ 1.14</u>	<u>\$ 1.05</u>
Diluted net income per share of common stock	<u>\$ 1.25</u>	<u>\$ 1.12</u>	<u>\$ 1.05</u>
Weighted average shares outstanding:			
Basic	<u>2,462,688</u>	<u>2,442,078</u>	<u>2,428,833</u>
Diluted	<u>2,517,549</u>	<u>2,504,856</u>	<u>2,447,589</u>

The accompanying notes are an integral part of these consolidated financial statements.

Greer Bancshares Incorporated and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2006, 2005 and 2004

	Common Stock		Additional Paid In Capital	Retained Earning	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2003	1,615,277	\$ 8,076,385	\$ 6,465,441	\$ 4,059,696	\$ 1,106,263	\$19,707,785
Net income	—	—	—	2,559,686	—	2,559,686
Other comprehensive income, net of tax:						
Unrealized holding loss on investment securities, net of income tax benefit of approximately \$54,085	—	—	—	—	(85,305)	(85,305)
Less reclassification adjustments for gains included in net income, net of income tax expense of approximately \$114,000	—	—	—	—	(183,255)	(183,255)
Comprehensive income						2,291,126
Stock exercised pursuant to stock option plan	7,689	38,445	90,337	—	—	128,782
Tax benefit of stock options exercised	—	—	4,001	—	—	4,001
Stock split (3 for 2) effected in the form of a stock dividend	809,295	4,046,475	(4,046,475)	—	—	—
Cash in lieu of fractional shares	—	—	—	(4,865)	—	(4,865)
Cash dividends (\$.45 per share)	—	—	—	(1,093,602)	—	(1,093,602)
Balance at December 31, 2004	2,432,261	12,161,305	2,513,304	5,520,915	837,703	21,033,227
Net income	—	—	—	2,794,553	—	2,794,553
Other comprehensive income, net of tax:						
Unrealized holding loss on investment securities, net of income tax benefit of approximately \$517,000	—	—	—	—	(821,812)	(821,812)
Less reclassification adjustments for gains included in net income, net of income tax expense of approximately \$130,000	—	—	—	—	(212,284)	(212,284)
Comprehensive income						1,760,457
Stock exercised pursuant to stock option plan	18,819	94,095	164,207	—	—	258,302
Stock granted to employees	2,500	12,500	26,250	—	—	38,750
Tax benefit of stock options exercised	—	—	38,117	—	—	38,117
Cash dividends (\$.64 per share)	—	—	—	(1,564,543)	—	(1,564,543)
Balance at December 31, 2005	2,453,580	12,267,900	2,741,878	6,750,925	(196,393)	21,564,310
Cumulative effect of adoption of SAB 108, net of tax benefit of \$278,978	—	—	—	(541,547)	—	(541,547)
Net income	—	—	—	3,152,806	—	3,152,806
Other comprehensive income, net of tax:						
Unrealized holding gain on investment securities net of income taxes of approximately \$24,000	—	—	—	—	110,666	110,666
Less reclassification adjustments for gains included in net income, net of income taxes of approximately \$30,000	—	—	—	—	(48,526)	(48,526)
Comprehensive income						3,214,946
Stock exercised pursuant to stock option plan	19,091	95,455	206,646	—	—	302,101
Tax benefit of stock options exercised	—	—	19,155	—	—	19,155
Stock based compensation	—	—	72,011	—	—	72,011
Cash dividends (\$.85 per share)	—	—	—	(2,088,748)	—	(2,088,748)
Balance at December 31, 2006	<u>2,472,671</u>	<u>\$12,363,355</u>	<u>\$ 3,039,690</u>	<u>\$ 7,273,436</u>	<u>\$ (134,253)</u>	<u>\$22,542,228</u>

The accompanying notes are an integral part of these consolidated financial statements.

Greer Bancshares Incorporated and Subsidiary

Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2006	2005	2004
Operating activities:			
Net income	\$ 3,152,806	\$ 2,794,553	\$ 2,559,686
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	472,933	399,471	434,546
Gain on sale of investment securities	(78,269)	(342,394)	(295,572)
Loss (gain) on sale of real estate held for sale	—	(68,672)	11,859
Provision for loan losses	597,000	424,194	251,000
Deferred income taxes (benefit)	16,000	(189,942)	35,925
Stock-based compensation	72,011	38,750	—
Increase in cash surrender value of life insurance	(187,737)	(173,859)	(136,642)
Net change in:			
Accrued interest receivable	(683,420)	(477,497)	107,056
Other assets	(536,449)	(185,953)	32,194
Accrued interest payable	852,640	709,869	217,801
Other liabilities	396,725	231,414	127,925
Net cash provided by operating activities	<u>4,074,240</u>	<u>3,159,934</u>	<u>3,345,778</u>
Investing activities:			
Activity in available-for-sale securities:			
Sales	11,987,953	17,065,375	19,798,735
Maturities, prepayments and calls	6,222,462	5,527,015	17,659,069
Purchases	(28,673,364)	(36,420,064)	(10,289,999)
Activity in held to maturity securities:			
Maturities, prepayments and calls	4,900,393	6,992,686	6,246,070
Purchases	—	—	(24,457,502)
Proceeds from sale of real estate held for sale	—	310,470	231,241
Net (increase) decrease in federal funds sold	—	650,000	(491,000)
Purchase of FHLB stock	(440,100)	(388,800)	(723,300)
Net increase in loans	(47,066,731)	(59,333,470)	(25,021,656)
Purchase of premises and equipment	(1,358,044)	(1,793,182)	(891,696)
Purchase of life insurance	—	(723,608)	(1,000,000)
Net cash used for investing activities	<u>(54,427,431)</u>	<u>(68,113,578)</u>	<u>(18,940,038)</u>

(continued)

Greer Bancshares Incorporated and Subsidiary

Consolidated Statements of Cash Flows, Continued

	For the Years Ended December 31,		
	2006	2005	2004
Financing activities:			
Net increase (decrease) in deposits	\$41,101,170	\$48,926,785	\$(2,701,016)
Net increase in short term borrowings	3,652,108	10,519,767	—
Repayment of notes payable to FHLB	(3,404,055)	(8,107,813)	(1,281,846)
Proceeds from notes payable to FHLB	10,250,000	16,000,000	13,000,000
Proceeds from issuance of subordinated debentures	5,000,000	—	6,000,000
Proceeds from exercise of stock options	302,101	258,302	128,782
Tax benefit from stock option exercise	19,155	—	—
Cash in lieu of fractional shares on stock dividend	—	—	(4,865)
Cash dividends paid	(1,675,338)	(1,564,543)	(1,093,602)
Net cash provided by financing activities	55,245,141	66,032,498	14,047,453
Net increase (decrease) in cash and due from banks	4,891,950	1,078,854	(1,546,807)
Cash and due from banks at beginning of year	6,798,593	5,719,739	7,266,546
Cash and due from banks at end of year	<u>\$11,690,543</u>	<u>\$ 6,798,593</u>	<u>\$ 5,719,739</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 9,738,992	\$ 5,499,755	\$ 3,631,551
Income taxes	\$ 1,797,695	\$ 919,761	\$ 618,383
Non-cash investing and financing activities:			
Real estate acquired in satisfaction of mortgage loans	\$ —	\$ 30,000	\$ 526,877
Investment in trust	\$ 155,000	\$ —	\$ 186,000
Change in valuation of fair value hedge	\$ —	\$ 410,889	\$ 409,635
Dividends payable	\$ (413,410)	\$ —	\$ —
Change in beginning retained earnings (net of tax)	\$ (541,547)	\$ —	\$ —
Loans to facilitate sale of real estate	\$ —	\$ 197,452	\$ —
Change in other comprehensive income (net of tax)	\$ 62,140	\$ (1,034,096)	\$ (268,560)

The accompanying notes are an integral part of these consolidated financial statements.

Greer Bancshares Incorporated and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

1. Summary of Significant Accounting Policies

Organization—Greer State Bank (the “Bank”) was organized under a state banking charter in August 1988, and commenced operations on January 3, 1989. Greer Bancshares Incorporated is a South Carolina corporation formed in July 2001, primarily to hold all of the capital stock of Greer State Bank. The Bank engages in commercial and retail banking, emphasizing the needs of small to medium businesses, professional concerns and individuals, primarily in Greer and surrounding areas in the upstate of South Carolina. The accompanying consolidated financial statements include the accounts of the holding company and its wholly owned subsidiary (herein referred to as the “Company”).

In October 2004 and December 2006, Greer Capital Trust I and Greer Capital Trust II (the “Trusts”) were formed, respectively. The Trusts were formed as part of the process of the issuance of trust preferred securities. During 2004, the Company adopted Financial Accounting Standards Board (“FASB”) Interpretation Nos. 46 and 46R (“FIN 46 and 46R”), *Consolidation of Variable Interest Entities*. Under the provisions of FIN 46 and 46R, the Company has not consolidated the Trusts. The junior subordinated debt issued by the Company to the Trusts is included in long term debt. The equity investment in the Trusts is included in other assets.

Nature of Operations—The primary activity of the holding company is to hold its investment in the Bank. The Bank operates under a state bank charter and provides full banking services. The Bank is subject to regulation by the Federal Deposit Insurance Corporation (“FDIC”) and the South Carolina Board of Financial Institutions.

Greer Financial Services Corporation, a wholly owned subsidiary of the Bank, provides financial management services and non-deposit product sales.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiary and, in consolidation, all significant intercompany items are eliminated.

Business Segments—The Company reports all activities as one business segment. In determining the appropriateness of segment definition, the materiality of the potential segment and components of the business about which financial information is available and regularly evaluated relative to resource allocation and performance assessment is considered.

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption “Cash and due from banks” and “Interest-bearing deposits in banks.” Cash and cash equivalents have an original maturity of three months or less.

Securities Held to Maturity—Bonds, notes and debentures for which there is the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity or to call dates.

Securities Available for Sale—Available-for-sale securities are reported at fair value and consist of bonds, notes, debentures and certain equity securities not classified as trading securities or as held-to-maturity securities.

Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of stockholders' equity. Realized gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or to call dates.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below cost that are other than temporary are reflected as write-downs of the individual securities to fair value. Related write-downs are included in income. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near term prospectus of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair values.

Concentrations of Credit Risk—The Bank makes loans to individuals and small businesses located primarily in upstate South Carolina for various personal and commercial purposes resulting in a diversified loan portfolio. The borrowers' ability to repay their loans is not dependent upon any specific economic sector.

Comprehensive Income—Comprehensive income reflects the change in equity during the year arising from transactions and events other than investments by and distributions to shareholders. It consists of net income plus certain other changes in assets and liabilities that are reported as separate components of stockholders' equity rather than as income or expense. The statement of changes in stockholders' equity includes the components of comprehensive income.

Loans and Interest Income—The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans throughout the Greater Greer area of the upstate of South Carolina. The ability of our debtors to honor their contracts is dependent upon the general economic conditions in this area. Loans are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses and any unearned discounts. Interest income is accrued and taken into income based upon the interest method.

The accrual of interest on loans is discontinued when, in the judgment of management, the interest will not be collectible in the normal course of business. Accrual of interest of such loans is typically discontinued when the loan is 90 days past due or impaired. All interest accrued, but not collected for loans that are placed on non-accrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses—The allowance for loan losses is based on management's ongoing evaluation of the loan portfolio and reflects an amount that, in management's opinion, is adequate to absorb probable losses in the existing portfolio. Additions to the allowance for loan losses are provided by charges to earnings. Loan losses are charged against the allowance when the ultimate uncollectibility of a loan balance is determined. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a monthly basis by management. The evaluation includes the periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, impairment and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, individual consumer and residential loans are not separately identified for impairment disclosures.

Premises and Equipment—Land is carried at cost. Premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is charged using the straight-line method over the useful lives (three to thirty-nine years) of the assets. Additions to premises and equipment and major replacements or improvements are capitalized at cost. Maintenance, repairs and minor replacements are expensed when incurred. Gains and losses on routine dispositions are reflected in current earnings.

Real Estate Held for Sale—Real estate held for sale is stated at the lower of cost or net realizable value at the time of foreclosure. Market values of real estate held for sale are reviewed regularly and allowances for losses are established when the carrying value exceeds the estimated net realizable value. Gains and losses on the sale of real estate held for sale are recorded at the time of sale.

Restricted Stock—Restricted stock consists of non-marketable equity securities including investments in the stock of the Federal Home Loan Bank ("FHLB"), Community Bankers Bank and Community Financial Services, Inc. These stocks have no ready market and no quoted market value. Because of the redemption provisions of the restricted stock, the Bank estimates that fair value equals cost for these investments resulting in no impairment at December 31, 2006. Investment in the Federal Home Loan Bank is a condition of borrowing from the Federal Home Loan Bank. The stock is pledged to collateralize such borrowings. At December 31, 2006 and 2005, the investment in the Federal Home Loan Bank stock was \$3,592,100 and \$3,152,000, respectively. At December 31, 2006 and 2005, the investments in Community Bankers Bank and Community Financial Services, Inc. were \$45,400 and \$311,414, respectively. Dividends received on these stocks are included in interest income.

Stock-Based Compensation—Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), *Share-Based Payment*, ("SFAS No. 123R") which was issued by the FASB in December 2004. SFAS No. 123R revises SFAS No. 123, *Accounting for Stock Based Compensation*, and supersedes APB No. 25, *Accounting for Stock Issued to Employees*, and its related interpretations. SFAS No. 123R requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). SFAS No. 123R also requires measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award. SFAS No. 123R also amends SFAS No. 95, *Statement of Cash Flows*, to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

Income Taxes—The Company files a consolidated federal income tax return and separate state income tax returns. Income taxes are allocated to each company as if filed separately for federal purposes and based on the separate returns filed for state purposes.

Certain items of income and expense for financial reporting are recognized differently for income tax purposes (principally the provision for loan losses, deferred compensation and depreciation). Provisions for deferred taxes are made in recognition of such temporary differences as required under SFAS No. 109, *Accounting for Income Taxes*. Current income taxes are recorded based on amounts due with the current income tax returns. The need for a valuation allowance is considered when it is determined more likely than not that a deferred tax asset will not be realized.

Earnings Per Share of Common Stock—Basic and diluted earnings per share of common stock are presented after giving retroactive effect to stock splits and dividends. The assumed conversion of stock options creates the difference between basic and diluted net income per share. Income per share is calculated by dividing net income by the weighted average number of common shares outstanding for each period presented.

Off-Balance Sheet Credit Related Financial Instruments—In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Derivatives—The Company utilizes derivative contracts to manage interest rate risk. These instruments consisted of interest rate swaps and swaptions in 2004, 2005 and 2006 prior to their sale in December 2006. In January 2006, an interest rate floor was purchased. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or referenced interest rate. The Company used interest rate swaps and swaptions as fair value hedges for certain fixed rate Federal Home Loan Bank advances. The interest rate floor contract is a derivative used to hedge cash flows of certain prime based loans. The floor contract terminates on January 30, 2009. The Bank does not utilize derivatives for trading purposes.

The derivatives did not qualify for hedge accounting under SFAS 133 (see Note 21). As a result, the derivatives are recorded at fair value with adjustments to earnings.

The net interest payable or receivable on interest rate swaps that are designated as hedges is accrued and recognized as an adjustment to the interest expense of the related liability and flow through the income statement for each specific reporting period.

Reclassification—Certain amounts in the 2005 and 2004 consolidated financial statements have been reclassified to conform to the 2006 presentation. The reclassifications had no effect on net income or shareholders' equity as previously reported.

Recent Accounting Pronouncements—The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106, and 132R* requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plans assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company does not anticipate that this statement will have an impact on the Company's financial position, results of operations and cash flows.

In July 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized

in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006 and as a result, is effective for the Company in the first quarter of fiscal 2007. The Company has evaluated the impact of FIN 48 and anticipates no significant impact on its consolidated financial statements.

The Emerging Issues Task Force ("EITF") reached a consensus at its September 2006 meeting regarding EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The scope of EITF 06-4 is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Therefore, this EITF would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee's active service period with an employer. EITF 06-04 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The effects of this standard have not yet been evaluated.

2. Investment Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of investment securities are as follows:

	December 31, 2006			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Held to maturity:				
Mortgage-backed securities	\$23,581,468	\$ —	\$791,157	\$22,790,311
Available for sale:				
United States Government and other agency obligations	\$ 6,643,267	\$ 35,989	\$ 78,800	\$ 6,600,456
Mortgage-backed securities	29,291,665	21,928	447,227	28,866,366
Municipal securities	22,436,035	313,772	23,774	22,726,033
Corporate bonds	2,032,555	—	40,187	1,992,368
	<u>\$60,403,522</u>	<u>\$371,689</u>	<u>\$589,988</u>	<u>\$60,185,223</u>
	December 31, 2006			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Held to maturity:				
Mortgage-backed securities	\$28,481,861	\$ —	\$948,195	\$27,533,666
Available for sale:				
United States Government and other agency obligations	\$ 8,562,397	\$ —	\$195,104	\$ 8,367,293
Mortgage-backed securities	18,430,661	14,535	375,751	18,069,445
Municipal securities	20,805,750	535,699	78,763	21,262,686
Corporate bonds	2,063,534	—	219,994	1,843,540
	<u>\$49,862,342</u>	<u>\$550,234</u>	<u>\$869,612</u>	<u>\$49,542,964</u>

The amortized cost and estimated fair value of investment securities at December 31, 2006 by contractual maturity for debt securities are shown below. Mortgage-backed securities have not been scheduled since expected maturities will differ from contractual maturities because borrowers may have the right to prepay the obligations.

	Available for Sale		Held to Maturity	
	Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value
Due in 1 year	\$ 1,005,644	\$ 999,568	\$ —	\$ —
Over 1 year through 5 years	3,144,993	3,111,963	—	—
After 5 years through 10 years	9,470,352	9,566,900	—	—
Over 10 years	17,490,868	17,640,426	—	—
	31,111,857	31,318,857	—	—
Mortgage-backed securities	29,291,665	28,866,366	23,581,468	22,790,311
Total	\$60,403,522	\$60,185,223	\$23,581,468	\$22,790,311

The fair value of securities with temporary impairment at December 31, 2006 and 2005 is shown below:

2006	Less Than Twelve Months		Over Twelve Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	Description of securities:			
U.S. Government and other agency obligations	\$ 1,750,751	\$ 3,734	\$ 2,165,049	\$ 75,066
Mortgage-backed securities	14,400,615	108,181	33,257,341	1,130,203
Corporate bonds	—	—	1,992,368	40,187
Municipal securities	3,372,564	9,929	2,851,518	13,845
Total	\$19,523,930	\$121,844	\$40,266,276	\$1,259,301

2005	Less Than Twelve Months		Over Twelve Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	Description of securities:			
U.S. Government and other agency obligations	\$ 3,500,699	\$ 47,667	\$ 4,866,633	\$ 147,437
Mortgage-backed securities	20,325,060	468,442	22,775,056	855,504
Corporate bonds	892,212	145,283	951,328	74,711
Municipal securities	6,992,097	78,763	—	—
Total	\$31,710,068	\$740,155	\$28,593,017	\$1,077,652

Management believes all of the unrealized losses as of December 31, 2006 are temporary and as a result of temporary changes in the market. The number of securities with unrealized losses at December 31, 2006 was sixty-six. Two of those are agency obligations, forty-six are mortgage-backed securities, fourteen are municipal securities and four are corporate bonds. The temporary impairment is due primarily to changes in the short and long term interest rate environment since the purchase of the securities and is not related to credit issues of the issuer. The Bank has sufficient cash and investments showing unrealized gains and borrowing sources to provide sufficient liquidity to hold the securities until maturity if necessary.

Investment securities with an aggregate book value of approximately \$57,510,000 and \$69,703,000 at December 31, 2006 and 2005, respectively, were pledged to secure public deposits and Federal Home Loan Bank borrowings.

Gross realized gains, gross realized losses and sale proceeds for available for sale securities for the years ended December 31 are summarized as follows. These net gains or losses are shown in noninterest income as gain on sale of available for sale securities.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Gross realized gains	\$ 204,484	\$ 409,970	\$ 329,420
Gross realized losses	126,215	67,576	33,848
Net gain on available for sale securities	<u>\$ 78,269</u>	<u>\$ 342,394</u>	<u>\$ 295,572</u>
Sale proceeds	<u>\$11,987,953</u>	<u>\$17,065,375</u>	<u>\$19,798,735</u>

3. Net Loans

A summary of loans outstanding by major classification follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Real State	\$180,400,938	\$143,172,044
Commercial and industrial (non-real estate)	49,954,767	43,508,593
Installment loans to individuals for household, family and other personal expenditures	10,853,743	10,475,834
All other loans	<u>4,648,474</u>	<u>1,846,330</u>
	245,857,922	199,002,80
Allowance for loan losses	<u>(1,801,287)</u>	<u>(1,415,897)</u>
	<u>\$244,056,635</u>	<u>\$197,586,904</u>

The change in the allowance for loan losses is summarized as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$1,415,897	\$1,136,258	\$1,298,228
Provision charged to income	597,000	424,194	251,000
Recoveries on loans	41,690	15,762	7,681
Loans charged off	<u>(253,300)</u>	<u>(160,317)</u>	<u>(420,651)</u>
Balance, end of year	<u>\$1,801,287</u>	<u>\$1,415,897</u>	<u>\$1,136,258</u>

At December 31, 2006 and 2005, non-accrual loans totaled approximately \$843,000 and \$484,000, respectively. The gross interest income that would have been recorded under the original terms of the non-accrual loans amounted to approximately \$38,000 in 2006, \$45,000 in 2005 and \$32,000 in 2004.

The Bank had impaired loans at December 31, 2006 and 2005 with outstanding balances of \$1,316,398 and \$351,351, respectively. The average amount of impaired loans outstanding during 2006 and 2005 was \$687,376 and \$347,507, respectively. The actual amount of interest income recognized on the impaired loans during 2006, 2005 and 2004 was \$0, \$0 and \$2,427, respectively. The amount of the valuation allowance allocated to the impaired loans was \$263,280 and \$105,395 at December 31, 2006 and 2005, respectively.

4. Premises and Equipment

Premises and equipment are summarized as follows:

	December 31,	
	2006	2005
Land	\$ 1,460,177	\$ 898,548
Construction in process	248,942	—
Buildings and improvements	4,975,288	4,783,239
Equipment	1,404,523	1,305,965
Furniture and fixtures	801,002	744,060
Electronic data processing	2,961,984	2,762,061
	<u>11,851,916</u>	<u>10,493,873</u>
Less accumulated depreciation	<u>(5,220,195)</u>	<u>(4,747,263)</u>
	<u>\$ 6,631,721</u>	<u>\$ 5,746,610</u>

5. Other Assets

Other assets at December 31 consist of the following:

	2006	2005
Prepaid expenses	\$ 293,457	\$ 314,427
Bank owned life insurance	5,144,661	4,956,924
Other	490,640	111,168
Income tax receivable	406,185	—
Deferred taxes	934,085	783,246
	<u>\$7,269,028</u>	<u>\$6,165,765</u>

6. Time Deposits

At December 31, 2006 and 2005, time deposits of \$100,000 or more totaled approximately \$80,815,000 and \$64,184,000, respectively. The Bank had brokered deposits of approximately \$35 million at December 31, 2006 and \$22 million at December 31, 2005.

Contractual maturities at December 31, 2006 of time deposits are summarized as follows:

12 months or less	\$ 122,829,739
1-3 years	14,627,252
Over three years	—
	<u>\$ 137,456,991</u>

7. Short Term Borrowings

At December 31, 2006, short term borrowings consisted of federal funds purchased and securities sold under agreements to repurchase. The outstanding balances and related information for these borrowings are summarized as follows:

	Federal Funds Purchased			Securities Sold under Agreements to Repurchase		
	2006	2005	2004	2006	2005	2004
Outstanding balance at December 31	\$5,317,000	\$ 1,931,000	—	\$8,854,875	\$8,588,767	—
Weighted average rate	5.63%	4.60%	—	5.44%	4.58%	—
Maximum month-end outstanding balance	\$7,461,000	\$12,373,000	—	\$9,000,000	\$9,607,000	—
Approximate average amounts outstanding	\$1,861,000	\$ 1,261,000	\$922,341	\$8,684,000	\$4,716,000	—
Weighted average rate for the year	5.28%	3.76%	2.06%	5.38%	3.65%	—

Federal funds purchased and securities sold under agreements to repurchase generally mature within three months or less from the transaction date.

8. Long Term Borrowings

At December 31, 2006 and 2005, the Bank had fixed and variable rate notes payable totaling \$66,513,514 and \$58,847,043, respectively, to FHLB. The stated interest rates on these notes ranged from 2.74 to 6.67 percent at December 31, 2006 and 2005.

The Bank has pledged as collateral FHLB stock, certain investment securities and has entered into a blanket collateral agreement whereby qualifying mortgages with a book value of at least 135 percent of total advances, free of other encumbrances, will be maintained.

The contractual maturities at December 31, 2006, are as follows:

2007	\$ 4,013,514
2008	14,000,000
2009	9,000,000
2010	6,000,000
2011	18,000,000
Thereafter	<u>15,500,000</u>
	<u>\$66,513,514</u>

In October 2004 and December 2006, the Company issued \$6.186 million and \$5.155 million of junior subordinated debentures to its wholly-owned capital Trusts, Greer Capital Trust I and Greer Capital Trust II, respectively, to fully and unconditionally guarantee the trust preferred securities issued by the Trusts. These long-term obligations qualify as total risk based capital for the Company. Also, see the detailed discussion regarding the accounting treatment of the Trusts in the summary of significant accounting policies.

The junior subordinated debentures issued in October 2004 mature in October 2034, but include an option to call the debt in October 2009. Interest payments are due quarterly to Greer Capital Trust I at the three-month LIBOR plus 220 basis points.

The junior subordinated debentures issued in December 2006 mature in December 2036, but include an option to call the debt in December 2011. Interest payments are due quarterly to Greer Capital Trust II at the three-month LIBOR plus 173 basis points.

9. Unused Lines of Credit

As of December 31, 2006, the Bank had an unused short term line of credit to purchase federal funds from correspondent banks totaling \$11.2 million and other unused short term lines of credit from other financial institutions totaling \$12.1 million.

The Bank has the ability to borrow an additional \$44.1 million from the Federal Home Loan Bank. The borrowings are available by pledging collateral and purchasing additional stock in the Federal Home Loan Bank.

10. Off-Balance Sheet Activities, Commitments and Contingencies

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk. 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 accompanying balance sheets. The contract amounts of those instruments reflect the extent of involvement in particular classes of financial instruments. Management uses the same credit policies in making commitments as for making loans. Commitments to extend credit in the future represent financial instruments involving credit risk. A summary of commitments at December 31, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Commitments to extend credit	\$46,876,000	\$42,910,000
Standby letters of credit	<u>\$ 4,474,000</u>	<u>2,417,000</u>
	<u>51,350,000</u>	<u>\$45,327,000</u>

Commitments to extend credit are agreements to lend as long as there is no violation of the conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, obtained upon extension of credit is based on management's credit evaluation.

Standby letters of credit 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 public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances that management deems necessary. Newly issued or modified guarantees are to be recorded on the Company's balance sheet at fair value at inception. As of December 31, 2006 and 2005, no liability has been recorded related to these guarantees.

Concentrations of Credit Risk—Substantially all loans and commitments to extend credit have been granted to customers in the Bank's market area and such customers are generally depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The primary focus is toward consumer and small business transactions, and accordingly, there are not a significant number of credits to any single borrower or group of related borrowers in excess of \$2,500,000.

From time to time, the Bank has cash and cash equivalents on deposit with financial institutions that exceed federally insured limits.

Litigation—The Company is a party to litigation and claims arising in the normal course of business. After consultation with legal counsel, management believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

11. Stockholders' Equity

The Company has 1,000,000 authorized but unissued shares of preferred stock (par value \$5). Should preferred stock be issued, the Company's directors will set the designation of terms, conditions and amounts.

12. Benefit Plans

Defined Contribution Plan—The Bank has a 401(k) Profit Sharing Plan for the benefit of employees. Subject to annual approval by the Board of Directors, employee contributions of up to 4% of compensation are matched in accordance with plan guidelines. Matching contributions of \$137,963, \$89,991 and \$81,230 were charged to expense during 2006, 2005 and 2004, respectively.

Stock Option Plan—The Company adopted SFAS No. 123R using the modified prospective application as permitted under SFAS No. 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

Prior to the adoption of SFAS No. 123R, the Company used the intrinsic value method as prescribed by APB Opinion No. 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of the Company's common stock on the date of grant.

The Company currently has an Equity Incentive Plan which is described below. The compensation cost that has been charged against income for the plan was approximately \$72,000 for the twelve months ended December 31, 2006. The income tax benefit recognized for share-based compensation arrangements was approximately \$2,200 for the twelve months ended December 31, 2006.

Effective April 27, 2006, the Directors' Incentive Stock Option Plan (the "Directors' Incentive Plan") was terminated. Outstanding options issued under the former Directors' Incentive Plan will be honored in accordance with the terms and conditions in effect at the time they were granted, except that they are not subject to reissuance. At December 31, 2006, there were 54,000 options outstanding that had been issued under the terminated Directors' Incentive Plan.

Effective April 28, 2005, the Greer State Bank Employee Incentive Stock Option Plan (the "Plan") was terminated. Outstanding options issued under the former Plan will be honored in accordance with the terms and conditions in effect at the time they were granted, except that they are not subject to reissuance. At December 31, 2006, there were 35,023 options outstanding that had been issued under the terminated Plan.

Effective April 28, 2005, the Company adopted the 2005 Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan provides for the granting of statutory incentive stock options within the meaning of Section 422 of the Internal Revenue Code as well as non-statutory stock options. The Incentive Plan authorized the initial issuance of options and stock awards to acquire up to 250,000 shares of common stock of the Company. The Incentive Plan provides that beginning with the annual meeting of the shareholders in 2006 and continuing for the next eight annual meetings, the aggregate number of shares of common stock that can be issued under the Incentive Plan will automatically be increased by a number of shares equal to the least of (1) 2% of the diluted shares outstanding, (2) 20,000 shares or (3) a lesser number of shares determined by the Compensation Committee of the Board. "Diluted shares outstanding" means the sum of (a) the number of shares of common stock outstanding on the date of the applicable annual meeting of shareholders, (b) the number of shares of common stock issuable on such date assuming all outstanding shares of preferred stock and convertible notes are then converted, and (c) the additional number of shares of common stock that would be outstanding as a result of any outstanding options or warrants during the fiscal year of such meeting using the treasury stock method. In 2006 the number of stock awards under this plan increased by 20,000.

Under the Incentive Plan, awards may be granted for a term of up to ten years from the effective date of grant. The Compensation Committee has the discretion as to the exercise date of any awards granted. The per-share exercise price of incentive stock options may not be less than the fair value of a share of common stock on the date the option is granted. The per-share exercise price of nonqualified stock options may not be less than 100% of the fair value of a share on the effective date of grant, as amended. Any options that expire unexercised or are canceled become available for reissuance. No awards may be granted more than ten years after the date the Incentive Plan was approved by the Board of Directors, which was September 24, 2004. At December 31, 2006, the Company had 110,700 awards available for grant under the Incentive Plan.

Vesting under the plan is discretionary based upon a determination by the Compensation Committee.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected life at the time of grant. Volatility is based on the average long-term implied volatilities of the Company using historical volatility as a guide. The expected life is based on previous option exercise experience. The following table illustrates the assumptions for the Black-Scholes model used in determining the fair value of options granted to employees for the years ended December 31, 2006, 2005 and 2004, respectively. The weighted-average grant-date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was \$4.78, \$4.04 and \$2.17, respectively.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Dividend yield	3.02%	3.00%	2.90%
Risk-free interest rate	4.81%	4.10%	3.40%
Volatility	12.50%	12.50%	12.50%
Expected life (years)	5.7	7.3	6.5

A summary of option activity under the stock option plans discussed above as of December 31, 2006, and changes during the twelve month period ended December 31, 2006, is presented below:

	<u>Options Available</u>	<u>Options Outstanding</u>	<u>Exercise Price Range</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 2005	135,700	248,209	\$ 6.83 – 27.50	\$ 19.51
Expired	(25,500)	—	—	—
Exercised	—	(19,091)	6.83 – 20.00	15.82
Authorized	20,000	—	—	—
Forfeited	2,000	(6,875)	9.58 – 27.50	21.83
Granted	(21,500)	21,500	23.00 – 26.50	25.33
Balance at December 31, 2006	<u>110,700</u>	<u>243,743</u>	\$ 6.83 – 27.50	\$ 18.71

The following table sets forth the exercise prices, the number of options outstanding and the number of options exercisable at December 31, 2006:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining (Years)	Number of Options Exercisable	Weighted Average Exercise Price
\$ 6.58 – 12.58	15,764	\$ 9.84	1.47	12,463	\$ 9.69
\$15.50 – 18.67	150,679	16.22	7.04	74,878	16.43
\$19.30 – 27.50	77,300	25.36	8.75	58,100	20.74
Total/ Wtd Avg	<u>243,743</u>	\$ 18.71	7.22	<u>145,441</u>	\$ 17.57

The following table sets forth information pertaining to the Company's exercisable options and options expected to vest:

	December 31, 2006
Aggregate intrinsic value of options	\$1,456,869
Aggregate intrinsic value of exercisable options	\$ 777,336
Weighted average remaining life of all options	7.22

The total intrinsic value of options exercised during the twelve month period ended December 31, 2006, 2005 and 2004 was approximately \$142,000, \$172,000 and \$1,000, respectively.

As of December 31, 2006, there was approximately \$284,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 3.37 years. The total fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was approximately \$72,000, \$300,000 and \$56,000, respectively. The deferred tax benefit related to non-incentive stock options was approximately \$2,200, \$1,600 and \$0 for years ended December 31, 2006, 2005 and 2004, respectively.

Cash received from option exercises under all share-based payment arrangements for the year ended December 31, 2006 was approximately \$302,000. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled approximately \$19,000 for the year ended December 31, 2006.

The adoption of SFAS 123R and its fair value compensation cost recognition provisions are different from the nonrecognition provisions under SFAS 123 and the intrinsic value method for compensation cost allowed APB 25.

The effect of the adoption of SFAS 123R is as follows:

	Year Ended December 31, 2006
Income before income tax expense	\$ (72,000)
Net income	\$ (70,000)
Cash flow from operating activities	\$ (19,000)
Cash flow from financing activities	\$ 19,000
Basic earnings per share	\$ (.03)
Diluted earnings per share	\$ (.03)

For purposes of disclosures pursuant to SFAS No. 123, the estimated fair value of the options is amortized to expense over the options' vesting period using the straight line method. The following table illustrates the effect on net income available to common stockholders if the Company had applied the fair value recognition provisions of SFAS No. 123 with respect to the years ended December 31, 2005 and 2004.

	Year Ended December 31	
	(000's) Except Per Share Data	
	2005	2004
Net income, as reported	\$ 2,795	\$ 2,560
Add: Stock-based employee compensation expense included in reported net income, net of related income tax effects	24	—
Less: Stock-based employee compensation expense determined under fair value based method of all awards, net of related income tax effects	(282)	(29)
Proforma net income	<u>\$ 2,537</u>	<u>\$ 2,531</u>
Earnings per share - basic, as reported	<u>\$ 1.14</u>	<u>\$ 1.05</u>
Earnings per share - diluted, as reported	<u>\$ 1.12</u>	<u>\$ 1.05</u>
Earnings per share - basic, proforma	<u>\$ 1.07</u>	<u>\$ 1.04</u>
Earnings per share - diluted, proforma	<u>\$ 1.05</u>	<u>\$ 1.03</u>

Non-Qualified Plans—The Company has established certain non-qualified benefit plans for certain key executive officers and directors. The benefits under the plans are computed and payable under certain terms as specified in each agreement. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of each agreement until the initial payments are made at the normal retirement dates. Compensation expense related to these plans of approximately \$142,000, \$221,000 and \$109,000 was recorded during fiscal years 2006, 2005 and 2004, respectively. The total liability under these plans was approximately \$881,000 at December 31, 2006 and is included in other liabilities in the accompanying consolidated balance sheets.

The Bank has purchased and is the owner and beneficiary of certain life insurance policies that will be used to finance the benefits under these agreements. Income earned on the life insurance policies, which is exempt from federal and state income tax, of approximately \$188,000, \$174,000 and \$137,000 for the years ended December 31, 2006, 2005 and 2004, respectively, is included in other income.

13. Income Taxes

The components of the provision for income taxes are as follows:

	2006	2005	2004
Current income tax expense:			
State	\$ 155,500	\$ 149,000	\$ 118,000
Federal	<u>1,120,455</u>	<u>796,165</u>	<u>501,632</u>
	1,275,955	945,165	619,632
Deferred Federal income tax expense (benefit)	<u>16,000</u>	<u>(189,942)</u>	<u>35,925</u>
Provision for income taxes	<u>\$1,291,955</u>	<u>\$ 755,223</u>	<u>\$655,557</u>

The provision for income taxes differs from the amount of income tax computed at the federal statutory rate due to the following:

	2006		2005		2004	
	Amount	Percent of Income Before Tax	Amount	Percent of Income Before Tax	Amount	Percent of Income Before Tax
Income before taxes	<u>\$4,444,761</u>		<u>\$3,549,776</u>		<u>\$ 3,215,243</u>	
Tax statutory rate	\$1,511,000	34.0%	\$1,207,000	34.0%	\$ 1,093,000	34.0
Tax effect of:						
Federally tax exempt interest income	(297,000)	(6.7)	(302,000)	(8.5)	(474,000)	(14.7)
State taxes, net of federal benefit	103,000	2.3	98,000	2.8	78,000	2.4
Reversal of valuation allowance	—	—	(130,5000)	(3.7)	—	—
Other - net	(25,045)	(.6)	(117,277)	(3.3)	(41,443)	(1.3)
Income tax provision	<u>\$1,291,955</u>	<u>29.1%</u>	<u>\$ 755,223</u>	<u>21.3%</u>	<u>\$ 655,557</u>	<u>20.4%</u>

Deferred tax assets are included in other assets and consist of the following:

	December 31,	
	2006	2005
Deferred tax assets:		
Bad debts	\$ 473,000	\$ 361,000
Investment securities	84,046	122,946
Deferred compensation	666,000	534,000
Other	—	49,300
	<u>1,223,046</u>	<u>1,067,246</u>
Deferred tax liabilities:		
Depreciation	145,000	142,000
Prepaid expenses	123,000	142,000
Other	20,961	—
	<u>288,961</u>	<u>284,000</u>
Net deferred tax asset	<u>\$ 934,085</u>	<u>\$ 783,246</u>

During 2006, a reclassification of \$73,954 from deferred tax assets to current taxes receivable was made to record the utilization of the AMT credits. On January 1, 2006, the Company recorded an adjustment to beginning retained earnings related to interest rate swap (See Note 21). The tax impact of approximately \$279,000 was recorded as a deferred tax asset on that date. In December 2006, this amount was reclassified to current taxes in conjunction with the sale of the interest rate swap contracts.

14. Other Noninterest Income

Other noninterest income for the years ended December 31, 2006, 2005 and 2004 consist of the following:

	2006	2005	2004
Earnings on life insurance policies	\$ 187,737	\$ 173,859	\$136,642
Card service income	242,650	168,802	133,589
Safe deposit box rental	21,146	20,363	19,725
Investment services	508,920	410,798	281,964
Other fees	364,303	358,116	203,601
	<u>\$1,324,756</u>	<u>\$1,131,938</u>	<u>\$775,521</u>

15. Other Noninterest Expenses

Other noninterest expense for the years ended December 31 consists of the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Loan department expenses	\$ 160,472	\$ 146,618	\$131,477
General operating expenses	512,962	468,018	412,291
Educational expenses	68,064	63,971	41,591
Credit card expense	127,103	109,344	116,305
Travel and entertainment	119,193	99,240	70,974
Telephone expense	128,216	92,277	76,112
Internet banking expense	150,059	78,448	73,870
Other expense	130,682	35,922	45,045
	<u>\$ 1,396,751</u>	<u>\$ 1,093,838</u>	<u>\$967,665</u>

16. Transactions with Directors and Executive Officers

Our directors and executive officers are customers of and had transactions with the Bank in the ordinary course of business. Included in such transactions are outstanding loans and commitments, all of which were made on comparable terms, including interest rate and collateral, as those prevailing at the time for our other customers and did not involve more than normal risk of collectibility or present other unfavorable features.

Aggregate loan transactions with these related parties are as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning	\$5,811,253	\$4,596,992
Advances	223,611	2,128,719
Repayments	(823,877)	(914,458)
Other	(430,500)	—
Balance, ending	<u>\$4,780,487</u>	<u>\$5,811,253</u>

Other includes prior directors' and executive officers' loan transactions and closed or reduced lines of credit.

Included in the balances outstanding are directors and executive officers available unused lines of credit totaling approximately \$1,261,000 and \$1,749,000 at December 31, 2006 and 2005, respectively.

The Company has an unfunded Deferred Compensation Plan which allows electing directors to annually defer directors' fees, which are then eligible for various future payment plans as chosen by the director. The Deferred Compensation Plan, which was revised effective January 1, 2007, provides for a two-tiered deferred compensation system as follows:

	<u>Tier Level</u>	<u>Maximum Deferral Amount</u>	<u>Interest Rate</u>	<u>Interest Rate Floor</u>	<u>Interest Rate Ceiling</u>
(1) (2)	One	\$9,000	80% ROAE	5%	10%
(2)	Two	> \$9,000	Prime -3%	None	None

(1) ROAE represents return on average equity of the Company for the previous year.

(2) Upon attaining age 65, a director may no longer defer any fees. Fees previously deferred will continue to earn interest after age 65 as provided for by the respective tiers.

All fees deferred prior to January 1, 2007 are treated as Tier 1. Deferrals, including interest, under the Plan during 2006, 2005 and 2004, totaled approximately \$225,000, \$173,000 and \$153,000, respectively.

17. Employment Agreement

The Company has entered into employment agreements with certain key executive officers to ensure a stable and competent management base. The agreements provide for benefits as spelled out in the contracts and can be terminated by the Board of Directors with 180 days written notice, or can be terminated immediately for cause. In the event of a change in control of Company, as outlined in the agreements, the acquirer will be bound to the terms of the contracts.

18. Regulatory Matters

Dividends — The Bank's ability to pay cash dividends to the Holding Company is restricted by state banking regulations to the amount of the Bank's retained earnings and statutory capital requirements. At December 31, 2006, the Bank's retained earnings were approximately \$9,812,000.

Capital Requirements — The Holding Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require maintaining minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2006, that all capital adequacy requirements are met to which the Holding Company and Bank are subject.

As of December 31, 2006, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed that category. The actual capital amounts (in thousands) and ratios and minimum regulatory amounts (in thousands) and ratios are presented as follows:

Bank:	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Minimum		Minimum	
			Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total risk-based capital (to risk-weighted assets)	\$33,819	12.3%	\$22,036	8.0%	\$ 27,545	10.0%
Tier 1 Capital (to risk weighted assets)	\$32,018	11.6%	\$11,018	4.0%	\$ 16,527	6.0%
Tier 1 capital (to average assets)	\$32,018	9.2%	\$13,914	4.0%	\$ 17,393	5.0%
As of December 31, 2005						
Total risk-based capital (to risk-weighted assets)	\$28,038	12.2%	\$18,401	8.0%	\$ 23,002	10.0%
Tier 1 Capital (to risk weighted assets)	\$26,632	11.6%	\$ 9,201	4.0%	\$ 13,801	6.0%
Tier 1 capital (to average assets)	\$26,632	9.1%	9,374	4.0%	\$ 11,718	5.0%

The Holding Company is also subject to certain capital requirements. At December 31, 2006 the Tier 1 risk-based capital ratio, Tier 1 capital ratio and the total risk based capital ratio were 11.2%, 8.9% and 12.9%, respectively.

The Bank is required by the Federal Reserve Bank to maintain average cash reserve balances at the Federal Reserve Bank and in working funds based upon a percentage of deposits. The required amount of these reserve balances at December 31, 2006 was approximately \$100,000.

19. Fair Value of Financial Instruments

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of fair value information, whether or not recognized in the balance sheet, when it is practicable to estimate the fair value. SFAS 107 defines a financial instrument as cash, evidence of an ownership interest in an entity, or contractual obligations that require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including common stock, premises and equipment, real estate held for sale and other assets and liabilities. The following methods and assumptions were used in estimating fair values of financial instruments:

- Fair value approximates carrying amount for cash and due from banks due to the short-term nature of the instruments.
- Investment securities are valued using quoted fair market prices.
- Fair value for variable rate loans that re-price frequently and for loans that mature in less than one year is based on the carrying amount. Fair value for mortgage loans, personal loans and all other loans (primarily commercial) is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate the rates currently offered for similar loans of comparable terms and credit quality.
- Due to the redemptive provisions of the restricted stock, fair value equals cost. The carrying amount is adjusted for any other than temporary declines in value.
- The carrying amount for the cash surrender value of life insurance is a reasonable estimate of fair value.
- The carrying value for accrued interest receivable and payable is a reasonable estimate of fair value.
- Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying amount. Certificate of deposit accounts maturing within one year are valued at their carrying amount. Certificate of deposit accounts maturing after one year are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.
- Fair value for federal funds sold and purchased and repurchase agreements is based on the carrying amount since these instruments typically mature within three months from the transaction date.
- Fair value for variable rate long-term debt that re-prices frequently is based on the carrying amount. Fair value for fixed rate debt is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate rates currently offered for similar debt instruments.
- Fair values for derivatives are based on the present value of future cash flows based on the interest rate spread between the fixed rate and the floating rate.

Management uses its best judgment in estimating fair value based on the above assumptions. Thus, the fair values presented may not be the amounts that could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses that would be incurred in an actual sale or settlement are not taken into consideration in the fair values presented. The estimated fair values of the Company's financial instruments are as follows:

	December 31,			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	\$ 11,690,543	\$ 11,690,543	\$ 6,798,593	\$ 6,798,593
Investment securities	83,766,691	82,975,534	78,024,825	77,076,630
Loans - net	244,056,635	241,898,123	197,586,904	196,504,555
Restricted stock	3,948,914	3,948,914	3,508,814	3,508,814
Accrued interest receivable	2,298,855	2,298,855	1,615,435	1,615,535
Bank owned life insurance	5,144,662	5,144,662	4,956,924	4,956,924
Derivatives	20,520	20,520	—	—
Financial liabilities				
Deposits	\$240,287,891	\$240,236,111	\$199,186,721	\$198,908,961
Federal funds purchased	5,317,000	5,317,000	1,931,000	1,931,000
Repurchase agreements	8,854,875	8,854,875	8,588,767	8,588,767
Notes payable to FHLB	66,513,514	66,823,045	58,847,043	59,990,902
Junior subordinated debentures	11,341,000	11,341,000	6,186,000	6,186,000
Accrued interest payable	2,245,541	2,245,541	1,392,901	1,392,901
Derivatives	—	—	820,524	820,524

20. Derivatives

The Bank used interest rate swap contracts to hedge fixed rate Federal Home Loan Bank advances in 2004, 2005 and 2006 until the sale of the fair value derivative instruments in December 2006. The change in fair value recognized into earnings as a component of noninterest income from 1/1/06 through the date of adoption of SAB 108 was \$51,961. There was no gain or loss on the sale of the fair value derivative instruments. The Bank also purchased an interest rate floor in January 2006 to be used as a hedge for approximately \$50 million in prime-based loans. The interest rate swap contracts provided for the Bank to make payments at a variable rate determined by a specified index (three month LIBOR) in exchange for receiving payments at a fixed rate of 3.18%. During 2006, 2005 and 2004 the Bank recognized approximately (\$267,000), (\$17,000) and \$246,000, respectively, as an (increase) reduction of interest expense on Federal Home Loan Bank Advances as a result of the use of these contracts. See Note 21.

At December 31, 2005, the information pertaining to the then outstanding interest rate swaps used to hedge fixed rate borrowings is as follows:

Notional amount	\$14,000,000
Weighted average fixed (receive) rate	3.18%
Weighted average variable (pay) rate	3.30%
LIBOR rate at year end	4.54%
Weighted average maturity in years	4.31 years
Unrealized loss relating to interest rate swaps at year end	\$ (820,524)

Although on-balance sheet derivative financial instruments do not expose the Company to credit risk equal to the notional amount, such agreements generate credit risk to the extent of any fair value gain in an on-balance sheet derivative financial instrument if the counterparty fails to perform. Such risk is minimized through the creditworthiness of the counterparties and the consistent monitoring of these agreements.

21. Adoption of Staff Accounting Bulletin Number 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 was issued in order to eliminate the diversity of practice surrounding public companies' quantifying financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the "rollover" method and the "iron curtain" method. The roll-over method focuses primarily on the impact of a misstatement on the income statement including the reversing effect of prior year misstatements. But its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. We have previously used the rollover method for quantifying identified financial statement misstatements.

SAB 108 establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the iron curtain and the rollover methods.

SAB 108 permits public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been used or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings.

The Company adopted SAB 108 during the quarter ended December 31, 2006 and elected to use the cumulative effect transition method in connection with the preparation of the consolidated financial statements for the year ended December 31, 2006. The following table summarizes the effects (up to January 1, 2006) of applying the guidance in SAB 108.

	Period in Which the Misstatement Originated (1)			Adjustment Recorded as of January 1
	2003	2004	2005	2006
Interest rate swap (2)	\$(197)	\$(213)	\$(411)	\$ (821)
Income tax effect of misstatement (3)	67	72	140	279
Impact on net income	\$(130)	\$(141)	\$(271)	\$ —
Retained earnings (4)				\$ (542)

(1) The error was previously evaluated under the rollover method and concluded it was immaterial.

(2) The interest rate swaps were incorrectly accounted for using hedge accounting. As a result, interest rate swap valuation expense was understated \$197,290, \$212,545 and \$410,889, for the years ended December 31, 2003, 2004 and 2005, respectively.

(3) As a result of the misstatement described, the provision for income taxes was overstated \$67,079, \$72,265 and \$139,702 for the years ended December 31, 2003, 2004 and 2005, respectively.

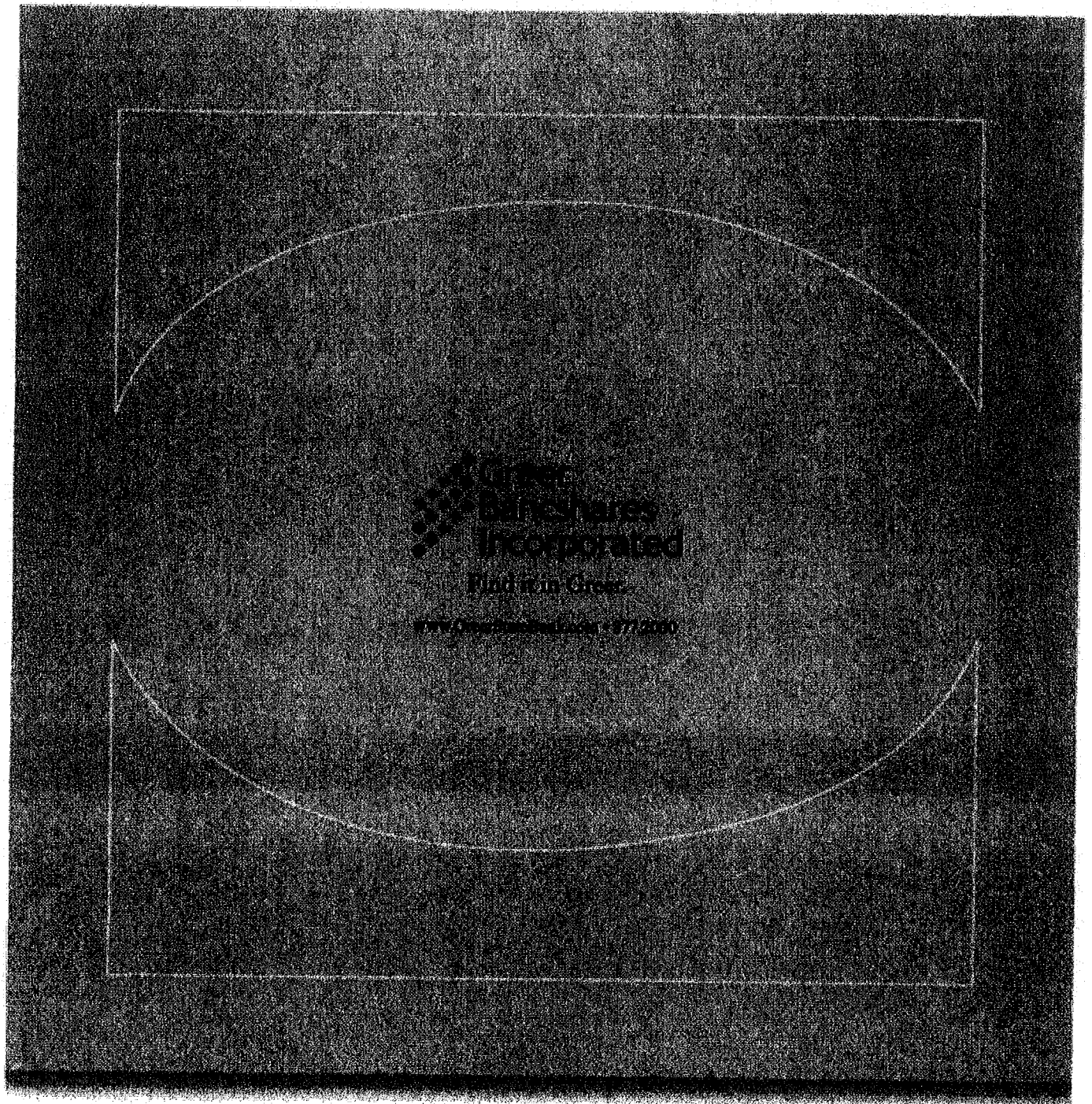
(4) Represents the net reduction to retained earnings recorded as of January 1, 2006 to record the initial application of SAB 108.

22. Condensed Parent Company Financial Information

The following condensed financial information for Greer Bancshares Incorporated (Parent Company only) should be read in conjunction with the consolidated financial statements and the notes thereto.

Parent Company Only Condensed Balance Sheets	December 31		
	2006	2005	
Assets:			
Cash and cash equivalents	\$ 86,173	\$ 316,584	
Investment in Trusts	341,000	186,000	
Equity in net assets of Bank subsidiary	31,884,994	26,435,348	
Taxes receivable	231,391	260,690	
Premises and equipment	1,439,499	633,828	
Other assets	416,468	—	
Total assets	<u>\$34,399,525</u>	<u>\$27,832,450</u>	
Liabilities and stockholders' equity:			
Liabilities:			
Junior subordinated debentures	\$11,341,000	\$ 6,186,000	
Interest payable	101,839	82,140	
Other liabilities	414,458	—	
Total liabilities	11,857,297	6,268,140	
Stockholders' equity	22,542,228	21,564,310	
Total liabilities and stockholders' equity	<u>\$34,399,525</u>	<u>\$27,832,450</u>	
Parent Company Only Condensed Statements of Income	Year Ended December 31,		
	2006	2005	2004
Income:			
Lease income from Bank subsidiary	\$ 60,000	\$ 25,000	\$ —
Dividends from Bank subsidiary	2,588,748	1,764,545	1,693,161
Total income	2,648,748	1,789,545	1,693,161
Expenses:			
Interest on long-term borrowings	444,453	339,567	55,389
Noninterest expense	58,916	72,892	35,634
Total expenses	503,369	412,459	91,023
Income before taxes	2,145,379	1,377,086	1,602,138
Income tax benefit	(150,385)	(140,236)	(30,948)
Income before equity earnings	2,295,764	1,517,322	1,633,086
Equity in undistributed earnings of Bank subsidiary	857,042	1,277,231	926,600
Net income	<u>\$3,152,806</u>	<u>\$2,794,553</u>	<u>\$2,559,686</u>

Parent Company Only Condensed Statements of Cash Flows	Year Ended December 31,		
	2006	2005	2004
Operating activities:			
Net income	\$ 3,152,806	\$ 2,794,553	\$ 2,559,686
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity earnings of Bank subsidiary	(857,042)	(1,277,231)	(926,600)
Change in operating assets and liabilities	(366,422)	(70,478)	20,181
Net cash provided by operating activities	<u>1,929,342</u>	<u>1,446,844</u>	<u>1,653,267</u>
	Year Ended December 31,		
	2006	2005	2004
Investing Activities:			
Purchase of premises	\$ (561,629)	\$ —	\$ (623,828)
Construction in process	(244,042)	—	(49,653)
Proceeds from sale of construction in Process to Bank subsidiary	—	49,653	—
Investment in Bank subsidiary	(5,000,000)	—	(6,000,000)
Net cash used by investing activities	<u>(5,805,671)</u>	<u>49,653</u>	<u>(6,673,481)</u>
Financing Activities:			
Proceeds from the issuance of long-term debt	5,000,000	—	6,000,000
Cash dividends paid	(1,675,338)	(1,564,543)	(1,093,602)
Proceeds from exercise of stock options	302,101	258,302	128,782
Tax benefit from stock options exercised	19,155	—	—
Cash lieu of fractional shares on stock dividend	—	—	(4,865)
Net cash provided (used) by financing activities	<u>3,645,918</u>	<u>(1,306,241)</u>	<u>5,030,315</u>
Net increase (decrease) in cash and cash equivalents	<u>(230,411)</u>	<u>190,256</u>	<u>10,101</u>
Cash and cash equivalents beginning of year	<u>316,584</u>	<u>126,328</u>	<u>116,227</u>
Cash and cash equivalents at end of year	<u>\$ 86,173</u>	<u>\$ 316,584</u>	<u>\$ 126,328</u>
Non-cash investing and financing activities:			
Investment in trust	\$ 155,000	\$ —	\$ 186,000
Dividends payable	\$ (413,410)	\$ —	\$ —
Change in other comprehensive income	\$ 62,140	\$(1,034,096)	\$ (268,560)



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**THE ATTACHED INFORMATION CONSTITUTES A PORTION OF GREER
BANCSHARES INCORPORATED'S ANNUAL REPORT TO SHAREHOLDERS FOR
THE YEAR ENDED DECEMBER 31, 2006.**

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GREER BANCSHARES INCORPORATED

Selected Financial Data

The following table sets forth certain selected financial data concerning Greer Bancshares Incorporated. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations.

December 31,	2006	2005	2004	2003	2002
<i>(Dollars in Thousands, Except per Share Data)</i>					
SUMMARY OF OPERATIONS					
Interest and fee income	\$ 22,216	\$ 15,308	\$ 11,100	\$ 10,139	\$ 11,091
Interest expenses	10,592	6,210	3,849	3,618	4,132
Net interest income	11,624	9,098	7,251	6,521	6,959
Provision for loan losses	597	424	251	10	787
Net interest income after provision for loan losses	11,027	8,674	7,000	6,511	6,172
Noninterest income	2,340	2,457	2,224	1,902	2,805
Noninterest expense	10,214	8,336	6,664	6,181	6,454
Net income	\$ 3,153	\$ 2,795	\$ 2,560	\$ 2,232	\$ 2,523
PER SHARE DATA					
Earnings:					
Basic	\$ 1.28	\$ 1.14	\$ 1.05	\$ 0.92	\$ 1.05
Diluted	1.25	1.12	1.05	0.92	1.04
Dividends declared (including unpaid)	0.85	0.64	0.45	0.67	0.33
Book Value	9.12	8.79	8.65	7.68	7.53
Weighted average shares outstanding:					
Basic	2,462,688	2,442,078	2,428,833	2,415,803	2,404,306
Diluted	2,517,549	2,504,856	2,447,589	2,438,631	2,429,867
SELECTED ACTUAL YEAR END BALANCES					
Total assets	\$ 359,662	\$ 299,447	\$ 231,291	\$ 214,134	\$ 192,531
Loans	245,858	199,003	139,646	115,565	107,661
Allowance for loan losses	1,801	1,416	1,136	1,298	1,081
Available for sale securities	60,185	49,543	37,054	66,760	52,163
Held to maturity securities	23,581	28,482	35,474	17,263	14,607
Deposits	240,288	199,187	150,260	152,961	137,563
Borrowings	80,685	69,367	52,185	40,057	34,837
Subordinated debt	11,341	6,186	6,186	—	—
Stockholders' Equity	22,542	21,564	21,033	19,708	18,613
SELECTED AVERAGE BALANCES					
Assets	\$ 330,984	\$ 271,695	\$ 225,647	\$ 200,217	\$ 183,999
Deposits	227,269	172,189	157,179	140,310	133,359
Stockholders' Equity	21,153	20,389	19,872	18,398	16,243
FINANCIAL RATIOS					
Return on average assets	.95%	1.03%	1.14%	1.11%	1.37%
Return on average equity	14.90%	13.71%	12.88%	12.13%	15.53%
Average equity to average assets	6.40%	7.50%	8.86%	9.19%	8.83%
Dividend payout ratio	66.41%	56.14%	42.86%	72.83%	31.43%

GREER BANCSHARES INCORPORATED

<i>(Dollars in Thousands, Except per Share Data)</i>	2006 Quarter Ended				2005 Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Net interest income	\$3,029	\$3,002	\$2,919	\$2,674	\$2,615	\$2,388	\$2,116	\$1,979
Provision for loan losses	68	231	138	160	213	76	90	45
Noninterest income	592	617	566	565	749	550	494	664
Noninterest expense	2,141	2,302	2,262	2,217	2,015	1,996	1,826	1,744
Provision for income taxes	428	317	331	216	363	167	43	182
Net income	\$ 984	\$ 769	\$ 754	\$ 646	\$ 773	\$ 699	\$ 651	\$ 672
Basic earnings per share	\$.40	\$.31	\$.31	\$.26	\$ 0.31	\$ 0.28	\$ 0.27	\$ 0.28
Diluted earnings per share	\$.39	\$.31	\$.30	\$.25	\$ 0.30	\$ 0.28	\$ 0.26	\$ 0.28

Certain amounts in the 2005 quarters were reclassified to conform to other quarters. The reclassifications had no effect on net income as reported.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Description of the Company's Business

Greer State Bank (the "Bank") was organized under a state banking charter in August 1988, and commenced operations on January 3, 1989. Greer Bancshares Incorporated is a South Carolina corporation formed in July 2001, primarily to hold all of the capital stock of Greer State Bank. Greer Bancshares Incorporated and the Bank, its wholly-owned subsidiary, are herein referred to as the "Company." In October 2004 and December 2006, Greer Capital Trust I and Greer Capital Trust II (the "Trusts") were formed, respectively. The Trusts were formed as part of the process of the issuance of trust preferred securities. The Bank engages in commercial and retail banking, emphasizing the needs of small to medium businesses, professional concerns and individuals, primarily in Greer and surrounding areas in the upstate of South Carolina. The Company currently engages in no other business other than owning and managing the Bank and its "alternative investments" subsidiary, Greer Financial Services Corporation ("GFSC"), which offers securities exclusively through Raymond James Financial Services, Inc.

There were no significant changes to the Company's business in 2006.

Critical Accounting Policies

General

The financial condition and results of operations presented in the consolidated financial statements, the accompanying notes to the consolidated financial statements and this section are, to a large degree, dependent upon the Company's accounting policies. The selection and application of these accounting policies involve judgments, estimates and uncertainties that are susceptible to change. Those accounting policies that are believed to be the most important to the portrayal and understanding of the Company's financial condition and results of operations are discussed below. These critical accounting policies require management's most difficult, subjective and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of a materially different financial condition or results of operations is a reasonable likelihood.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting:

- Statement of Financial Accounting Standard ("SFAS") No. 5, *Accounting for Contingencies*, which requires that losses be accrued when they are probable of occurring and estimatable; and

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- SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The allowance for loan losses is based on management's ongoing evaluation of the loan portfolio and reflects an amount that in management's opinion is adequate to absorb probable losses in the existing portfolio. Additions to the allowance for loan losses are provided by charges to earnings. Loan losses are charges against the allowance when the ultimate uncollectibility of the loan balance is determined. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a monthly basis by management. The evaluation includes the periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, impairment and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, individual consumer and residential loans are not separately identified for impairment disclosures.

Results of Operations

This discussion and analysis is intended to assist the reader in understanding the financial condition and results of operations of Greer Bancshares Incorporated and its wholly-owned subsidiary, Greer State Bank. The commentary should be read in conjunction with the consolidated financial statements and the related notes and the other statistical information in this report.

The following discussion describes our results of operations for 2006 as compared to 2005 and 2005 compared to 2004. The Company's financial condition as of December 31, 2006 as compared to December 31, 2005 is also analyzed. Like most community banks, the Bank derives most of its income from interest received on loans and investments. The primary source of funds for making these loans and investments is deposits, of which interest is paid on approximately 88 percent. The Bank also utilizes Federal Home Loan Bank advances, federal funds purchased and reverse repurchase agreements for funding loans and investments. One of the key measures of success is net interest income, or the difference between the income on interest-earning assets, such as loans and investments, and the expense on interest-bearing liabilities, such as deposits and other borrowings. Another key measure is the spread between the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities.

A number of tables have been included to assist in the description of these measures. For example, the "Average Balances" table shows the average balances during 2006, 2005 and 2004 of each category of assets and liabilities, as well as the yield earned or the rate paid with respect to each category. A review of this table shows that loans typically provide higher interest yields than do other types of interest earning assets, resulting in management's intent to channel a substantial percentage of funding sources into the loan portfolio. Similarly, the "Rate/Volume Analysis" table demonstrates the impact of changing interest rates and the changing volume of assets and liabilities during the years shown. The sensitivity of various categories of assets and liabilities to changes in interest rates is also tracked as shown in the "Sensitivity Analysis Table." Finally, a number of tables have been included that provide detail about the Company's investment securities, loans, deposits and other borrowings.

There are risks inherent in all loans. Therefore, an allowance for loan losses is maintained to absorb probable losses on existing loans that may become uncollectible. The allowance is established and maintained by charging a provision

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for loan losses against operating earnings. A detailed discussion of this process is included, as well as tables, describing the allowance for loan losses.

In addition to earning interest on loans and investments, income is earned through fees and other expenses collected for services provided to customers. Various components of this noninterest income, as well as noninterest expense, are described in the following discussion.

The following discussion and analysis also identifies significant factors that have affected the financial position and operating results during the periods included in the accompanying financial statements. Therefore, this discussion and analysis should be read in conjunction with the consolidated financial statements and the related notes and the other statistical information also included in this report.

Year ended December 31, 2006 compared with year ended December 31, 2005

Net income for the year ended December 31, 2006 was \$3,152,806 or \$1.25 per diluted share, compared to \$2,794,553, or \$1.12 per diluted share for the year ended December 31, 2005, which was an increase of \$358,253 or 12.8%. The improvement in net income was primarily the result of continued growth in the Bank's loan portfolio. Net interest income increased \$2,525,918 or 27.8%, to \$11,623,977 for the year ended December 31, 2006. Noninterest income decreased \$116,650, or 4.7%, to \$2,340,003 for the year ended December 31, 2006. This decrease in noninterest income was primarily due to a decrease in the gain on sale of investment securities. Noninterest expenses increased \$1,341,477, or 17.7%, primarily due to an increase of \$806,476, or 17.4%, in salaries and benefits. The increase in salaries and benefits related primarily to the addition of five full-time equivalent employees during 2006 which were needed to support growth of \$60,215,441 in the Company's total assets, combined with annual salary adjustments for existing employees.

Year ended December 31, 2005 compared with year ended December 31, 2004

Net income for the year ended December 31, 2005 was \$2,794,553 or \$1.12 per diluted share, compared to \$2,559,686, or \$1.05 per diluted share for the year ended December 31, 2004, which was an increase of \$234,867, or 9.2%. The improvement in net income was primarily the result of continued growth in the Bank's loan portfolio. Net interest income increased \$1,847,909 or 25.5%, to \$9,098,059 for the year ended December 31, 2005. Noninterest income also increased \$232,873, or 10.5%, to \$2,456,653 for the year ended December 31, 2005. Noninterest expenses increased \$1,573,055, or 26.2%, primarily due to an increase of \$1,197,931, or 34.8%, in salaries and benefits. The increase in salaries and benefits related to the addition of sixteen full-time equivalent employees during 2005 due to an increase in the Company's total assets of \$68,978,065, combined with annual salary adjustments. Eight of the sixteen additional employees were employed to staff the new Taylors Office.

Net Interest Income

Net interest income, the difference between interest earned and interest paid, is the largest component of the Company's earnings and changes in that area have the greatest impact on net income. Variations in the volume and mix of assets and liabilities and their relative sensitivity to interest rate movements determine changes in net interest income. Interest rate spread and net interest margin are two significant elements in analyzing net interest income. Interest rate spread is the difference between the yield on average earning assets and the rate on average interest bearing liabilities. Net interest margin is calculated as net interest income divided by average earning assets.

Net interest income increased from \$9,098,059 for the year ended December 31, 2005 to \$11,623,977 for the year ended December 31, 2006. The increase in net interest income of \$2,525,918 or 27.8% was the result of the significant growth in the loan portfolio experienced during 2006, as well as an increase in lending rates. During 2006, the Federal Open Market Committee raised the federal funds rate four times for a total of 100 basis points. The prime lending rate, which generally moves up and down with changes in the federal funds rate, also increased 100 basis points during the year. At December 31, 2006, the Bank had approximately \$132 million in loans indexed to the Wall Street Journal prime rate. The Bank's loan portfolio increased by approximately \$46.5 million, or 23.5%, during 2006, which contributed to an increase of approximately \$6,926,000 in interest income on loans. Increases in interest rates during the last half of 2005 and the first half of 2006 also directly affected the increase in interest income.

Net interest income increased from \$7,250,150 for the year ended December 31, 2004 to \$9,098,059 for the year ended December 31, 2005. The increase in net interest income of \$1,847,909 or 25.5% was the result of the significant growth

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in the loan portfolio experienced during 2005, as well as an increase in lending rates. During 2005, the Federal Open Market Committee raised the federal funds rate eight times for a total of 200 basis points. The prime lending rate also increased 200 basis points during the year. At December 31, 2005, the Bank had approximately \$122 million in loans indexed to the Wall Street Journal prime rate. The Bank's loan portfolio increased by approximately \$59.3 million, or 42.5%, during 2005, which contributed to an increase of approximately \$4,208,000 in interest income on loans. The increase in the loan portfolio was due to continued improvements in the economy and the addition of four lending officers during 2005.

The following table sets forth for the periods indicated, the weighted-average yields earned, the weighted-average yields paid, the net interest spread and the net interest margin on earning assets. The table also indicates the average monthly balance and the interest income or expense by specific categories.

Average Balances, Income, Expenses, and Rates

Year Ended December 31, (Dollars in Thousands)	2006			2005			2004		
	Average Balance	Income/ Expense	Yield/ Rate (2)	Average Balance	Income/ Expense	Yield/ Rate (2)	Average Balance	Income/ Expense	Yield/ Rate (2)
Assets:									
Interest Earning Assets:									
Taxable Investments	\$ 57,036	\$ 2,619	4.59%	\$ 59,317	\$ 2,468	4.16%	\$ 51,253	\$ 2,005	3.91%
Non-Taxable Investments	20,703	908	6.79%	21,995	985	6.95%	32,720	1,441	6.83%
Int. Bearing Deposits in other banks	803	33	4.11%	2,219	64	2.88%	1,402	16	1.14%
Federal Funds Sold	658	34	5.17%	3,578	96	2.68%	1,748	22	1.26%
Loans (1)	229,467	18,621	8.11%	161,909	11,695	8.04%	124,170	7,615	6.15%
Total Interest Earning Assets	308,667	22,215	7.36%	249,018	15,308	6.89%	211,293	11,099	5.64%
Other noninterest-earning assets	22,317			17,564			14,354		
Total Assets	\$330,984			\$266,582			\$225,647		
Liabilities and Stockholder's Equity									
Interest Bearing Liabilities:									
NOW Accounts	\$ 36,908	50	0.14%	\$ 29,864	32	0.11%	\$ 34,832	139	0.40%
Money Market and Savings	35,434	1,141	3.22%	29,566	684	2.31%	27,720	378	1.36%
Time Deposits	124,217	5,463	4.40%	81,948	2,511	3.06%	68,641	1,583	2.31%
Federal Funds Purchased	1,861	98	5.27%	1,261	47	3.73%	922	19	2.06%
Repurchase Agreements	8,684	467	5.38%	4,716	172	3.65%	—	—	—
FHLB Borrowings	60,662	2,928	4.83%	58,850	2,424	4.12%	44,396	1,675	3.77%
Other Long Term Debt	6,200	444	7.16%	6,186	340	5.50%	1,331	55	4.13%
Total Interest Bearing Liabilities	273,966	10,591	3.87%	212,391	6,210	2.92%	177,842	3,849	2.16%
Noninterest-Bearing Liabilities:									
Demand Deposits	30,710			30,811			25,893		
Other Liabilities	5,155			2,531			2,040		
Total Noninterest-Bearing Liabilities	35,865			33,342			27,933		
Total Liabilities	309,831			245,733			205,775		
Stockholders' Equity	21,153			20,849			19,872		
Total Liabilities and Stockholders' Equity	\$330,984			\$266,582			\$225,647		
Net Interest Spread			3.49%			3.97%			3.48%
Net Interest Income		\$11,624			\$ 9,098			\$ 7,250	
Net Interest Yield			3.93%			3.79%			3.69%

(1) The effect of loans in nonaccrual status and fees collected is not significant to the computations. All loans and deposits are domestic.

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(2) All yields/rates are computed on a tax equivalent basis at a federal tax rate of 34%.

The following table sets forth the effect that the varying levels of earning assets and interest-bearing liabilities and the changes in applicable rates have had on changes in net interest income during the periods indicated. The net changes in net interest income in this expand the differences in net interest income in the previous table, "Average Balances, Income, Expenses, and Rates."

Analysis of Changes in Net Interest Income

Year Ended December 31, <i>(Dollars in Thousands)</i>	2006 Compared with 2005			2005 Compared with 2004		
	Variance Due to			Variance Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Taxable Investments	\$ (95)	\$ 246	\$ 151	\$ 315	\$ 148	\$ 463
Non-Taxable Investments	(58)	(19)	(77)	(472)	16	(456)
Interest-Bearing Deposits in other banks	(41)	10	(31)	9	39	48
Federal Funds Sold	(78)	16	(62)	23	51	74
Loans	<u>4,880</u>	<u>2,046</u>	<u>6,926</u>	<u>2,315</u>	<u>1,765</u>	<u>4,080</u>
Total	4,608	2,299	6,907	2,190	2,019	4,209
Interest Expense:						
NOW Accounts	(2)	20	18	(20)	(87)	(107)
Money Market and Savings	136	321	457	25	281	306
Time Deposits	1,295	1,657	2,952	307	621	928
Federal Funds Purchased	22	29	51	7	21	47
Repurchase Agreements	145	150	295	172	—	172
FHLB Borrowings	75	429	504	545	204	749
Other Long Term Debt	<u>1</u>	<u>103</u>	<u>104</u>	<u>201</u>	<u>84</u>	<u>285</u>
Total	\$1,672	\$2,709	\$4,381	\$1,237	\$1,124	\$2,361
Net Interest Income	<u>\$2,936</u>	<u>\$ (410)</u>	<u>\$2,526</u>	<u>\$ 953</u>	<u>\$ 895</u>	<u>\$1,848</u>

(1) The rate/volume variances (change in volume times change in rate) have been allocated to the change attributable to rate.

The Company monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on its net interest income. The principal monitoring technique employed by the Company is the use of an interest rate risk management model which measures the effects that movements in interest rates will have on net interest income and the present value of equity. Included in the interest rate risk management reports generated by the model is a report that measures interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates.

The table included above shows the changes in interest income and expense during 2006 and 2005, and allocates the appropriate amount of income or expense to changes in rate or changes in volume. In 2006 interest income increased by approximately \$6,907,000 and interest expense increased by approximately \$4,381,000, which resulted in an increase of approximately \$2,526,000 in net interest income. The increase in interest income is attributable to increases in the volume and rate. The increase in interest income due to the increase in volume was slightly offset by increased interest

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expense due to an increase in rates paid on interest bearing liabilities. Earning assets increased in 2006 by approximately \$52,810,000, and interest-bearing liabilities increased by approximately \$57,772,000. Market interest rates increased during 2006 as the Federal Open Market Committee increased its target for the federal funds rate by a total of 100 basis points. Interest rate increases accounted for \$2,299,000 of the increase in interest income and \$2,709,000 of the increase in interest expense.

In 2005 interest income increased by approximately \$4,209,000 and interest expense increased by approximately \$2,361,000, which resulted in an increase of approximately \$1,848,000 in net interest income. The increases in both interest income and interest expense were due to the increases in volume and rate during the year. Earning assets increased in 2005 by approximately \$63,903,000, and interest-bearing liabilities increased by approximately \$58,240,000. Market interest rates increased during 2005 as the Federal Open Market Committee increased its target for the federal funds rate by a total of 200 basis points. Interest rate increases accounted for \$2,019,000 of the increase in interest income and \$1,124,000 of the increase in interest expense.

The following table presents the Company's rate sensitivity at each of the time intervals indicated as of December 31, 2006. The table may not be indicative of the Company's rate sensitivity position at other points in time.

Interest Rate Sensitivity Analysis

December 31, 2006 <i>(Dollars in thousands)</i>	Three Months or Less	After Three Months Through Twelve Months	After One Year Through Five Years	After Five Years	Totals
Interest earning assets:					
Federal Funds Sold	\$ —	\$ —	\$ —	\$ —	\$ —
Interest bearing due from banks	776	—	—	—	776
Investment securities	4,595	7,071	32,222	39,879	83,767
Loans	128,298	37,102	72,573	7,885	245,858
Total interest earning assets	133,669	44,173	104,795	47,764	330,401
Cumulative interest earning assets	\$133,669	\$ 177,842	\$282,637	\$330,401	\$330,401
Interest bearing liabilities:					
Certificates of deposit	37,671	77,934	9,082	—	124,687
IRA's	2,515	4,710	5,545	—	12,770
Money Market Accounts	1,420	10,128	21,642	—	33,190
Transaction Accounts	—	448	22,281	11,195	33,924
Savings Accounts	487	1,460	2,006	1,947	5,900
Reverse Repurchase	8,855	—	—	—	8,855
Fed Funds Purchased	5,317	—	—	—	5,317
FHLB Advances	15,514	6,000	31,000	14,000	66,514
Other Long Term Debt	—	—	—	11,341	11,341
Total interest bearing liabilities	71,779	100,680	91,556	38,483	302,498
Cumulative interest bearing liabilities	\$ 71,779	\$ 172,459	\$264,015	\$302,498	\$302,498
Gap Analysis:					
Interest sensitivity gap	\$ 61,890	\$ (56,507)	\$ 13,239	\$ 9,281	\$ 27,903
Cumulative interest sensitivity gap	\$ 61,890	\$ 5,383	\$ 18,622	\$ 27,903	\$ 27,903
Cumulative gap ratio of interest earning assets to interest bearing liabilities	186%	103%	107%	109%	109%

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The above table reflects the balances of interest-earning assets and interest-bearing liabilities at the earlier of their repricing or maturity dates. Overnight federal funds are reflected at the earliest pricing interval due to the immediate availability of the instruments. Debt securities are reflected at each instrument's ultimate maturity date. Scheduled payment amounts of fixed rate amortizing loans are reflected at each scheduled payment date. Scheduled payment amounts of variable rate amortizing loans are reflected at each scheduled payment date until the loan may be repriced contractually; the unamortized balance is reflected at that point. Interest-bearing liabilities with no contractual maturity, such as savings deposits and interest-bearing transaction accounts, are reflected in the repricing period indicated by appropriate historical data. Due to contractual arrangements, the Company has the opportunity to vary the rates paid on those deposits within a thirty-day or shorter period; however, historically rates on these types of deposits have not been immediately adjusted. When adjustments have been made to rates on savings and transaction accounts in the past, the adjustments have been only a fraction of the movement in overnight rates. Fixed rate time deposits, principally certificates of deposit, are reflected at their contractual maturity date. Securities sold under agreements to repurchase mature on a 90 day basis and are reflected in the earliest pricing period. Advances from Federal Home Loan Bank are reflected at their contractual maturity date.

The Company generally would benefit from increasing market rates of interest when it has an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when it is liability-sensitive. The Company's cumulative interest sensitivity gap position indicates it is asset-sensitive over the periods presented. However, gap analysis is not a precise indicator of interest rate sensitivity. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. The analysis also does not consider any options relating to assets and liabilities (such as floors, ceilings, calls, etc.). Since gap analysis is not a precise indicator of interest rate sensitivity, management uses the Risk Analytics Interest Rate Risk Management Model. The model calculates the effects of interest rate movements on net interest income, and considers all characteristics of the Company's assets and liabilities, based on assumptions made by management.

Provision for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem credits. On a quarterly basis, the Bank's Board of Directors reviews and approves the appropriate level for the Bank's allowance for loan losses based upon management's recommendations and the results of the internal monitoring and reporting system. Management also monitors historical statistical data for both the Bank and other financial institutions. The adequacy of the allowance for loan losses and the effectiveness of the monitoring and analysis system are also reviewed by the Bank's regulators and the Company's internal auditor.

Additions to the allowance for loan losses, which are expensed as the provision for loan losses on our income statement, are made as needed to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. Loan losses and recoveries are charged or credited directly to the allowance. The amount of the provision is a function of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, the amount of loan losses actually charged against the reserve during a given period, and current and anticipated economic conditions. During 2006, the Bank provided \$597,000 for loan losses, raising the balance to \$1,801,287 December 31, 2006 after charging off current year net bad debts of \$211,610. The reserve for loan losses was approximately .73% and .71% of total loans on December 31, 2006 and 2005, respectively. Non-performing loans (i.e., loans ninety days or more past due and loans on non-accrual status) as a percentage of average assets increased from December 31, 2005 to December 31, 2006 from .18% to .26%. The Company's loan loss reserve model indicated the reserve was adequate at December 31, 2006.

The Bank's allowance for loan losses is based upon judgments and assumptions of risk elements in the portfolio, future economic conditions and other factors affecting borrowers. The process includes identification and analysis of loss potential in various portfolio segments utilizing a credit risk grading process and specific reviews and evaluations of significant problem credits. In addition, management monitors the overall portfolio quality through observable trends in delinquencies, charge-offs and general conditions in the market area.

Based on present information and ongoing evaluation, management considers the allowance for loan losses to be adequate to meet presently known and inherent risks in the loan portfolio. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions about future events that it believes to be reasonable, but which may or may not prove to be accurate. Actual losses will undoubtedly vary from the estimates. Also, there is a possibility that

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charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required. The Company does not allocate the allowance for loan losses to specific categories of loans but evaluates the adequacy on an overall portfolio basis utilizing a risk grading system.

Noninterest Income

Noninterest income for the year ended December 31, 2006 was \$2,340,003 compared to \$2,456,653 for the year ended December 31, 2005, a decrease of \$116,650 or 4.7%. Service charges and customer service fees relating to deposit accounts, which declined from \$982,321 for the year ended December 31, 2005, to \$936,978 for the year ended December 31, 2006, were the most significant portion of noninterest income. The majority of the decline in customer service fees was due to a decline of \$80,803 in non-sufficient funds fees, which was partially offset by increases in business account service charges. Gains on the sale of investment securities were \$342,394 in 2005, compared to \$78,269 in 2006. Investment securities were sold to help fund the significant growth in the loan portfolio experienced during 2005. The loan growth in 2006 was funded primarily by increased deposits. Other operating income, which is included in total non-interest income, increased from \$1,131,938 in 2005 to \$1,324,756 in 2006. The largest component of other operating income is income from the Bank's financial management services subsidiary, which increased from \$410,798 in 2005 to \$508,920 in 2006. Another significant component of other operating income is net earnings on bank owned life insurance, which increased from \$173,859 in 2005 to \$187,737 in 2006, due to the purchase of one additional \$1,000,000 policy in June 2005.

Noninterest income for the year ended December 31, 2005 was \$2,456,653 compared to \$2,223,780 for the year ended December 31, 2004, an increase of \$232,873, or 10.5%. Service charges and customer service fees relating to deposit accounts, which decreased from \$1,152,686 for the year ended December 31, 2004 to \$982,321 for the year ended December 31, 2005, were the most significant portion of noninterest income. Gains on the sale of investment securities were \$295,572 in 2004 compared to \$342,394 in 2005. Investment securities were sold to help fund significant growth in the loan portfolio experienced in 2005. Other operating income, which is included in total noninterest income, increased from \$775,521 in 2004 to \$1,131,938 in 2005. The largest component of other operating income is income from financial management services, which increased from \$281,964 in 2004 to \$410,798 in 2005.

Noninterest Expenses

Noninterest expenses were \$8,922,219 for the year ended December 31, 2006 compared to \$7,580,742 for the year ended December 31, 2005. This increase was comprised primarily of salaries and employee benefits totaling \$5,444,426 for the year ended December 31, 2006 compared to \$4,637,950 for the year ended December 31, 2005. The increase in salaries and benefits was due to the addition of five full-time equivalent employees during 2006 to support the growth experienced by the Company. Included in noninterest expenses was a 40.3% increase in marketing expenses. Marketing expenses increased as the result of increased marketing efforts designed to assist the growth of the Company. Another component of noninterest expenses is internet banking fees which increased \$107,580 due to a system conversion. A total of \$84,480 was expensed to record changes in the value of the interest rate floor.

Noninterest expenses were \$7,580,742 for the year ended December 31, 2005 compared to \$6,007,687 for the year ended December 31, 2004. This was comprised primarily of salaries and employee benefits totaling \$4,637,950 for the year ended December 31, 2005 compared to \$3,440,019 for the year ended December 31, 2004. The increase in salaries and benefits was due to the increase of sixteen full-time equivalent employees during 2005 to support the growth experienced by the Company. Eight of the sixteen employees were hired to staff the Bank's Taylors Office, which was opened in August 2005. Also included in noninterest expenses is marketing expenses which increased from \$178,800 in 2004 to \$239,344 in 2005. The increase was due to an enhanced marketing effort designed to assist the opening of the Taylors branch in addition to the growth of the Company. Professional fees increased from \$281,532 in 2004 to \$393,539 in 2005. The increase was due primarily to an increase of \$46,772 in fees paid to consultants, the majority of which was for consultation regarding future branch sites, and an increase of \$35,800 in professional audit and accounting fees, which was due to increased compliance and accounting requirements.

GREER BANCSHARES INCORPORATED**Income Taxes**

For the year ended December 31, 2006, the Company recorded income tax expense in the amount of \$1,291,955, or an effective tax rate of 29.1% compared to a 21.3% effective tax rate in 2005. A one time reversal of a valuation allowance reduced the effective tax rate from 24.9% to 21.3% in 2005. The effective tax rate for 2006 was higher than previous years due to the decline in tax-exempt income in 2006 resulting from the sale of \$5,599,000 in tax-exempt municipal securities during 2006 in combination with the 2005 reversal of the valuation allowance.

For the years ended December 31, 2005 and 2004, the Company recorded income tax expense in the amounts of \$755,223 and \$655,557, respectively. This resulted in an effective tax rate of 21.3% and 20.4% for the years ended December 31, 2005 and 2004, respectively. The increase in the effective tax rate is due to the decrease in the amount of tax-free income as a percentage of net interest income, which was 10.8% for 2005 and 19.8% for 2004. The amount of tax-free income the Company has is related to the amount of municipal securities and loans to municipalities that qualify as tax-exempt. This increase was offset by a one time reversal of a valuation allowance in 2005.

Capital Resources

Total capital of the Company increased in 2006 by net income of \$3,152,806, \$393,267 from stock based activity and the change in accumulated other comprehensive income of \$62,140. In addition, the Company paid cash dividends on April 15, June 15, September 15 and December 15, 2006 totaling \$1,675,338 or \$.68 per share and declared cash dividends to be paid on March 15, 2007 totaling \$413,410, or \$.17 per share. The Company adopted SEC Staff Accounting Bulletin ("SAB") 108 in December 2006. See Note 21 in the accompanying 2006 Annual Report. As a result of the adoption, retained earnings was decreased January 1, 2006 for the cumulative effect of a material misstatement under the "iron curtain method" related to derivatives of \$541,547, net of tax. Total capital of the Company increased in 2005 by net income of \$2,794,553 and \$335,169 from the exercise of stock options, related tax benefits and a stock grant. Total capital was decreased by the change in accumulated other comprehensive income of (\$1,034,096). In addition, the Company paid cash dividends on April 15, June 15, September 15 and December 15, 2005 totaling \$1,564,543, or \$.64 per share. In 2004, total capital of the Company was increased by net income of \$2,559,686 and \$132,783 from the exercise of stock options. Total capital was decreased by the change in accumulated other comprehensive income of (\$268,560). In addition, the Company paid cash dividends on June 15, September 15 and December 15, 2004 totaling \$1,093,602, or \$.45 per share. The Company also paid cash in lieu of fractional shares in the amount of \$4,865 relating to a 3 for 2 stock split that was effective on March 15, 2004.

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital of the Company consists of common shareholders' equity minus unrealized gains plus unrealized losses on securities available for sale. In addition to Tier 1 capital requirements, Tier 2 capital consists of the allowance for loan losses subject to certain limitations. A bank holding company's qualifying capital base for purposes of its risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital. The holding company and banking subsidiary are also required to maintain capital at a minimum level based on average assets, which is known as the leverage ratio. Only the strongest bank holding companies and banks are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 100 to 200 basis points above the minimum.

In October 2004 and December 2006, the Company issued \$6.186 and \$5.155 million of junior subordinated debentures to its wholly-owned capital Trusts, Greer Capital Trust I and Greer Capital Trust II, respectively, to fully and unconditionally guarantee the trust preferred securities issued by the Trusts. These long term obligations qualify as total risk based capital for the Company. In addition, all proceeds received from the issuance were invested in the Bank as additional capital.

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Greer State Bank and the holding company exceeded the Federal Reserve's fully phased-in regulatory capital requirements at December 31, 2006, 2005 and 2004 as set forth in the following table.

Risk-Based Capital Ratios

Bank	<i>(Dollars in thousands)</i>		
	2006	2005	2004
Tier 1 Capital	\$ 32,018	\$ 26,632	\$ 25,355
Tier 2 Capital	1,801	1,406	1,136
Total Qualifying Capital	<u>\$ 33,819</u>	<u>\$ 28,038</u>	<u>\$ 26,491</u>
Risk-adjusted total assets (including off-balance-sheet exposures)	<u>\$275,443</u>	<u>\$230,014</u>	<u>\$163,850</u>
Tier 1 risk-based capital ratio	11.62%	11.58%	15.47%
Total risk-based capital ratio	12.28%	12.19%	16.17%
Tier 1 leverage ratio	9.20%	9.07%	10.82%
Greer Bancshares capital ratios at December 31, 2006 were:	<u>Tier 1</u> <u>Risk-Based</u> 11.25%	<u>Total</u> <u>Risk-Based</u> 12.92%	<u>Tier 1</u> <u>Leverage</u> 8.93%

Liquidity

The Company manages its liquidity from both the asset and liability side of the balance sheet through the coordination of the relative maturities of its assets and liabilities. Short-term liquidity needs are generally met from cash, due from banks, federal funds purchased and sold and deposit levels. The Company has federal funds lines in place totaling \$16.6 million, the ability to borrow additional funds from the Federal Home Loan Bank of up to 30% of the Bank's assets and also has a reverse repurchase line totaling \$20 million. Use of the FHLB and reverse repurchase lines requires the pledging of acceptable collateral. As of December 31, 2006, the Company had approximately \$36,600,000 in available collateral. Management has established policies and procedures governing the length of time to maturity on loans and investments, and has established policies regarding the use of alternative funding sources. In the opinion of management, the deposit base and lines of credit can adequately support short-term liquidity needs.

Impact of Off-Balance Sheet Instruments

The Company has certain off-balance-sheet instruments in the form of contractual commitments to extend credit to customers. These legally binding commitments have set expiration dates and are at predetermined interest rates. The underwriting criteria for these commitments are the same as for loans in the loan portfolio. Collateral is also obtained, if necessary, based on the credit evaluation of each borrower. Although many of the commitments will expire unused, management believes there are adequate resources to fund these commitments. At December 31, 2006 and 2005, the Company's commitments to extend credit totaled approximately \$51,350,000 and \$45,327,000, respectively.

Impact of On-Balance Sheet Instruments

The Company utilizes derivative contracts to manage interest rate risk. These instruments consisted of interest rate swaps and swaptions in 2004, 2005 and 2006 prior to their sale in December 2006. In January 2006, an interest rate floor was purchased. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or referenced interest rate. The Company used interest rate swaps and swaptions as fair value hedges for certain fixed rate Federal Home Loan Bank advances. The interest rate floor contract is a derivative

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used to hedge cash flows of certain prime based loans. The floor contract terminates on January 30, 2009. The Bank does not utilize derivatives for trading purposes.

The derivatives did not qualify for hedge accounting under SFAS 133. As a result, the derivatives are recorded at fair value with adjustments to earnings.

Investment Portfolio

The following tables summarize the carrying value and estimated market value of investment securities and weighted-average yields of those securities at December 31, 2006. The yields are based upon amortized cost. The yield on securities of state and political subdivisions is presented on a tax equivalent basis using a federal income tax rate of 34%. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment Securities Portfolio Composition

(Dollars in Thousands) December 31, 2006	Due One Year or Less	One Year Through Five Years	Five Years through Ten Years	After Ten Years	Total	Estimated Market Value	Average Maturity in Years
Held-To-Maturity							
Mortgage Backed Securities	\$ —	\$ —	\$ 4,307	\$ 19,274	\$ 23,581	\$ 22,790	11.65
Available-For-Sale							
U.S. Govt Agencies and Mortgage Backed Securities	—	1,850	9,182	24,903	35,935	35,467	15.13
States of the U.S. and Political Subdivisions	—	364	4,582	17,490	22,436	22,726	12.27
Corporate Securities	1,006	1,027	—	—	2,033	1,992	1.00
Total	\$ 1,006	\$ 3,241	\$ 13,764	\$ 42,393	\$ 60,404	\$ 60,185	
Held-To-Maturity							
Weighted Average Yields:							
Mortgage Backed Securities	0.00%	0.00%	4.02%	4.36%			
Available-For-Sale							
Weighted Average Yields:							
U.S. Govt Agencies and Mortgage Backed Securities	0.00%	5.09%	4.86%	4.34%			
States of the U.S. and Political Subdivisions	0.00%	6.67%	7.02%	6.58%			
Corporate Securities	3.70%	5.04%	0.00%	0.00%			

Loan Portfolio

Credit Risk Management

Credit risk entails both general risk, which is inherent in the process of lending, and risk that is specific to individual borrowers. The management of credit risk involves both the process of loan underwriting and loan administration. The Company manages credit risk through a strategy of making loans within its primary marketplace and within its limits of expertise. Although management seeks to avoid concentrations of credit by loan type or industry through diversification, a substantial portion of the borrowers' ability to honor the terms of their loans is dependent on the business and economic conditions in Greenville and Spartanburg Counties and the surrounding areas comprising the Company's marketplace. Additionally, since real estate is considered by the Company as the most desirable non-monetary collateral, a significant portion of loans are collateralized by real estate; however, the cash flow of the borrower or the business enterprise is generally considered as the primary source of repayment. Generally, the value of real estate is not considered by the Company as the primary source of repayment for performing loans. Management also seeks to limit total exposure to

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individual and affiliated borrowers. Risk specific to individual borrowers is managed through the loan underwriting process and through an ongoing analysis of the borrower's ability to service the debt as well as the value of the pledged collateral.

The Bank's loan officers and loan administration staff are charged with monitoring our loan portfolio and identifying changes in the economy or in a borrower's circumstances which may affect the ability to repay the debt or the value of the pledged collateral. In order to assess and monitor the degree of risk in the loan portfolio, several credit risk identification and monitoring processes are utilized. The Company uses an outside consultant, a former Office of the Comptroller of the Currency ("OCC") bank examiner, to perform loan reviews on a monthly basis.

Lending Activities

The Company extends credit primarily to consumers and small to medium businesses in Greenville and Spartanburg Counties and, to a limited extent, customers in surrounding areas.

The Company's corporate office is located in Greer, South Carolina, and its service area is mixed in nature. The Greenville-Spartanburg area is a regional business center whose economy contains elements of manufacturing, higher education, regional health care and distribution facilities. Outside the incorporated city limits of Greer, the economy includes manufacturing, agriculture and industry. No particular category or segment of the economy previously described is expected to grow or contract disproportionately in 2007.

Total loans outstanding were \$245,857,922 and \$199,002,801 at December 31, 2006 and 2005, respectively. There are no significant concentrations of loans in the loan portfolio to any particular individuals or industry or group of related individuals or industries.

The Company's ratio of loans to deposits was 102.3% and 99.9% at December 31, 2006 and 2005, respectively. The loan to deposit ratio is used to monitor a financial institution's potential profitability and efficiency of asset distribution and utilization. Generally, a higher loan to deposit ratio is indicative of higher interest income since loans yield a higher return than alternative investment vehicles. Management has concentrated on maintaining quality in the loan portfolio while continuing to increase the deposit base. The increase in the loans to deposits ratio is due to the significant growth experienced in the loan portfolio during 2006. The growth was funded primarily by an increase in deposits; however, the Company also utilized approximately \$6,025,000 in additional advances from the Federal Home Loan Bank and approximately \$5,000,000 in trust preferred securities.

The following table summarizes the composition of the loan portfolio by category at the dates indicated.

Loan Portfolio Composition

December 31,	2006		2005		2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<i>(Dollars in Thousands)</i>										
Commercial	\$ 49,954	20.32%	\$ 43,509	21.86%	\$ 31,188	22.33%	\$ 28,122	24.33%	\$ 23,293	21.64%
Real Estate-Construction/Land	59,625	24.26%	42,980	21.60%	28,362	20.31%	15,288	13.23%	13,596	12.63%
Real Estate Mortgage:										
Residential 1-4	68,926	28.04%	58,898	29.60%	40,772	29.20%	36,777	31.82%	43,527	40.43%
Multi-Family	608	0.25%	921	0.46%	1,636	1.17%	1,732	1.50%	639	0.59%
Nonfarm/Nonresidential	51,244	20.84%	40,374	20.29%	26,810	19.20%	21,099	18.26%	15,555	14.45%
Installment Loans to Individuals	10,853	4.41%	10,476	5.26%	9,694	6.94%	9,154	7.92%	9,535	8.86%
Lease Financing	796	0.32%	899	0.45%	977	0.70%	931	0.81%	462	0.43%
Obligations of State and										
Political Subdivisions	571	0.23%	104	0.05%	207	0.15%	2,462	2.13%	1,054	0.97%
Other	3,281	1.33%	842	.43%	—	—	—	—	—	—
Total Loans	\$245,858	100.00%	\$199,003	100.00%	\$139,646	100.00%	\$115,565	100.00%	\$107,661	100.00%

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The Company's loan portfolio contains a significant percentage of real estate mortgage loans. Real estate mortgage loans increased by approximately \$37,231,000, or 26.0%, to approximately \$180,403,000 during the twelve months ended December 31, 2006. At December 31, 2006 real estate mortgage loans represented 73.4% of the total loan portfolio compared to 71.9% at December 31, 2005. The increase in real estate mortgage loans as a percentage of total loans can be attributed to the demand in the Company's market area for commercial and residential construction, which is fueled by a strong local economy. In an effort to effectively manage its interest rate risk, over the past several years the Company has not offered in-house long-term fixed rate mortgage loans; however, the Company has offered five-year and seven-year balloon mortgage loan products at attractive rates. The Company continues to offer fixed rate long term mortgages through an investor loan program.

The Company also has a significant amount of commercial and industrial loans. Commercial and industrial loans increased approximately \$6,445,000, or 14.8%, to \$49,954,000 at December 31, 2006 due primarily to the increase in lending personnel. Commercial and industrial loans comprised 20.3% and 21.9% of the total loan portfolio at December 31, 2006 and 2005, respectively.

Maturities and Sensitivity of Loans to Changes in Interest Rates

The following table summarizes the loan maturity distribution for the selected categories as of December 31, 2006. The Company has a total of approximately \$132,346,000 million in loans indexed to the Wall Street Journal Prime rate.

December 31, 2006 (Dollars in Thousand)	Commercial		Real Estate- Construction/Land		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Due One Year or Less:	\$29,933	59.92%	\$46,740	78.39%	\$ 76,673	69.98%
Due One Year through Five Years:						
Fixed Rate	14,517	29.06%	4,214	7.07%	18,731	17.09%
Variable Rate	53	0.11%	4,223	7.08%	4,276	3.90%
Due After Five Years:						
Fixed Rate	5,451	10.91%	4,448	7.46%	9,899	9.03%
Variable Rate	—	0.00%	—	0.00%	—	0.00%
Total	<u>\$49,954</u>	<u>100.00%</u>	<u>\$59,625</u>	<u>100.00%</u>	<u>109,579</u>	<u>100.00%</u>

Risk Elements

At December 31, 2006, there was one loan for \$1,316,398 classified as impaired (see discussion below), \$700 in loans 90 days past due and still accruing interest and approximately \$843,000 in non-accrual status. At December 31, 2005, there were no restructured loans, approximately \$32,000 in loans 90 days past due and still accruing interest, and approximately \$484,000 in non-accrual status. At December 31, 2004, there were no restructured loans, \$388 in loans 90 days past due and still accruing interest, and approximately \$567,000 in non-accrual status.

The accrual of interest on loans is discontinued when, in management's judgment, the interest will not be collectible in the normal course of business. Accrual of interest of such loans is typically discontinued when the loan is 90 days past due or impaired. All interest accrued, but not collected for loans that are placed on non-accrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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The following table sets forth certain information with respect to the allowance for loan losses and the composition of charge-offs and recoveries for each of the last five years.

Summary of Loan Loss Experience

<i>(Dollars in Thousands)</i>	2006	2005	2004	2003	2002
Total loans outstanding at end of year	<u>\$245,858</u>	<u>\$199,003</u>	<u>\$139,646</u>	<u>\$115,565</u>	<u>\$107,661</u>
Average loans outstanding	<u>\$229,467</u>	<u>\$161,909</u>	<u>\$124,170</u>	<u>\$107,961</u>	<u>\$107,265</u>
Balance, beginning of year	\$ 1,416	\$ 1,136	\$ 1,298	\$ 1,081	\$ 1,244
Loans charged-off					
Commercial and industrial	177	24	347	92	910
Real estate - mortgage	0	20	31	20	3
Consumer	77	114	42	35	60
Total loans charged-off	<u>254</u>	<u>158</u>	<u>420</u>	<u>147</u>	<u>973</u>
Recoveries of previous loan losses					
Commercial and industrial	1	4	4	352	2
Real estate - mortgage	0	0	0	0	0
Consumer	41	10	3	2	20
Total loan recoveries	<u>42</u>	<u>14</u>	<u>7</u>	<u>354</u>	<u>22</u>
Net charge-offs	<u>212</u>	<u>144</u>	<u>413</u>	<u>(207)</u>	<u>951</u>
Provision charged to operations	<u>597</u>	<u>424</u>	<u>251</u>	<u>10</u>	<u>788</u>
Balance, end of year	<u>\$ 1,801</u>	<u>\$ 1,416</u>	<u>\$ 1,136</u>	<u>\$ 1,298</u>	<u>\$ 1,081</u>
Ratios:					
Allowance for loan losses to average loans	0.78%	0.87%	0.91%	1.20%	1.01%
Allowance for loan losses to period end loans	0.73%	0.71%	0.81%	1.12%	1.00%
Net charge offs to average loans	0.09%	0.09%	0.33%	-0.19%	0.89%

The allowance for loan losses is maintained at a level determined by management to be adequate to provide for probable losses inherent in the loan portfolio. The allowance is maintained through the provision for loan losses which is a charge to operations. The potential for loss in the portfolio reflects the risks and uncertainties inherent in the extension of credit.

The Bank's provision and allowance for loan losses is subjective in nature and relies on judgments and assumptions about future economic conditions and other factors affecting borrowers. Management is not aware of any trends, material risks or uncertainties affecting the loan portfolio nor is management aware of any information about any significant borrowers which causes serious doubts as to the ability of the borrower to comply with the loan repayment terms. However, it should be noted that no assurances can be made that future charges to the allowance for loan losses or provisions for loan losses may not be significant to a particular accounting period.

Interest is discontinued on impaired loans when management determines that a borrower may be unable to meet payments as they become due. As of December 31, 2006 the Bank had one impaired loan with an outstanding balance of \$1,316,398. The average amount of impaired loans outstanding during 2006 was \$687,376. There was no interest income recognized on the impaired loan.

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Deposits

Average deposits were approximately \$227,269,000 and \$172,189,000 during 2006 and 2005, respectively. The most significant increase was in the average balance of time deposits, which increased by approximately \$42,269,000, or 51.6%. Management believes the increase in time deposits is the result of the continued increase in interest rates that occurred during 2006, as well as the result of a marketing effort emphasizing special rates on certificates of deposit. As the economy improved and short term interest rates continued to increase, the Company's loan demand also increased. Management raised time deposits rates in an effort to raise deposits to fund the loan growth. In addition, average balances in NOW accounts increased by approximately \$7,044,000 from 2005 to 2006 primarily as a result of increased emphasis on deposit gathering.

Contractual maturities of all time deposits at December 31, 2006 were as follows: twelve months or less - \$122,829,739, over twelve months through thirty-six months - \$14,627,252, and over thirty-six months - \$0.

The following table summarizes the Bank's average deposits by categories at the dates indicated.

Year Ended December 31,	2006		2005		2004	
	Average Balance	Percent	Average Balance	Percent	Average Balance	Percent
<i>(Dollars in thousands)</i>						
Noninterest-Bearing Deposits						
Demand Deposits	\$ 30,710	13.51%	\$ 30,811	17.90%	\$ 25,893	16.53%
Interest Bearing Liabilities						
NOW Accounts	36,908	16.24%	29,864	17.34%	34,832	22.16%
Money Market and Savings	35,434	15.59%	29,566	17.17%	27,720	17.64%
Time Deposits	124,217	54.66%	81,948	47.59%	68,641	43.67%
Total Deposits	<u>\$227,269</u>	<u>100.00%</u>	<u>\$172,189</u>	<u>100.00%</u>	<u>\$157,086</u>	<u>100.00%</u>

Core deposits, which exclude time deposits of \$100,000 or more, provide a relatively stable funding source for the loan portfolio and other earning assets. Core deposits were approximately \$163,255,000, \$135,003,000, and \$112,039,000 at December 31, 2006, 2005 and 2004, respectively.

Time deposits over \$100,000 totaled approximately \$80,815,000, \$64,184,000 and \$38,220,000 at December 31, 2006, 2005 and 2004, respectively. Scheduled maturities were as follows:

Year Ended December 31,	2006	2005	2004
<i>(Dollars in thousands)</i>			
Maturing in 3 months or less	\$20,132	\$12,506	\$ 9,425
Maturing after 3 months but less than 6 months	29,229	13,192	13,075
Maturing after 6 months but less than 12 months	21,932	12,177	12,304
Maturing after 12 months	9,522	26,309	3,416
Total	<u>\$80,815</u>	<u>\$64,184</u>	<u>\$38,220</u>

Short-Term Borrowings

At December 31, 2006, the Company had purchased federal funds totaling \$5,317,000 and \$8,854,875 in securities sold under agreements to repurchase. At December 31, 2005 the Company had purchased federal funds totaling \$1,931,000 and \$8,588,767 in securities sold under agreements to repurchase. The Company had no short-term borrowings at December 31, 2004.

The related information for these borrowings during 2006 is summarized as follows:

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	<u>Federal Funds Purchased</u>	<u>Securities Sold Under Agreements To Repurchase</u>
Average balance outstanding during the year	\$1,861,000	\$ 8,684,000
Average rate paid during the year	5.28%	5.38%
Average rate on year end balance	5.63%	5.44%

Long Term Borrowings

At December 31, 2006 and December 31, 2005, the Company had fixed rate notes payable totaling \$59,513,514 and \$58,847,043, respectively, to Federal Home Loan Bank ("FHLB"). Interest rates on the advances ranged from 2.74% to 6.67% at December 31, 2006 and 2005. At December 31, 2006, the Company had variable rate notes payable totaling \$7,000,000 to FHLB. A note for \$2,000,000 was indexed to the 3 month LIBOR rate and was 5.37% on December 31, 2006. A note for \$5,000,000 was indexed to the Wall Street Journal prime rate and was 5.40% on December 31, 2006. During 2006, interest expense on some of these fixed rate notes was increased by \$266,992, and in 2005 was reduced by \$16,798, through the utilization of interest rate swaps. For financial statement purposes interest expense or interest income from the swaps has been netted against the interest expense on FHLB borrowings. The Company has pledged its 1 to 4 family residential mortgages, commercial real estate mortgages, home equity lines of credit and certain mortgage-backed securities as collateral against the FHLB borrowings.

In October 2004 and December 2006, the Company issued \$6,186,000 and \$5,155,000 of junior subordinated debentures to its wholly-owned capital Trusts, Greer Capital Trust I and Greer Capital Trust II, respectively, to fully and unconditionally guarantee the trust preferred securities issued by the Trusts. These long-term obligations currently qualify as total risk based capital for the Company.

The junior subordinated debentures issued in October 2004 mature in October 2034, but include an option to call the debt in October 2009. Interest payments are due quarterly to Greer Capital Trust I at three-month LIBOR plus 220 basis points.

The junior subordinated debentures issued in December 2006 mature in December 2036, but include an option to call the debt in December 2011. Interest payments are due quarterly to Greer Capital Trust II at the three-month LIBOR plus 173 basis points.

The following table reflects the Company's contractual obligations as of December 31, 2006:

Contractual Obligations

(in thousands)

	<u>Payments Due by Period</u>				<u>Total</u>
	<u>Less Than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>Greater Than 5 Years</u>	
Long-term debt	\$ 4,014	\$23,000	\$24,000	\$ 26,841	\$77,855

Accounting and Financial Reporting Issues

SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106, and 132R* requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company does not anticipate that this statement will have an impact on the Company's financial position, results of operations and cash flows.

In July 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), which is a change in accounting for income taxes. FIN 48

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specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006 and as a result, is effective for the Company in the first quarter of fiscal 2007. The Company has evaluated the impact of FIN 48 and anticipates no significant impact on its consolidated financial statements.

The Emerging Issues Task Force (“EITF”) reached a consensus at its September 2006 meeting regarding EITF 06-4 *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The scope of EITF 06-4 is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Therefore, this EITF would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee’s active service period with an employer. EITF 06-04 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The effects of this standard have not yet been evaluated.

STOCK INFORMATION AND DIVIDEND HISTORY

The common stock of Greer Bancshares Incorporated is traded in the over-the-counter market and quoted on the OTC Bulletin Board (symbol: GRBS) and quoted in two local newspapers, The Greenville News and The Spartanburg Herald, in the area OTC listings section. As of February 22, 2007, there were 1,153 record holders of our common stock, \$5.00 par value per share.

The following table sets forth the high and low “bid” prices per share of the common stock for each quarterly period during the past two fiscal years, as reported on NASDAQ.com. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Quarter	2006		Quarter	2005	
	High	Low		High	Low
First	\$28.25	\$26.25	First	\$19.80	\$17.00
Second	\$27.00	\$21.75	Second	\$22.90	\$19.24
Third	\$23.00	\$22.00	Third	\$26.84	\$22.90
Fourth	\$24.50	\$21.50	Fourth	\$28.25	\$26.00

Beginning in 1992, the Company has declared annual cash and/or stock dividends or stock splits. In 2004, the Company paid 15 cents per share cash dividends in June, September and December, for total cash dividends in 2004 of 45 cents per share. A 3-for-2 stock split was issued effective March 15, 2004 and affected in the form of a stock dividend. Cash dividends, as well as the prices listed above, have been adjusted to reflect the stock splits. In 2005, the Company paid 16 cents per share cash dividends in April, June, September and December for total cash dividends in 2005 of 64 cents per share. In 2006, the Company paid 17 cents per share cash dividends in March, June, September and December for total cash dividends in 2006 of 68 cents per share and declared dividends to be paid in March 2007 of 17cents per share.

The Company’s ability to continue to pay cash dividends is dependent upon receiving cash dividends from the Bank. Federal and state banking regulations restrict the amount of cash dividends that can be paid to the Company from the Bank. The payment of dividends in the future is subject to earnings, capital requirements, financial condition, and such other factors as the Board of Directors of Greer Bancshares Incorporated, the Commissioner of Banking for South Carolina and the FDIC may deem relevant.

Performance Graph

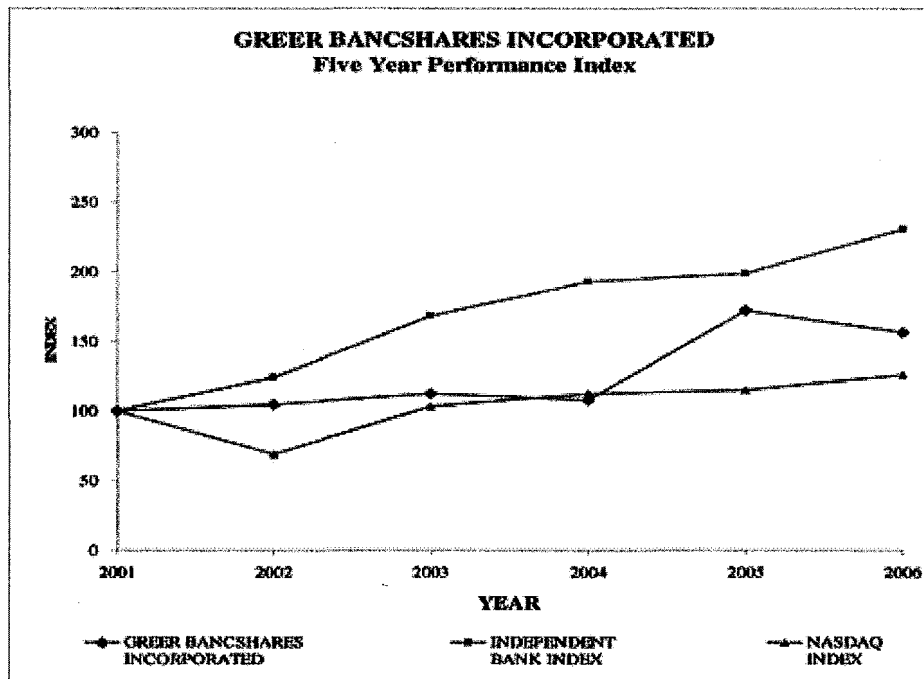
We are required to provide our shareholders with a line graph comparing our cumulative total shareholder return with a performance indicator of the overall stock market and either a published industry index or a Company-determined peer comparison. The purpose of the graph is to help shareholders determine the reasonableness of the compensation committee’s decisions with respect to the setting of various levels of executive officer compensation. Shareholder return (measured through increases in stock price and payment of dividends) is often a benchmark used in assessing corporate performance and the reasonableness of compensation paid to executive officers.

GREER BANCSHARES INCORPORATED

However, shareholders should recognize that corporations often use a number of other performance benchmarks (in addition to shareholder return) to set various levels of executive officer compensation. Our 2006 Annual Report to Shareholders contains a variety of relevant performance indicators concerning the Company. Thus, Company shareholders may wish to consider other relevant performance indicators which may be more closely related to officer performance in assessing the reasonableness of Company executive officer compensation, such as growth in earnings per share, book value per share and cash dividends per share, along with Return on Equity (ROE) and Return on Assets (ROA) percentages.

The performance graph below compares the Company’s cumulative total shareholder return over the previous five fiscal years with both the NASDAQ stock index and the Carson Medlin Company’s Independent Bank Index (an index published by the Carson Medlin Company, Investment Bankers). The NASDAQ stock index reflects overall stock market performance. The Independent Bank Index is the compilation of the total return to shareholders over the past five years of a group of 28 independent community banks located in the southeastern states of Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. The total five year return was calculated for each of the banks in the peer group taking into consideration changes in stock price, cash dividends, stock dividends and stock splits since December 31, 2001. The individual results were then weighted by the market capitalization of each bank relative to the entire peer group. The total return approach and the weighting based upon market capitalization are consistent with the preparation of the NASDAQ total return index. The Company believes the Independent Bank Index is a more relevant standard by which community banks should measure their own performance because the peer group is comprised of banks that are closer in size and style of doing business. Furthermore, this index more closely reflects the actual trading patterns of community bank stocks.

Returns assume a beginning stock index price of \$100 per share. The value of the Company’s stock as used to develop the graph was based on information obtained by the Company from the website NASDAQ.com regarding trading prices of the Company’s stock. Because the Company’s stock is not actively traded, the information is based on a limited number of transactions.



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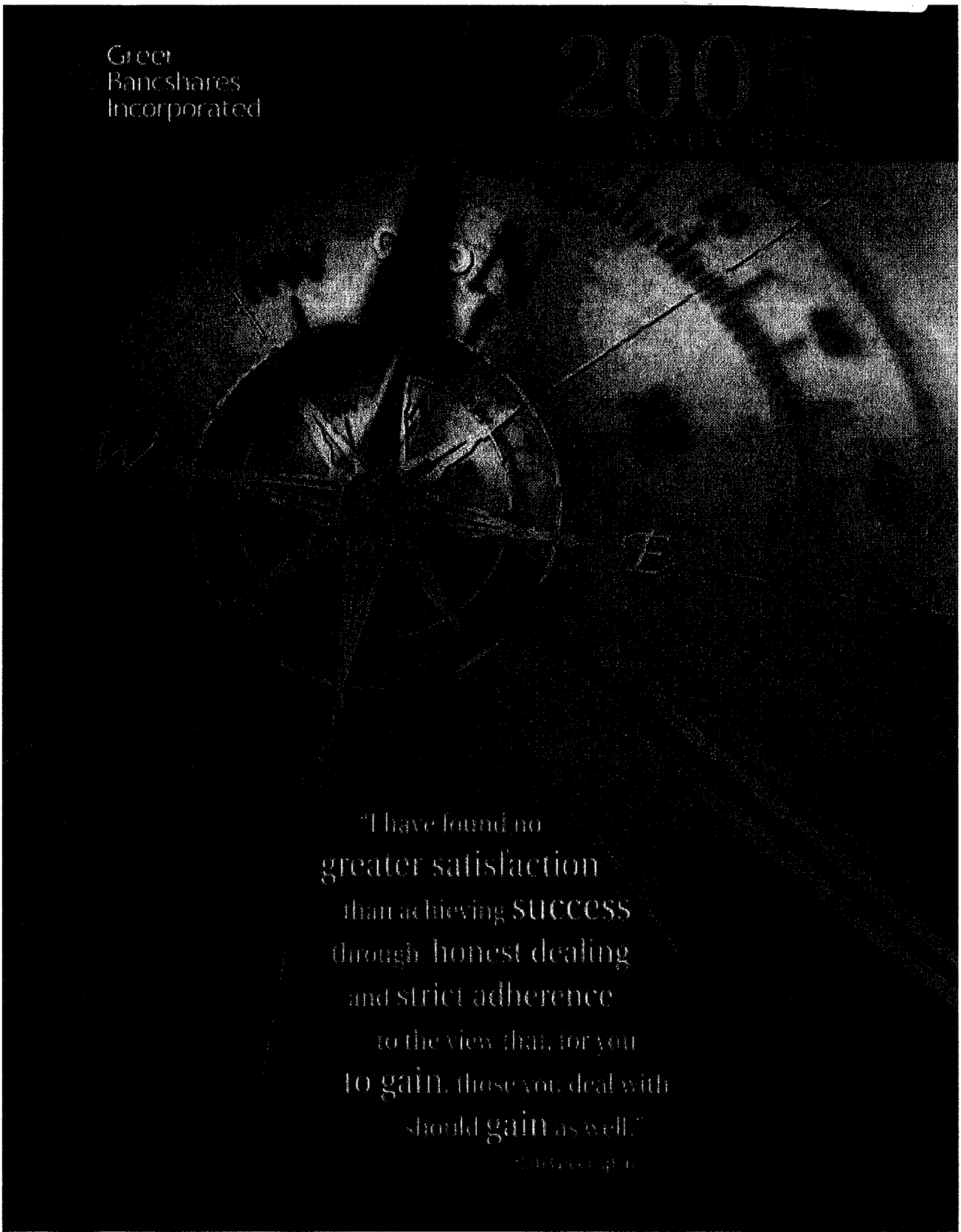
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Greer Bancshares Incorporated	100	104	112	108	172	157
Independent Bank Index	100	124	168	193	199	230
NASDAQ Index	100	69	103	113	115	126

Forward Looking Information

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on many assumptions and estimates and are not guarantees of future performance. Actual results may differ materially from those projected in any forward-looking statements, as they will depend on many factors about which there is uncertainty, including many factors which are beyond management's control. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," and "estimate," as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties include, but are not limited to: significant increases in competitive pressure in the banking and financial services industries; changes in the interest rate environment which could reduce anticipated or actual margins; changes in political conditions or the legislative or regulatory environment; general economic conditions, either nationally or regionally and especially in the Company's primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality; changes occurring in business conditions and inflation; changes in technology; changes in monetary and tax policies; the level of allowance for loan loss; the rate of delinquencies and amounts of charge-offs; the rates of loan growth; adverse changes in asset quality and resulting credit risk-related losses and expenses; changes in the securities markets; and other risks and uncertainties detailed from time to time in the Company's filings with the Securities and Exchange Commission.

Greer
Bancshares
Incorporated

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"I have found no
greater satisfaction
than achieving SUCCESS
through honest dealing
and strict adherence
to the view that, for you
to gain, those you deal with
should gain as well."

—John D. Greer, Chairman

Letter to Shareholders
Greer Bancshares Incorporated
March 15, 2006

Dear Shareholders and Friends:

We are pleased to report that 2005 was a year of significant growth and solid progress for your Company. As of year-end 2005,

- total assets equaled \$299 million, up 29.47% over year-end 2004; • total outstanding loans grew to \$199 million, up 41.45%;
- total deposits reached \$199 million, up 32.56%; and
- net annual income was \$2,794,553, up 9.18% despite substantial and necessary investments in facilities and people to support our future, strategic growth goals.

As previously reported to you, the Board of Directors in late 2004 adopted a five year strategic growth plan. This plan set a challenging goal of almost doubling the assets of Greer State Bank in five years. At year-end 2004, the Bank's assets totaled \$231 million. By year-end 2009, the Bank's goal is to reach \$425 million in total assets. We believe this asset growth will enhance the Bank's ability to achieve superior financial performance, risk management, and return on investment for our shareholders. We are pleased that the Bank's performance during 2005 was a substantial step toward achieving our five-year growth goal.

In August, 2005, the Bank added a fourth location with the opening of its new Taylors Office. The success of this office has exceeded our early expectations in terms of asset growth and revenue, nearing profitability on a month-to-month basis in only a few months.

In summary, we believe 2005 was another successful year. The Company achieved the highest level of asset growth in its seventeen year history while investing heavily in its future and delivering a 13.71% return on average equity.

BANK PROJECTS FOR 2006

The Bank's past success and anticipated future growth will necessitate additional investments in people and facilities in the near future.

Our present North Main Street Office is now 40 years old. It was originally constructed in 1965. The Bank purchased this office in December 1991 and renovated it in 1992. This 1900 square foot facility needs to be expanded, modernized, and renovated so that we can better offer commercial and retail banking services to our customers. We are planning to renovate this office in two phases. Phase one will be the exterior renovation and will begin in the latter half of 2006. We intend to employ a traditional architectural style that will be more attractive and will make the external appearance of this office more consistent with our other facilities. Phase two will be the interior renovation and expansion and should begin in late 2007 or early 2008. Upon the completion of the interior renovation, we anticipate that we will have transformed a 40-year old building into a modern branch office for less than half the projected cost of a new branch site and facility.

Because our current operations and data processing space in the North Main Office is no longer adequate given our growth and service requirements, we also intend to begin construction of a new operations, data processing, and administration building in the latter half of 2006. We hope to complete construction in the latter half of 2007. This new facility will be situated on 4.1 acres of land recently purchased on Pennsylvania Avenue at the entrance to the Bennett Center and across from the Jean M. Smith Library of Greer. When

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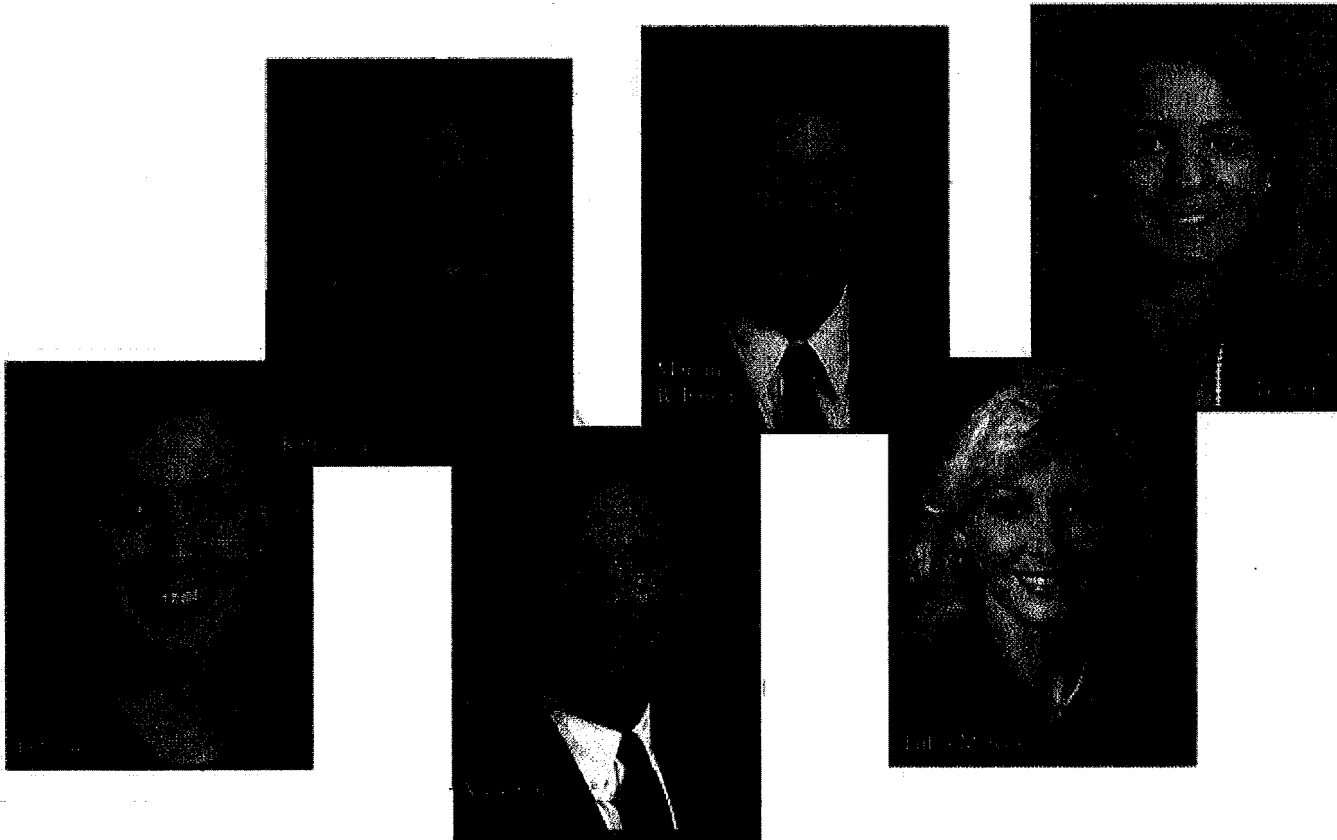
completed, the new center will house our operations and data processing departments and staff as well as our administrative support staff in the areas of audit, compliance, corporate training, and human resources. This facility should provide adequate space for the Company for many years and is another tangible indication of our commitment to the Greer community and our desire to remain an independent community bank.

We continue to look for future branch sites that will enable us to expand our services to the growing Greer community. When we opened Greer State Bank in 1989, the City of Greer encompassed approximately seven square miles of land area. Today, the City of Greer is approximately 28 square miles, and the City's population has essentially doubled. This extraordinary growth has expanded our opportunities to extend our service area while remaining true to our original vision of meeting the banking needs of the Greer community.

BUILDING THE TEAM

One noteworthy key to our success has been the outstanding team of people that we are proud to have as employees. The team has grown significantly since the Bank first opened its doors. We began in 1989 with thirteen employees housed in one office. Today, we have 94 employees working in four offices, making the Bank one of the largest employers in our area. In 2005 alone, we added sixteen new employees, eight of whom are in the new Taylors Office. In 2006, we have added a new marketing director and a controller for the finance and accounting division. The hiring of the controller is the first addition in the finance and accounting department since 1992, despite a growing maze of financial and regulatory reporting requirements. Our new officer staff hired in 2005 and early 2006 are pictured below.

All of our employees, whether employed early in our history or more recently, are essential to our long-term success. From the teller who greets a customer, the lender who helps a small business owner, the data processor or loan administrator who is largely unseen by the public, to the myriad other employees who assure that our Bank runs smoothly, effectively, and profitably, we are privileged to have such an outstanding team serving our customers. We extend our sincere thanks to all members of the team, for their loyalty, dedication, and commitment to excellence.



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THE OUTLOOK FOR 2006

John Adams once wrote to Thomas Jefferson saying, "You and I have lived in serious times." These are indeed serious and challenging times for the global community, our country and our national economy. It would be impossible to provide any serious outlook on the future of our economy and the banking industry without reference to the global challenges our nation and economy face at present.

In the context of the dual wars in Afghanistan and Iraq, continuing uncertainty in the Middle East and other oil-producing regions, high and volatile energy costs, and huge budget and trade deficits, it is difficult to anticipate the impact of these varied and troublesome issues on our economy and the banking industry.

At present, we have an inverted yield curve (where short term interest rates are higher than long term rates). Historically, an inverted yield curve has presaged a slowdown in the economy. With an inverted yield curve, bank earnings will likely be under pressure during much of 2006. Competition for loans and deposits among banks is fierce, thus creating additional pressures on bank profit margins. Locally, the dynamic growth of Greer continues to attract new commercial and residential development as well as additional banks to our market.

The December 2005 Livingston Survey of 42 economists, a survey conducted by the Federal Reserve Bank of Philadelphia, projects that the economy will decrease slightly in output during the first half of 2006 to a rate of 3.6%. This survey further predicts that the economy will slow to a rate of 3.1% in the second half of the year.

The short-term inflation outlook appears to have worsened in recent months, and most forecasts indicate that the Federal Reserve Bank's Open Market Committee will continue to raise short-term interest rates at its next two meetings, possibly taking the Fed funds rate to 5% and the Wall Street Journal Prime Rate to 8%.

These same forecasters anticipate that long-term interest rates will rise over the next two years. They project that such a rise will likely lead to an increase in mortgage rates and perhaps further slow the housing market, which has been a big contributor to the economy for the past two years.

Nevertheless, the economy still appears healthy in most respects, and we are optimistic about 2006. Your Company is well-positioned to grow assets and earnings, assuming no unpleasant developments in the geo-political arena and the economy.

In conclusion, as we look to the future, our entire team thanks you for your interest in and support of the Company. It is our desire to continually enhance our effectiveness as an organization, the quality of life in our community, and the value of your investment in your Company.

Respectfully yours,

David M. Rogers
Chairman of the Board

R. Dennis Hennett
Chief Executive Officer

Kenneth M. Harper
President

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Greer Bancshares Incorporated and Subsidiary
Greer, South Carolina

We have audited the accompanying consolidated balance sheets of Greer Bancshares Incorporated and Subsidiary (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Greer Bancshares Incorporated and Subsidiary as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes PLLC

Asheville, North Carolina
March 27, 2006

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY
Consolidated Balance Sheets

	December 31,	
	2005	2004
ASSETS		
Cash and due from banks	\$ 6,270,382	\$ 4,206,967
Federal funds sold	—	650,000
Interest-bearing deposits in banks	563,658	1,512,772
Investment securities:		
Held to maturity (fair value of approximately \$27,533,666 and \$35,316,747, respectively)	28,481,861	35,474,547
Available for sale	49,542,964	37,054,394
Loans, net of allowance for loan losses of \$1,415,897 and \$1,136,258, respectively	197,586,904	138,510,175
Premises and equipment, net	5,746,610	4,352,900
Real estate held for sale	—	409,250
Accrued interest receivable	1,615,435	1,137,938
Restricted stock	3,508,814	3,120,014
Other assets	6,130,318	4,452,813
Total assets	<u>\$299,446,946</u>	<u>\$230,881,770</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non interest-bearing	\$ 30,013,747	\$ 21,325,533
Interest-bearing	169,172,974	128,934,403
Total deposits	199,186,721	150,259,936
Short term borrowings	10,519,767	—
Long term borrowings	65,033,043	57,551,745
Other liabilities	3,143,105	2,036,862
Total Liabilities	<u>277,882,636</u>	<u>209,848,543</u>
Commitments and contingencies – Notes 10 and 11		
Stockholders' Equity:		
Preferred stock—par value \$5 per share, 1,000,000 shares authorized; none issued	—	—
Common stock—par value \$5 per share, 10,000,000 shares authorized; 2,453,580 and 2,432,261 shares issued and outstanding at December 31, 2005 and 2004, respectively	12,267,900	12,161,305
Additional paid in capital	2,741,878	2,513,304
Retained earnings	6,750,925	5,520,915
Accumulated other comprehensive income (loss)	(196,393)	837,703
Total Stockholders' Equity	<u>21,564,310</u>	<u>21,033,227</u>
Total Liabilities and Stockholders' Equity	<u>\$299,446,946</u>	<u>\$230,881,770</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY
Consolidated Statements of Income

	For the Years Ended December 31,		
	2005	2004	2003
Interest income:			
Loans, including fees	\$11,831,324	\$ 7,712,511	\$ 7,240,740
Investment securities:			
Taxable	2,467,494	2,010,934	1,435,549
Tax-exempt	1,000,288	1,434,924	1,404,546
Federal funds sold	96,113	21,977	34,974
Other	64,360	16,013	23,756
Total interest income	15,459,579	11,196,359	10,139,565
Interest expense:			
Interest on deposit accounts	3,226,358	2,099,607	1,952,060
Interest on short term borrowings	219,349	18,885	—
Interest on long-term borrowings and subordinated debentures	2,763,917	1,730,860	1,666,809
Total interest expense	6,209,624	3,849,352	3,618,869
Net interest income	9,249,955	7,347,007	6,520,696
Provision for loan losses	424,194	251,000	10,000
Net interest income after provision for loan losses	8,825,761	7,096,007	6,510,696
Noninterest income:			
Customer service fees	982,321	1,153,546	1,167,683
Gain on sale of investment securities	342,394	295,572	122,585
Other operating income	936,371	677,805	612,033
Total noninterest income	2,261,086	2,126,923	1,902,301
Noninterest expenses:			
Salaries and employee benefits	4,637,950	3,440,019	3,110,957
Occupancy and equipment	779,102	737,534	870,096
Postage and supplies	283,471	234,163	241,863
Marketing expenses	239,344	178,800	222,550
Directors fees	174,000	163,800	150,000
Professional fees	343,558	260,116	186,628
Other operating expenses	1,079,646	993,255	906,889
Total noninterest expenses	7,537,071	6,007,687	5,688,983
Income before income taxes	3,549,776	3,215,243	2,724,014
Provision for income taxes:	755,223	655,557	491,751
Net income	<u>\$ 2,794,553</u>	<u>\$ 2,559,686</u>	<u>\$ 2,232,263</u>
Basic net income per share of common stock	<u>\$ 1.14</u>	<u>\$ 1.05</u>	<u>\$.92</u>
Diluted net income per share of common stock	<u>\$ 1.12</u>	<u>\$ 1.05</u>	<u>\$.92</u>
Weighted average shares outstanding:			
Basic	<u>2,442,078</u>	<u>2,428,833</u>	<u>2,415,803</u>
Diluted	<u>2,504,856</u>	<u>2,447,589</u>	<u>2,438,631</u>

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2005, 2004 and 2003

	Common Stock		Additional paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2002	1,606,018	\$ 8,030,090	\$ 6,349,957	\$ 3,440,565	\$ 792,656	\$18,613,268
Net income	—	—	—	2,232,263	—	2,232,263
Other comprehensive income, net of tax:						
Unrealized holding gains on investment securities	—	—	—	—	389,610	389,610
Less reclassification adjustments for gains included in net income	—	—	—	—	(76,003)	(76,003)
Comprehensive income						2,545,870
Stock exercised pursuant to stock option plan	9,259	46,295	97,045	—	—	143,340
Tax benefit of stock options exercised	—	—	18,439	—	—	18,439
Cash dividends (\$0.67 per share)	—	—	—	(1,613,132)	—	(1,613,132)
Balance at December 31, 2003	1,615,277	8,076,385	6,465,441	4,059,696	1,106,263	19,707,785
Net income	—	—	—	2,559,686	—	2,559,686
Other comprehensive income, net of tax:						
Unrealized holding loss on investment securities, net of income tax benefit of approximately \$54,085	—	—	—	—	(85,305)	(85,305)
Less reclassification adjustments for gains included in net income, net of income tax expense of approximately \$114,000	—	—	—	—	(183,255)	(183,255)
Comprehensive income						2,291,126
Stock exercised pursuant to stock option plan	7,689	38,445	90,337	—	—	128,782
Tax benefit of stock options exercised	—	—	4,001	—	—	4,001
Stock split (3 for 2) effected in the form of a stock dividend	809,295	4,046,475	(4,046,475)	—	—	—
Cash in lieu of fractional shares	—	—	—	(4,865)	—	(4,865)
Cash dividends (\$.45 per share)	—	—	—	(1,093,602)	—	(1,093,602)
Balance at December 31, 2004	2,432,261	12,161,305	2,513,304	5,520,915	837,703	21,033,227
Net income	—	—	—	2,794,553	—	2,794,553
Other comprehensive income, net of tax:						
Unrealized holding loss on investment securities, net of income tax benefit of approximately \$517,000	—	—	—	—	(821,812)	(821,812)
Less reclassification adjustments for gains included in net income, net of income tax expense of approximately \$130,000	—	—	—	—	(212,284)	(212,284)
Comprehensive income						1,760,457
Stock exercised pursuant to stock option plan	18,819	94,095	164,207	—	—	258,302
Stock granted to employees	2,500	12,500	26,250	—	—	38,750
Tax benefit of stock options exercised	—	—	38,117	—	—	38,117
Cash dividends (\$.64 per share)	—	—	—	(1,564,543)	—	(1,564,543)
Balance at December 31, 2005	2,453,580	\$12,267,900	\$ 2,741,878	\$ 6,750,925	\$ (196,393)	\$21,564,310

The accompanying notes are an integral part of these consolidated financial statements.

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2005	2004	2003
Operating activities:			
Net income	\$ 2,794,553	\$ 2,559,686	\$ 2,232,263
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	399,471	434,546	544,692
Gain on sale of investment securities	(342,394)	(295,572)	(122,586)
Loss (gain) on sale of real estate held for sale	(68,672)	11,859	(13,482)
Provision for loan losses	424,193	251,000	10,000
Deferred income taxes (benefit)	(189,942)	35,925	(54,000)
Stock-based compensation	38,750	—	—
Net change in:			
Accrued interest receivable	(477,497)	107,056	(132,161)
Other assets	(324,365)	(104,448)	(28,593)
Accrued interest payable	709,869	217,801	(94,030)
Other liabilities	231,414	127,925	(139,494)
Net cash provided by operating activities	<u>3,195,380</u>	<u>3,345,778</u>	<u>2,202,609</u>
Investing activities:			
Activity in available-for-sale securities:			
Sales	17,065,375	19,798,735	2,488,325
Maturities, prepayments and calls	5,527,015	17,659,069	22,372,630
Purchases	(36,420,064)	(10,289,999)	(36,804,019)
Activity in held to maturity securities:			
Maturities, prepayments and calls	6,992,686	6,246,070	7,238,885
Purchases	—	(24,457,502)	(11,915,930)
Proceeds from sale of real estate held for sale	310,470	231,241	13,482
Net (increase) decrease in federal funds sold	650,000	(491,000)	3,192,000
Purchase of FHLB stock	(388,800)	(723,300)	—
Net increase in loans	(59,333,470)	(25,021,656)	(7,843,836)
Purchase of premises and equipment	(1,793,181)	(891,696)	(193,961)
Purchase of life insurance	(723,608)	(1,000,000)	—
Net cash used for investing activities	<u>(68,113,577)</u>	<u>(18,940,038)</u>	<u>(21,452,424)</u>

Continued on next page

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GREER BANCSHARES INCORPORATED AND SUBSIDIARY
Consolidated Statements of Cash Flows—*Continued*

	For the Years Ended December 31,		
	2005	2004	2003
Financing activities:			
Net increase (decrease) in deposits	\$48,926,785	\$ (2,701,016)	\$15,397,700
Net increase in short term borrowings	10,519,767	—	—
Repayment of notes payable to FHLB	(8,107,813)	(1,281,846)	(4,279,687)
Proceeds from notes payable to FHLB	16,000,000	13,000,000	9,500,000
Proceeds from issuance subordinated debentures	—	6,000,000	—
Proceeds from exercise of stock options	258,302	128,782	143,340
Cash in lieu of fractional shares on stock dividend	—	(4,865)	—
Cash dividends paid	(1,564,543)	(1,093,602)	(1,613,132)
Net cash provided by financing activities	<u>66,032,498</u>	<u>14,047,453</u>	<u>19,148,221</u>
Net increase (decrease) in cash and due from banks	1,114,301	(1,546,807)	(101,594)
Cash and due from banks at beginning of year	5,719,739	7,266,546	7,368,140
Cash and due from banks at end of year	<u>\$ 6,834,040</u>	<u>\$ 5,719,739</u>	<u>\$ 7,266,546</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	<u>\$ 5,499,755</u>	<u>\$ 3,631,551</u>	<u>\$ 3,712,899</u>
Income taxes	<u>\$ 919,761</u>	<u>\$ 618,383</u>	<u>\$ 741,198</u>
Non-cash investing and financing activities:			
Real estate acquired in satisfaction of mortgage loans	<u>\$ 30,000</u>	<u>\$ 526,877</u>	<u>\$ 125,473</u>
Investment in trust	<u>\$ —</u>	<u>\$ 186,000</u>	<u>\$ —</u>
Change in valuation of fair value hedge	<u>\$ 410,889</u>	<u>\$ 409,635</u>	<u>\$ —</u>
Loans to facilitate sale of real estate	<u>\$ 197,452</u>	<u>\$ —</u>	<u>\$ —</u>
Change in other comprehensive income (net of tax)	<u>\$ (1,034,096)</u>	<u>\$ (268,560)</u>	<u>\$ 313,607</u>

The accompanying notes are an integral part of these consolidated financial statements.

2005 ANNUAL REPORT

GREER BANCSHARES INCORPORATED AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2005, 2004 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Greer State Bank (the "Bank") was organized under a state banking charter in August 1988, and commenced operations on January 3, 1989. Greer Bancshares Incorporated (a one-bank holding company) is a South Carolina corporation formed in July 2001, primarily to hold all of the capital stock of Greer State Bank. The Bank engages in commercial and retail banking, emphasizing the needs of small to medium businesses, professional concerns and individuals, primarily in Greer and surrounding areas in the upstate of South Carolina. The accompanying consolidated financial statements include the accounts of the holding company and its wholly owned subsidiary (herein referred to as the "Company").

In October 2004, Greer Capital Trust I was formed. The trust was formed as part of the process of the issuance of trust preferred securities. During 2004, the Company adopted FASB Interpretation Nos. 46 and 46R ("FIN 46 and 46R"), "Consolidation of Variable Interest Entities."

Nature of Operations - The only current activity of the holding company is to hold its investment in the Bank. We operate the Bank under a state bank charter and provide full banking services to our clients. We are subject to regulation by the Federal Deposit Insurance Corporation and the South Carolina Board of Financial Institutions.

The Bank has Greer Financial Services Corporation as a wholly owned subsidiary to provide financial management services and non-deposit product sales.

In 2004, the Company formed Greer Capital Trust I (the "Trust") to issue trust preferred securities. Under the provisions of FIN 46 and 46R, the Company has not consolidated the Trust. The junior subordinated debt issued by the Company to the Trust is included in long-term debt and the equity investment in the Trust is included in other assets.

In March 2004, the Company declared a three-for-two stock split effective in the form of a stock dividend. All share and per share information has been adjusted to reflect the effect of the dividend.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiary and, in consolidation, all significant intercompany items are eliminated. Greer Capital Trust I is not consolidated in these financial statements.

Business Segments - We report our activities as one business segment. In determining the appropriateness of segment definition, we consider the materiality of the potential segment and components of the business about which financial information is available and regularly evaluated relative to resource allocation and performance assessment.

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 reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks" and "Interest-bearing deposits in banks."

Securities Held to Maturity - Bonds, notes and debentures for which we have the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity or to call dates.

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Securities Available for Sale - Available-for-sale securities are reported at fair value and consist of bonds, notes, debentures and certain equity securities not classified as trading securities or as held-to-maturity securities.

Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of stockholders' equity. Realized gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or to call dates.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below cost that are other than temporary are reflected as write-downs of the individual securities to fair value. Related write-downs are included in income as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near term prospectus of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair values.

Concentrations of Credit Risk - We make loans to individuals and small businesses located primarily in upstate South Carolina for various personal and commercial purposes. We have a diversified loan portfolio and the borrowers' ability to repay their loans is not dependent upon any specific economic sector.

Comprehensive Income - Annual comprehensive income reflects the change in our equity during the year arising from transactions and events other than investments by and distributions to shareholders. It consists of net income plus certain other changes in assets and liabilities that are reported as separate components of stockholders' equity rather than as income or expense. The statement of changes in stockholders' equity includes the components of comprehensive income.

Loans and Interest Income - We grant mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans throughout the Greater Greer area of the upstate of South Carolina. The ability of our debtors to honor their contracts is dependent upon the general economic conditions in this area. Loans are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses and any unearned discounts. Interest income is accrued and taken into income based upon the interest method.

The accrual of interest on loans is discontinued when, in our judgment, the interest will not be collectible in the normal course of business. Accrual of interest of such loans is typically discontinued when the loan is 90 days past due or impaired. All interest accrued, but not collected for loans that are placed on non-accrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by our management and is based upon our periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by us in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment short falls generally are not classified as impaired. Impairment is measured on a loan by loan basis for commercial and construction

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loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment disclosures.

Premises and Equipment - Land is carried at cost. Premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is charged using the straight-line method over the useful lives (three to thirty-nine years) of the assets. Additions to premises and equipment and major replacements or improvements are capitalized at cost. Maintenance, repairs and minor replacements are expensed when incurred. Gains and losses on routine dispositions are reflected in current earnings.

Real Estate Held for Sale - Our real estate held for sale is stated at the lower of cost or net realizable value. Market values of real estate held for sale are reviewed regularly and allowances for losses are established when the carrying value exceeds the estimated net realizable value. Gains and losses on the sale of real estate held for sale are recorded at the time of sale.

Restricted Stock - Restricted stock consists of nonmarketable equity securities including the cost of our investment in the stock of the Federal Home Loan Bank ("FHLB") and Community Financial Services, Inc. These stocks have no quoted market value and no ready market for them exists. Because of the redemption provisions of the restricted stock, the Bank estimates that fair value equals cost for this investment and that it was not impaired at December 31, 2005. Investment in the Federal Home Loan Bank is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to collateralize such borrowings. At December 31, 2005 and 2004, our investment in the Federal Home Loan Bank stock was \$3,152,000 and \$2,763,200, respectively. At December 31, 2005 and 2004, investment in Community Financial Services, Inc. was \$356,814. Dividends received on these stocks are included as a separate component of interest income.

Stock-Based Compensation - We account for our stock-based compensation using the accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." We are not currently required to adopt the fair value based recognition provisions prescribed under Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock-Based Compensation." We do comply with the disclosure requirements set forth in the SFAS No. 123, which include disclosing pro forma net income as if the fair value based method of accounting had been applied.

Income Taxes - We follow the practice of filing a consolidated federal return and separate state returns. Income taxes are allocated to each company as if filed separately for federal purposes and based on the separate returns filed for state purposes.

Certain items of income and expense for financial reporting are recognized differently for income tax purposes (principally the provision for loan losses, deferred compensation and depreciation). Provisions for deferred taxes are made in recognition of such temporary differences as required under SFAS No. 109, "Accounting for Income Taxes." Current income taxes are recorded based on amounts due with the current income tax returns. The need for a valuation allowance is considered when it is determined more likely than not that a deferred tax asset will not be realized.

Earnings Per Share of Common Stock - We present basic and diluted earnings per share of common stock, after giving retroactive effect to stock splits and dividends. The assumed conversion of stock options creates the difference between basic and diluted net income per share. Income per share is calculated by dividing net income by the weighted average number of common shares outstanding for each period presented.

Off-Balance Sheet Credit Related Financial Instruments - In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Derivatives - The Company utilizes derivative contracts to manage interest rate risk. The instruments consist of interest rate swaps and swaptions. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or referenced interest rate. The Company uses derivatives as fair value hedges for

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certain fixed rate Federal Home Loan Bank advances. The remaining terms on our derivatives at December 31, 2005 ranged from three years to six years. We do not utilize derivatives for trading purposes.

Under SFAS 133, derivatives are recorded in the balance sheet at fair value. For fair value hedges, the change in fair value of the derivative and the corresponding change in fair value of the hedged risk in the underlying item being hedged are accounted for in earnings. Any material difference in these two changes in fair value results from hedge ineffectiveness that has a corresponding impact to earnings.

The net interest payable or receivable on interest rate swaps that are designated as hedges is accrued and recognized as an adjustment to the interest expense of the related liability for each specific reporting period. Gains and losses from early terminations of derivatives are deferred and amortized as yield adjustments over the shorter of the remaining term of the hedged asset or liability or the remaining term of the derivative instrument. Upon disposition or settlement of the asset or liability being hedged, deferral accounting is discontinued and any gains or losses are recognized in income.

Reclassification - Certain amounts in the 2004 consolidated financial statements have been reclassified to conform with the 2005 presentation. The reclassifications had no effect on net income or shareholders' equity as previously reported.

Recent Accounting Pronouncements - The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) will require companies to measure all SFAS employee stock-based compensation awards using a fair value method and record such expense in its financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosures related to the income tax and cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective beginning as of the first annual reporting period beginning after December 15, 2005. SFAS No. 123(R) allows for adoption using either the modified prospective or modified retrospective methods. The Company anticipates using the modified prospective method when this statement is adopted in the first quarter of 2006. The Company has evaluated the impact upon adoption of SFAS No. 123(R) and has concluded that the adoption will not have a material impact on financial position or results of operations.

In April 2005, the Securities and Exchange Commission's ("SEC") Office of the Chief Accountant and its Division of Corporation Finance issued Staff Accounting Bulletin ("SAB") No. 107 to provide guidance regarding the application of SFAS No. 123(R). SAB No. 107 provides interpretive guidance related to the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as the staff's views regarding the valuation of share-based payment arrangements for public companies. SAB No. 107 also reminds public companies of the importance of including disclosures within filings made with the SEC relating to the accounting for share-based payment transactions, particularly during the transition to SFAS No. 123(R).

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29." The standard is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and eliminates the exception under ABP Opinion No. 29 for an exchange of similar productive assets and replaces it with an exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The standard is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on the Company's financial position or results of operations.

In March 2004, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" ("EITF-03-1"). This issue addresses the meaning of other-than-temporary impairment and its application to investments classified as either available for sale or held to maturity under SFAS No. 115 and it also provides guidance on quantitative and qualitative disclosures. The disclosure requirements in paragraph 21 of EITF-03-1 were effective for annual financial statements for fiscal years ending after December 15, 2003 and were adopted by the Company effective December 31, 2003.

The recognition and measurement guidance in paragraphs 6-20 of EITF-03-1 was to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004, but was delayed by FASB action in October 2004 through the issuance of proposed FASB Staff Position ("FSP") on the issue. In July 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." This final guidance eliminated paragraphs 10-18 of EITF-03-1 (paragraphs 19-20 have no material impact on the financial position or results of operations of the Company) will be

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effective for other-than-temporary impairment analysis conducted in periods beginning after December 15, 2005. The Company has evaluated the impact that the adoption of FSP FAS 115-1 and FAS 124-1 and has concluded that the adoption will not have a material impact on financial position and results of operations upon adoption.

In December 2005, the FASB issued FSP SOP 94-6-1, "Terms of Loan Products that May Give Rise to a Concentration of Credit Risk." The disclosure guidance in this FSP is effective for interim and annual periods ending after December 19, 2005. The FSP states that the terms of certain loan products may increase a reporting entity's exposure to credit risk and thereby may result in a concentration of credit risk as that term is used in SFAS No. 107, either as an individual product type or as a group of products with similar features. SFAS No. 107 requires disclosures about each significant concentration, including "information about the (shared) activity, region, or economic characteristic that identifies the concentration." The FSP suggests possible shared characteristics on which significant concentrations may be determined which include, but are not limited to borrowers subject to significant payment increases, loans with terms that permit negative amortization and loans with high loan-to-value ratios.

This FSP requires entities to provide the disclosures required by SFAS No. 107 for loan products that are determined to represent a concentration of credit risk in accordance with the guidance of this FSP for all periods presented. The Company adopted this disclosure standard effective December 31, 2005. The adoption had no impact on our disclosures within these financial statements.

2. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair value of investment securities are as follows:

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held to maturity:				
Mortgage backed securities	\$28,481,861	\$ —	\$948,195	\$27,533,666
Available for sale:				
United States Government agency obligations	\$ 8,562,397	\$ —	\$195,104	\$ 8,367,293
Mortgage-backed securities	18,430,661	14,535	375,751	18,069,445
Municipal securities	20,805,750	535,699	78,763	21,262,686
Corporate bonds	2,063,534	—	219,994	1,843,540
Totals	\$49,862,342	\$ 550,234	\$869,612	\$49,542,964
	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held to maturity:				
Mortgage backed securities	\$35,474,547	\$ 73,983	\$231,783	\$35,316,747
Available for sale:				
United States Government agency obligations	\$ 7,038,582	\$ 4,921	\$100,443	\$ 6,943,060
Mortgage-backed securities	3,066,726	37,366	3,875	3,100,217
Municipal securities	22,471,210	1,436,266	676	23,906,800
Corporate bonds	3,115,756	1,279	12,718	3,104,317
Totals	\$35,692,274	\$1,479,832	\$117,712	\$37,054,394

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The amortized cost and estimated fair value of investment securities at December 31, 2005 by contractual maturity for debt securities are shown below. Mortgage backed securities have not been scheduled since expected maturities will differ from contractual maturities because borrowers may have the right to prepay the obligations.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year	\$ 2,843,248	\$ 2,809,080	\$ —	\$ —
Over 1 year through 5 years	5,482,506	5,241,149	—	—
After 5 years through 10 years	6,908,127	6,908,308	—	—
Over 10 years	16,197,800	16,514,982	—	—
	31,431,681	31,473,519	—	—
Mortgage backed securities	18,430,661	18,069,445	28,481,861	27,533,666
Total	\$49,862,342	\$49,542,964	\$28,481,861	\$27,533,666

The fair value of securities with temporary impairment at December 31, 2005 and 2004 is shown below:

2005	Less Than Twelve Months		Over Twelve Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of securities:				
U.S. Government agencies	\$ 3,500,699	\$ 47,667	\$ 4,866,633	\$ 147,437
Mortgage backed securities	20,325,060	468,442	22,775,056	855,504
Corporate bonds	892,212	145,283	951,328	74,711
Municipal securities	6,992,097	78,763	—	—
Total	\$31,710,068	\$ 740,155	\$28,593,017	\$ 1,077,652

2004	Less Than Twelve Months		Over Twelve Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of securities:				
U.S. Government agencies	\$ 5,942,798	\$ 100,443	\$ —	\$ —
Mortgage backed securities	28,911,633	235,658	—	—
Corporate bonds	1,033,716	12,718	—	—
Municipal securities	496,670	676	—	—
Total	\$36,384,817	\$ 349,495	\$ —	\$ —

We believe all of the unrealized losses as of December 31, 2005 are temporary and as a result of temporary changes in the market. The number of securities with unrealized losses at December 31, 2005 was sixty-six. Six of those are agency obligations, forty-one are mortgage-backed securities, fifteen are municipal securities and four are corporate bonds. The number of securities with unrealized losses at December 31, 2004 was twenty-six. Four of those are agency obligations, nineteen are mortgage-backed securities, one is a municipal security and two are corporate bonds. We do not anticipate selling the securities for losses and have sufficient cash and investments showing unrealized gains and borrowing sources to provide sufficient liquidity to hold the securities until maturity if necessary.

Investment securities with an aggregate book value of approximately \$69,703,000 and \$51,205,000 at December 31, 2005 and 2004, respectively, were pledged to secure public deposits and Federal Home Loan Bank borrowings.

For the years ended December 31, 2005, 2004 and 2003, proceeds from sales of securities available for sale amounted to \$17,065,375, \$19,798,735, and \$2,488,325, respectively. Gross realized gains amounted to \$409,970, \$329,420, and \$122,586, respectively. Gross realized losses amounted to \$67,576, \$33,848, and \$-0-, respectively.

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3. NET LOANS

A summary of loans outstanding by major classification follows:

	December 31,	
	2005	2004
Real estate	\$143,172,044	\$ 97,579,334
Commercial and industrial (non-real estate)	43,508,593	31,138,239
Installment loans to individuals for household, family and other personal expenditures	10,475,834	9,694,253
All other loans	1,846,330	1,234,607
	<u>199,002,801</u>	<u>139,646,433</u>
Allowance for loan losses	(1,415,897)	(1,136,258)
	<u>\$197,586,904</u>	<u>\$138,510,175</u>

The change in the allowance for loan losses is summarized as follows:

	2005	2004	2003
Balance, beginning of year	\$1,136,258	\$1,298,228	\$1,080,635
Provision charged to income	424,194	251,000	10,000
Recoveries on loans	15,762	7,681	354,047
Loans charged off	(160,317)	(420,651)	(146,454)
Balance, end of year	<u>\$1,415,897</u>	<u>\$1,136,258</u>	<u>\$1,298,228</u>

At December 31, 2005 and 2004, non-accrual loans totaled approximately \$484,000 and \$567,000, respectively. The gross interest income that would have been recorded under the original terms of the non-accrual loans amounted to approximately \$45,000 in 2005, \$32,000 in 2004 and \$63,000 in 2003.

As of December 31, 2005 and 2004, we had one impaired loan, which totaled \$351,315 and \$338,558, respectively. The average amount of impaired loans outstanding during 2005 and 2004 was \$347,507 and \$318,172, respectively. The actual amount of interest income recognized on the impaired loans during 2005, 2004 and 2003 was \$0, \$2,427 and \$0, respectively. The Bank's loan loss reserve model allocates a reserve based on the rating of loans, but no reserve is allocated for individual loans. The amount of the valuation allowance allocated to the impaired loan was \$105,395 and \$50,784 at December 31, 2005 and 2004, respectively.

4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2005	2004
Land	\$ 898,548	\$ 898,548
Construction in process	—	93,086
Buildings and improvements	4,783,239	3,617,744
Equipment	1,305,965	1,024,364
Furniture and fixtures	744,060	648,876
Electronic data processing	2,762,061	2,418,074
	<u>10,493,873</u>	<u>8,700,692</u>
Less accumulated depreciation	(4,747,263)	(4,347,792)
	<u>\$ 5,746,610</u>	<u>\$ 4,352,900</u>

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5. OTHER ASSETS

Other assets at December 31 consist of the following:

	<u>2005</u>	<u>2004</u>
Prepaid expenses	\$ 314,427	\$ 258,867
Bank owned life insurance	4,956,924	4,033,065
Repossessed assets	—	7,377
Other	75,721	153,504
Deferred taxes	783,246	—
	<u>\$6,130,318</u>	<u>\$4,452,813</u>

6. TIME DEPOSITS

At December 31, 2005 and 2004, time deposits of \$100,000 or more totaled approximately \$64,184,000 and \$38,221,000, respectively. We have brokered deposits of approximately \$22 million at December 31, 2005 and \$9 million at December 31, 2004.

Contractual maturities of time deposits are summarized as follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
12 months or less	\$ 72,645,186	\$46,940,811
1-3 years	30,902,012	19,837,553
Over three years	467,867	3,452,867
	<u>\$104,015,065</u>	<u>\$70,231,231</u>

7. FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS

At December 31, 2005, short term borrowings consisted of federal funds purchased and securities sold under agreements to repurchase. The outstanding balances and related information for these borrowings are summarized as follows:

	<u>Federal Funds Purchased</u>	<u>Securities Sold Under Agreements To Repurchase</u>
Outstanding at December 31, 2005	\$ 1,931,000	\$ 8,588,767
Maximum month-end outstandings	12,373,000	9,607,000

Federal funds purchased and securities sold under agreements to repurchase generally mature within one to three days from the transaction date.

8. LONG-TERM DEBT

At December 31, 2005 and 2004, we had fixed rate notes payable totaling \$58,847,043 and \$51,365,745, respectively, to FHLB. The fixed interest rates on these notes ranged from 1.93 to 6.67 percent at December 31, 2005 and 2004. During 2005, 2004 and 2003 interest expense on some of these fixed rate notes was (increased) reduced by approximately (\$17,000), \$246,000 and \$113,000, respectively, through the utilization of interest rate swaps accounted for as a fair value hedge.

We have pledged as collateral our FHLB stock, certain investment securities and have entered into a blanket collateral agreement whereby we will maintain, free of other encumbrances, qualifying mortgages with a book value of at least 135 percent of total advances.

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The contractual maturities at December 31, 2005, are as follows:

2006	\$ 6,100,000
2007	4,067,567
2008	9,111,705
2009	8,000,000
2010	6,172,114
Thereafter	<u>25,395,657</u>
	<u>\$58,847,043</u>

In October 2004, the Company issued \$6.186 million of junior subordinated debentures to its wholly-owned capital Trust to fully and unconditionally guarantee the trust preferred securities issued by the Trust. These long-term obligations, currently qualify as Tier I capital for the Company. Also, see the detailed discussion regarding the accounting treatment of the Trust in the summary of significant accounting policies.

The junior subordinated debentures mature in October 2034, but include an option to call the debt in October 2009. Interest payments are due quarterly to Trust at the three-month LIBOR plus 220 basis points.

9. UNUSED LINES OF CREDIT

As of December 31, 2005, we have an unused short-term line of credit to purchase federal funds from correspondent banks totaling \$14.7 million and other unused short term lines of credit from other financial institutions totaling \$12.4 million.

We also have the ability to borrow an additional \$24.1 million from the Federal Home Loan Bank. The borrowings are available by pledging collateral and purchasing additional stock in the Federal Home Loan Bank.

10. OFF-BALANCE SHEET ACTIVITIES, COMMITMENTS AND CONTINGENCIES

In the normal course of our business, we are a party to financial instruments with off-balance sheet risk. 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 accompanying balance sheets. The contract amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments. We use the same credit policies in making commitments as for making loans. Commitments to extend credit in the future represent financial instruments involving credit risk. A summary of our commitments at December 31, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Commitments to extend credit	\$42,910,000	\$30,366,000
Standby letters of credit	2,417,000	770,000
	<u>\$45,327,000</u>	<u>\$31,136,000</u>

Commitments to extend credit are agreements to lend as long as there is no violation of the conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, obtained upon extension of credit is based on our credit evaluation.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances that we deem necessary. Newly issued or modified guarantees are to be

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recorded on the Company's balance sheet at fair value at inception. As of December 31, 2005 and 2004, no liability has been recorded related to these guarantees.

Concentrations of Credit Risk - Substantially all of our loans and commitments to extend credit have been granted to customers in our market area and such customers are generally depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Our primary focus is toward consumer and small business transactions, and accordingly, we do not have a significant number of credits to any single borrower or group of related borrowers in excess of \$2,500,000.

From time to time, we have cash and cash equivalents on deposit with financial institutions that exceed federally insured limits.

Litigation - We are a party to litigation and claims arising in the normal course of business. After consultation with legal counsel, we believe that the liabilities, if any, arising from such litigation and claims will not be material to our financial position.

11. STOCKHOLDERS' EQUITY

We have 1,000,000 authorized but unissued shares of preferred stock (par value \$5). Should we ever issue preferred stock, our directors will set the designation of terms, conditions and amounts.

12. BENEFIT PLANS

Defined Contribution Plan - We have a 401(k) Profit Sharing Plan for the benefit of our employees. Subject to annual approval by the Board of Directors, we match employee contributions of up to 4% of compensation in accordance with plan guidelines. Contributions of \$89,991, \$81,230 and \$74,344 were charged to expense during 2005, 2004 and 2003, respectively.

Stock Option Plan - Effective April 28, 2005, the Greer State Bank Employee Incentive Stock Option Plan (the "Plan") was terminated. Outstanding options issued under the former Plan will be honored in accordance with the terms and conditions in effect at the time they were granted, except that they are not subject to reissuance. At December 31, 2005, there were 54,999 options outstanding that had been issued under the terminated Plan.

Effective April 28, 2005, the Company adopted the 2005 Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan provides for the granting of statutory incentive stock options within the meaning of Section 422 of the Internal Revenue Code as well as non-statutory stock options. The Incentive Plan authorized the initial issuance of options and restricted stock to acquire up to 250,000 shares of common stock of the Company. The Incentive Plan provides that beginning with the annual meeting of the shareholders in 2006 and continuing for the next eight annual meetings, the aggregate number of shares of common stock that can be issued under the Incentive Plan will automatically be increased by a number of shares equal to the least of (1) 2% of the diluted shares outstanding, (2) 20,000 shares or (3) a lesser number of shares determined by the Board. Diluted shares outstanding mean the sum of (a) the number of shares of common stock outstanding on the date of the applicable annual meeting of shareholders, (b) the number of shares of common stock issuable on such date assuming all outstanding shares of preferred stock and convertible notes are then converted, and (c) the additional number of shares of common stock that would be outstanding as a result of any outstanding options or warrants during the fiscal year of such meeting using the treasury stock method.

Under the Incentive Plan, awards may be granted for a term of up to ten years from the effective date of grant. The Board of Directors has sole discretion as to the exercise date of any awards granted. The per-share exercise price of incentive stock options may not be less than the fair value of a share of common stock on the date the option is granted. The per-share exercise price of nonqualified stock options may not be less than 85% of the fair value of a share on the effective date of grant. Any options that expire unexercised or are canceled become available for reissuance. No awards may be granted more than 10 years after the date the Incentive Plan was approved by the Board of Directors, which was September 24, 2004. At December 31, 2005, the Company had 80,415 awards available for grant under the 2005 Equity Incentive Plan.

Vesting under both plans is discretionary based upon a determination by the Board of Directors.

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We apply APB Opinion 25 and related interpretations in accounting for the plans. Accordingly, no compensation cost has been charged to operations. Had compensation cost for the Plan been determined based on the fair value at the grant dates for awards under the plans consistent with the accounting method available under SFAS No. 123, "Accounting for Stock-Based Compensation," our net income per share and our net income would have been reduced to the proforma amounts indicated below (as adjusted for a 3 for 2 stock split in March 2004):

	2005	2004	2003
Net income:			
As reported	\$2,794,553	\$2,559,686	\$2,232,263
Add: Stock-based compensation, net of tax	24,000	—	—
Less: Stock-based compensation under SFAS 123, net of applicable tax	(281,811)	(28,702)	(41,404)
Proforma	<u>\$2,536,742</u>	<u>\$2,530,984</u>	<u>\$2,190,859</u>
Basic net income per share of common stock:			
As reported	\$ 1.14	\$ 1.05	\$.92
Proforma	1.07	1.04	.91
Diluted net income per share of common stock:			
As reported	\$ 1.12	\$ 1.05	\$.92
Proforma	1.05	1.03	.90

The fair value of each option grant is estimated on the date of grant using the Black - Scholes option pricing model with the following weighted average assumptions for grants:

	2005	2004	2003
Dividend yield	3.00%	2.90%	5.00%
Expected volatility	12.50%	12.50%	12.50%
Risk-free interest rate	4.10%	3.40%	3.85%
Expected life	7.3 years	6.5 years	8.4 years

A summary of the status of the plans as of December 31, 2005, 2004 and 2003, and changes during the years ending on those dates is presented below (all per share amounts have been adjusted for the 3 for 2 stock split in 2004):

	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	102,819	\$ 14.91	97,008	\$ 14.76	84,197	\$ 12.59
Granted	171,300	19.14	13,500	17.00	29,250	18.67
Exercised	(18,819)	13.73	(7,689)	16.74	(13,889)	10.32
Forfeited or expired	(7,091)	17.14	—	—	(2,550)	12.05
Outstanding at end of year	<u>248,209</u>	\$ 17.84	<u>102,819</u>	\$ 14.91	<u>97,008</u>	\$ 14.76
Options exercisable at year-end	122,882	\$ 19.61	64,126	\$ 15.17	53,508	\$ 14.60
Shares available for grant	80,415		98,325		111,825	
Weighted average fair value of options granted during the year	\$ 2.70		\$ 1.86		\$ 3.63	

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The following table summarizes information at December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 6.83 – 12.58	20,947	2.32 years	\$ 9.34	12,846	\$ 9.48
\$15.50 – 18.67	162,462	8.02 years	16.10	60,736	16.83
\$19.30 – 27.50	64,800	9.68 years	24.96	49,300	25.67
	<u>248,209</u>	7.97 years	\$ 17.84	<u>122,882</u>	\$ 19.61

Non-Qualified Plans - We have established certain non-qualified benefit plans for certain key executive officers and directors. The benefits under the plan are computed and payable under certain terms as specified in each agreement. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of each agreement until the initial payments are made at the normal retirement dates. We have purchased and are the owner and beneficiary of certain life insurance policies that will be used to finance the benefits under these agreements. The charge to income was approximately \$141,000, \$109,000 and \$81,000 during 2005, 2004 and 2003, respectively. The cumulative accrued liabilities for the agreements are presenting in the accompanying consolidated balance sheets in "Other Liabilities."

13. INCOME TAXES

The components of the provision for income taxes are as follows:

	2005	2004	2003
Current income tax expense:			
State	\$ 149,000	\$118,000	\$103,000
Federal	796,165	501,632	442,751
	<u>945,165</u>	<u>619,632</u>	<u>545,751</u>
Deferred Federal income tax expense (benefit)	(189,942)	35,925	(54,000)
Provision for income taxes	<u>\$ 755,223</u>	<u>\$655,557</u>	<u>\$491,751</u>

The provision for income taxes differs from the amount of income tax computed at the federal statutory rate due to the following:

	2005		2004		2003	
	Amount	Percent of Income Before Tax	Amount	Percent of Income Before Tax	Amount	Percent of Income Before Tax
Income before income taxes	<u>\$3,549,776</u>		<u>\$3,215,243</u>		<u>\$2,724,014</u>	
Tax at statutory rate	\$1,207,000	34.0%	\$1,093,000	34.0%	\$ 926,000	34.0%
Tax effect of:						
Federally tax exempt interest income	(302,000)	(8.5)	(474,000)	(14.7)	(465,000)	(17.1)
State taxes, net of federal benefit	98,000	2.8	78,000	2.4	68,000	2.4
Reversal of valuation allowance	(130,500)	(3.7)	—	—	—	—
Other-net	(117,277)	(3.3)	(41,443)	(1.3)	(37,249)	(1.3)
Income tax provision	<u>\$ 755,223</u>	<u>21.3%</u>	<u>\$ 655,557</u>	<u>20.4%</u>	<u>\$ 491,751</u>	<u>18.0%</u>

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Deferred tax assets are included in other assets (other liabilities in 2004) and consist of the following:

	December 31,	
	2005	2004
Deferred tax assets:		
Bad debts	\$ 361,000	\$ 293,000
Investment securities	122,946	—
Deferred compensation	534,000	391,286
Other	49,300	—
	<u>1,067,246</u>	<u>684,286</u>
Less valuation allowance	—	(130,500)
	<u>1,067,246</u>	<u>553,786</u>
Deferred tax liabilities:		
Investment securities	—	524,415
Depreciation	142,000	162,600
Prepaid expenses	142,000	112,700
	<u>284,000</u>	<u>799,715</u>
Net deferred tax asset (liability)	<u>\$ 783,246</u>	<u>\$(245,929)</u>

14. OTHER NONINTEREST INCOME

Other noninterest income for the years ended December 31, 2005, 2004 and 2003 consist of the following:

	2005	2004	2003
Earnings on life insurance policies	\$200,250	\$159,020	\$145,249
Card service income	168,802	133,589	101,096
Safe deposit box rental	20,363	19,725	20,520
Investment services	410,798	281,964	262,182
Other fees	136,158	83,507	82,986
	<u>\$936,371</u>	<u>\$677,805</u>	<u>\$612,033</u>

15. OTHER NONINTEREST EXPENSES

Other noninterest expense for the years ended December 31 consist of the following:

	2005	2004	2003
Loan department expenses	\$ 146,618	\$131,477	\$112,221
General operating expenses	468,018	412,291	437,248
Educational expenses	63,971	41,591	61,621
Credit card expense	109,344	116,305	104,107
Travel and entertainment	99,240	70,974	48,018
Telephone expense	92,277	76,112	75,207
Internet banking expense	78,448	73,870	54,293
Other expense	21,730	70,635	14,174
	<u>\$1,079,646</u>	<u>\$993,255</u>	<u>\$906,889</u>

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16. TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers are customers of and had transactions with the Bank in the ordinary course of business. Included in such transactions are outstanding loans and commitments, all of which were made on comparable terms, including interest rate and collateral, as those prevailing at the time for our other customers and did not involve more than normal risk of collectibility or present other unfavorable features.

Aggregate loan transactions with these related parties are as follows:

	2005	2004
Balance, beginning	\$4,596,992	\$ 4,072,000
Advances	2,128,719	1,835,965
Repayments	(914,458)	(1,310,973)
Balance, ending	<u>\$5,811,253</u>	<u>\$ 4,596,992</u>

In addition to the balance outstanding, directors and executive officers had available unused lines of credit totaling approximately \$1,749,000 and \$1,617,000 at December 31, 2005 and 2004, respectively.

We have an unfunded Deferred Compensation Plan for our directors. Electing directors may annually defer directors' fees, which are then eligible for various future payment plans as chosen by the director. Deferred amounts earn interest currently at 12%. Deferrals, including interest, under the Plan during 2005, 2004 and 2003, totaled approximately \$173,000, \$153,000 and \$124,000, respectively.

17. EMPLOYMENT AGREEMENT

The Company has entered into an employment agreement with a key officer to ensure a stable and competent management base. The agreement provides for benefits as spelled out in the contract and can be terminated by the Board of Directors with 180 days written notice, or can be terminated immediately for cause. In the event of a change in control of Company, as outlined in the agreement, the acquirer will be bound to the terms of the contract.

18. REGULATORY MATTERS

Dividends - Our ability to pay cash dividends from the Bank to the Holding Company is restricted by state banking regulations to the amount of our retained earnings. At December 31, 2005, the Bank's retained earnings were approximately \$9,497,000.

Capital Requirements - We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

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As of December 31, 2005, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed our category. Our actual capital amounts (in thousands) and ratios and minimum regulatory amounts (in thousands) and ratios are presented as follows:

	Actual		For Capital Adequacy Purposes Minimum		To Be Well Capitalized Under Prompt Corrective Action Provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	As of December 31, 2005					
Total risk-based capital (to risk-weighted assets)	\$28,038	12.2%	\$ 18,401	8.0%	\$ 23,002	10.0%
Tier 1 capital (to risk-weighted assets)	\$26,632	11.6%	\$ 9,201	4.0%	\$ 13,801	6.0%
Tier 1 capital (to average assets)	\$26,632	9.1%	\$ 9,374	4.0%	\$ 11,718	5.0%
As of December 31, 2004						
Total risk-based capital (to risk-weighted assets)	\$26,491	16.2%	\$ 13,108	8.0%	\$ 16,385	10.0%
Tier 1 capital (to risk-weighted assets)	\$25,355	15.5%	\$ 6,554	4.0%	\$ 9,831	6.0%
Tier 1 capital (to average assets)	\$25,355	10.8%	\$ 9,374	4.0%	\$ 11,717	5.0%

The Parent Company is also subject to these capital requirements. At December 31, 2005 the Tier 1 risk-based capital ratio and the total risk based capital ratio were 12.0% and 12.6%, respectively.

We are required by the Federal Reserve Bank to maintain average cash reserve balances at the Federal Reserve Bank and in working funds based upon a percentage of deposits. The required amount of these reserve balances at December 31, 2005 was approximately \$100,000.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of fair value information, whether or not recognized in the balance sheet, when it is practicable to estimate the fair value. SFAS 107 defines a financial instrument as cash, evidence of an ownership interest in an entity, or contractual obligations that require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including our common stock, premises and equipment, real estate held for sale and other assets and liabilities. We used the following methods and assumptions in estimating fair values of financial instruments:

- Fair value approximates carrying amount for cash and due from banks due to the short-term nature of the instruments.
- Investment securities are valued using quoted fair market prices.
- Fair value for variable rate loans that re-price frequently and for loans that mature in less than one year is based on the carrying amount. Fair value for mortgage loans, personal loans and all other loans (primarily commercial) is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate the rates currently offered for similar loans of comparable terms and credit quality.
- Cost is a reasonable estimate of fair value for our restricted stock because no quoted market prices are available and the securities are not readily marketable. The carrying amount is adjusted for any permanent declines in value.
- The carrying amount for the cash surrender value of life insurance is a reasonable estimate of fair value.
- The carrying value for accrued interest receivable and payable is a reasonable estimate of fair value.
- Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying amount. Certificate of deposit accounts maturing within one year are valued at their carrying amount. Certificate of deposit accounts maturing after one year are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

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- Fair value for federal funds sold and purchased and repurchase agreements is based on the carrying amount since these instruments typically mature within ninety days from the transaction date.
- Fair value for variable rate long-term debt that re-prices frequently is based on the carrying amount. Discount rates used in these computations approximate rates currently offered for similar loans of comparable terms and credit quality.
- Fair values for derivatives are based on the present value of future cash flows based on the interest rate spread between the fixed rate and the floating rate.

We have used our best estimate of fair value based on the above assumptions. Thus, the fair values presented may not be the amounts that could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses that would be incurred in an actual sale or settlement are not taken into consideration in the fair values presented. The estimated fair values of our financial instruments are as follows:

	December 31,			
	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	\$ 6,834,040	\$ 6,834,040	\$ 5,719,739	\$ 5,719,739
Federal funds sold	—	—	650,000	650,000
Investment securities	78,024,825	77,076,630	72,528,941	72,371,141
Loans - net	197,586,904	196,504,555	138,510,175	138,881,528
Restricted stock	3,508,814	3,508,814	3,120,014	3,120,014
Accrued interest receivable	1,615,435	1,615,535	1,137,938	1,137,938
Bank owned life insurance	4,956,924	4,956,924	4,033,065	4,033,065
Financial liabilities				
Deposits	\$ 199,186,721	\$ 184,370,356	\$ 150,259,936	\$ 139,926,328
Federal funds purchased	1,931,000	1,931,000	—	—
Repurchase agreements	8,588,767	8,588,767	—	—
Notes payable to FHLB	58,847,043	59,990,902	51,365,745	53,135,582
Junior subordinated debentures	6,186,000	6,186,000	6,186,000	6,186,000
Accrued interest payable	1,392,901	1,392,901	705,561	705,561
Derivatives	820,524	820,524	409,635	409,635

20. ON-BALANCE SHEET ACTIVITIES

We use derivatives as a fair value hedge for fixed rate Federal Home Loan Bank advances. The derivatives provide for the Company to make payments at a variable rate determined by a specified index (three month LIBOR) in exchange for receiving payments at a weighted average fixed rate of 3.18%. During 2005, 2004 and 2003 we recognized approximately (\$17,000), \$246,000 and \$113,000, respectively, as an (increase) reduction of interest expense on Federal Home Loan Bank Advances as a result of the use of derivatives.

To determine the effectiveness of the derivative swap agreements, the change in fair value of the derivatives is compared to the fair value of the hedged item. The net difference between those fair value amounts was not material. There were no maturities, sales or terminations of any swaps in 2005 or 2004.

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At December 31, 2005 and 2004, the information pertaining to outstanding interest rate swap agreements used to hedge fixed rate borrowings is as follows:

	<u>2005</u>	<u>2004</u>
Notional amount	\$14,000,000	\$14,000,000
Weighted average fixed (receive) rate	3.18%	3.18%
Weighted average variable (pay) rate	3.30%	1.42%
LIBOR rate at year end	4.54%	2.56%
Weighted average maturity in years	4.31 years	5.31 years
Unrealized loss relating to interest rate swaps at year end	\$ (820,524)	\$ (409,635)

Although on-balance sheet derivative financial instruments do not expose the company to credit risk equal to the notional amount, such agreements generate credit risk to the extent of any fair value gain in an on-balance sheet derivative financial instrument if the counterparty fails to perform. Such risk is minimized through the creditworthiness of the counterparties and the consistent monitoring of these agreements.

21. CONDENSED PARENT COMPANY FINANCIAL INFORMATION

The following condensed financial information for Greer Bancshares Incorporated (Parent Company only) should be read in conjunction with the consolidated financial statements and the notes thereto.

Parent Company Only
Condensed Balance Sheets

	<u>2005</u>	<u>2004</u>
Assets:		
Cash and cash equivalents	\$ 316,584	\$ 126,328
Investment in Trust	186,000	186,000
Equity in net assets of bank subsidiary	26,435,348	26,192,213
Taxes receivable	260,690	82,337
Premises and equipment	633,828	683,481
Total assets	<u>\$27,832,450</u>	<u>\$27,270,359</u>
Liabilities and Stockholders' equity:		
Liabilities:		
Junior subordinated debentures	\$ 6,186,000	\$ 6,186,000
Interest payable trust preferred	82,140	51,129
Total liabilities	<u>6,268,140</u>	<u>6,237,129</u>
Stockholders' equity	<u>21,564,310</u>	<u>21,033,230</u>
Total liabilities and stockholders' equity	<u>\$27,832,450</u>	<u>\$27,270,359</u>

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Parent Company Only
Condensed Statements of Income

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income - dividends from bank subsidiary	\$ 1,764,545	\$ 1,693,161	\$ 1,449,849
Expenses:			
Interest on long term borrowings	339,567	55,389	—
Noninterest expense	47,892	35,634	50,733
Total expenses	<u>387,459</u>	<u>91,023</u>	<u>50,733</u>
Income before taxes	1,377,086	1,602,138	1,399,116
Income tax benefit	<u>(140,236)</u>	<u>(30,948)</u>	<u>(17,249)</u>
Income before equity earnings	1,517,322	1,633,086	1,416,365
Equity in undistributed earnings of bank subsidiary	<u>1,277,231</u>	<u>926,600</u>	<u>815,898</u>
Net income	<u>\$ 2,794,553</u>	<u>\$ 2,559,686</u>	<u>\$ 2,232,263</u>

Parent Company Only
Condensed Statements of Cash Flows

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating activities:			
Net income	\$ 2,794,553	\$ 2,559,686	\$ 2,232,263
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity earnings of bank subsidiary	(1,277,231)	(926,600)	(815,898)
Stock-based compensation	38,750	—	—
Change in operating assets and liabilities	<u>(109,228)</u>	<u>20,181</u>	<u>(17,248)</u>
Net cash provided by operating activities	<u>1,446,844</u>	<u>1,653,267</u>	<u>1,399,117</u>
Investing activities:			
Purchase of premises	—	(623,828)	(10,000)
Construction in process	—	(49,653)	—
Proceeds from sale of construction in progress to subsidiary	49,653	—	—
Investment in subsidiary	<u>—</u>	<u>(6,000,000)</u>	<u>—</u>
Net cash used by investing activities	<u>49,653</u>	<u>(6,673,481)</u>	<u>(10,000)</u>
Financing activities:			
Proceeds from the issuance of long-term debt	—	6,000,000	—
Cash dividends paid	(1,564,543)	(1,093,602)	(1,613,132)
Proceeds from exercise of stock options	258,302	128,782	143,340
Cash in lieu of fractional shares on stock dividend	<u>—</u>	<u>(4,865)</u>	<u>—</u>
Net cash provided (used) by financing activities	<u>(1,306,241)</u>	<u>5,030,315</u>	<u>(1,469,792)</u>
Net increase (decrease) in cash and cash equivalents	190,256	10,101	(80,675)
Cash and cash equivalents at beginning of year	126,328	116,227	196,902
Cash and cash equivalents at end of year	<u>\$ 316,584</u>	<u>\$ 126,328</u>	<u>\$ 116,227</u>

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CORPORATE AND SHAREHOLDER INFORMATION**Corporate Offices**

Greer Bancshares Incorporated
1111 West Poinsett Street
PO Box 1029
Greer, South Carolina 29652
864.877.2000

Banking Locations

Poinsett Street Office
1111 West Poinsett Street
Greer, South Carolina 29650
864.877.2000

North Main Street
601 North Main Street
Greer, South Carolina 29650
864.848.5103

Buncombe Road Office
871 South Buncombe Road
Greer, South Carolina 29650
864.848.2563

Taylor's Office
3317 Wade Hampton Blvd.
Taylors, SC 29687
864.770.0878

Shareholder Relations
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07106
1.800.368.5948

Form 10-K and Other Information

The approximate number of record shareholders as of December 31, 2005 was 1,196. Copies of Greer Bancshares Incorporated's Annual Report to the United States Securities and Exchange Commission, Form 10-K, and other information may be obtained by submitting a written request to:

Mr. J. Richard Medlock, Jr.
Executive Vice President & Chief Financial Officer
Greer Bancshares Incorporated
PO Box 1029
Greer, South Carolina 29652-1029

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BANK OFFICERS

R. DENNIS HENNETT
Chief Executive Officer

KENNETH M. HARPER
President

J. RICHARD MEDLOCK, JR.
Executive Vice President & Chief Financial Officer

SANDRA L. BURDETTE
Executive Vice President & Chief Operations Officer

E. PIERCE WILLIAMS, JR.
Executive Vice President/Credit Administration & Commercial Lending

VICTOR K. GROUT
Senior Vice President/Commercial Banking Manager

GREG SISK
Senior Vice President/Community Executive of Taylors Office

J. WILLIAM HUGHES
Senior Vice President/Consumer Lending

WILLIAM S. HARRILL, JR.
Senior Vice President/Mortgage Lending

CHRIS M. TALLEY
Senior Vice President/Operations

HILDA W. MARCOS
Senior Vice President/Retail Banking

KELLY C. LONG
Vice President/Branch Manager of Buncombe Road Office

THOMAS L. WILLIAMS
Vice President/Branch Manager of North Main Office

JOE COPELAND
Vice President/Commercial Lending

LOLA C. HART
Vice President/Controller

DENISE W. PLUMBLEE
Vice President/Corporate Training Director/CRA Officer

RICK DANNER
Vice President/Human Resources and Security

ROBERT M. LEE
Vice President/Information Technology

DAVID FAUCETTE
Vice President/Internal Auditor

JUDY A. EDWARDS
Vice President/Manager, Loan Administration

SANDRA D. MASON
Vice President/Operations Officer

TRAVIS BARBARE
Assistant Vice President/Branch Manager of Poinsett Office

CHRISTY H. BLACKWELL
Assistant Vice President/Branch Manager of Taylors Office

MARVIN E. ROBINSON, JR.
Assistant Vice President/Commercial Lending

ELIZABETH C. SAYCE
Assistant Vice President/Loan Administration

ANN S. MILLER
Assistant Vice President/Manager EDP & Item Processing

BETH C. WATERS
Assistant Vice President/Marketing Director

SUE H. GAINES
Assistant Vice President/Mortgage Lending Officer

TERRI N. GRADY
Assistant Vice President/Operations

DENNIS TROUT
Assistant Vice President/Retail Banking

BRAD CANTRELL
Credit Administration Officer

DIXIE G. CARTMELL
Finance & Accounting Officer

GREER FINANCIAL SERVICES CORPORATION

ROGER SIMS
President/Financial Advisor

JASON R. KARR
Assistant Vice President/Financial Advisor

BANK STAFF

Meredith Alexander
Jason Baldwin
Jolynne Beck
Leslie Bell
Marsha Bennett
Charlotte Betts
Nancy Brown
Tammy Budove
Maury Cook
Karen Corn
Melissa Carroll
Angie Coleman
Sarah Crutchfield
Debra Day
Tammy Durham
Grace Edwards
Candice Good
Debra Goodrich
Lynda Green
Leigh Gregory
Sherri Groce
Patsy Hairston
Vince Harris
Cindy Hart
Doris Hendricks
Debra Joines

Joy Jordan
Tonya Kellett
Jennifer Kemp
Christy Kinard
Stacey Liljestrang
Jessica Long
Nikita Mack
Renee Massey
Donna McMakin
Donna Miller
Cindy Morrell
Joy Myers
Linda Oliver
Jinita Patel
Cindi Patterson
Brandi Prevatte
Martin Price
Gail S Pruitt
Ann Rainey
Nalani Ramza
Patsy Robinson
Tonda Rogers
Denise Ross
Jeanette Six
Mindi Smith
Teresa Smith
Kristi Twiddy
Ann Vaughn
Pat Vaughn
Pat Voss
Pat Wellmon
Marie Wilson

2005 ANNUAL REPORT

BOARD OF DIRECTORS

DAVID M. ROGERS, CHAIRMAN
Joshua's Way, Inc., President

MARK S. ASHMORE
Ashmore Bros. Inc./Century Concrete, President

WALTER M. BURCH
The Greer Citizen, Co-Publisher/General Manager

ANTHONY C. CANNON
Greer Commission of Public Works, Energy Manager

GARY M. GRIFFIN
Mutual Home Stores, Vice President

KENNETH M. HARPER
Greer Bancshares Inc. and Greer State Bank, President

R. DENNIS HENNETT
Greer Bancshares Incorporated & Greer State Bank/Chief Executive Officer

HAROLD K. JAMES
James Agency, Inc., Real Estate and Insurance, Vice President/Broker In Charge

PAUL D. LISTER
Paul D. Lister, CPA, LLC

THERON C. SMITH, III
Eye Associates of Carolina, PA, President

C. DON WALL
Professional Pharmacy of Greer, Inc., President

GREER BANCSHARES INCORPORATED EXECUTIVE OFFICERS

R. DENNIS HENNETT—Chief Executive Officer

KENNETH M. HARPER—President

J. RICHARD MEDLOCK, JR.—Secretary/Treasurer

GREER FINANCIAL SERVICES CORPORATION

ROGER SIMS—President and Investments Representative

JASON KARR—Assistant Vice President and Financial Advisor

JEANETTE SIX—Registered Client Services Manager

DEBRA GOODRICH—Administrative Assistant

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Greer
Bancshares
Incorporated

MEMBER FDIC

BANKING
LOCATIONS

Poinsett Office
111 West Landon Street
Poinsett, South Carolina 29577
(803) 777-1100

Buncombe Road Office
613 South Landon Street
Greer, South Carolina 29615
(803) 345-2233

North Main Street Office
115 South Main Street
Greer, South Carolina 29615
(803) 345-2233

Taylor's Office
111 West Landon Street
Poinsett, South Carolina 29577
(803) 777-1100



**THE ATTACHED INFORMATION CONSTITUTES A PORTION OF GREER
BANCSHARES INCORPORATED'S ANNUAL REPORT TO SHAREHOLDERS FOR
THE YEAR ENDED DECEMBER 31, 2005.**

*P.O. Box 1029 Greer, SC 29652-1029
Phone: 864-877-2000 Fax: 864-848-5141*

GREER BANCSHARES INCORPORATED

Selected Financial Data

The following table sets forth certain selected financial data concerning Greer Bancshares Incorporated. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations.

December 31, (Dollars in Thousands, Except per Share Data)	2005	2004	2003	2002	2001
SUMMARY OF OPERATIONS					
Interest and fee income	\$ 15,460	\$ 11,196	\$ 10,139	\$ 11,091	\$ 12,497
Interest expenses	6,210	3,849	3,618	4,132	6,049
Net interest income	9,250	7,347	6,521	6,959	6,448
Provision for loan losses	424	251	10	787	355
Net interest income after provision for loan losses	8,826	7,096	6,511	6,172	6,093
Noninterest income	2,261	2,127	1,902	2,805	1,704
Noninterest expense	8,292	6,663	6,181	6,454	5,671
Net income	<u>\$ 2,795</u>	<u>\$ 2,560</u>	<u>\$ 2,232</u>	<u>\$ 2,523</u>	<u>\$ 2,126</u>
PER SHARE DATA					
Earnings:					
Basic	\$ 1.14	\$ 1.05	\$ 0.92	\$ 1.05	\$ 0.91
Diluted	1.12	1.05	0.92	1.04	0.90
Dividends declared	0.64	0.45	0.67	0.33	0.00
Book Value	8.79	8.65	7.68	7.53	6.47
Weighted average shares outstanding:					
Basic	2,442,078	2,428,833	2,415,803	2,404,306	2,327,037
Diluted	2,504,856	2,447,589	2,438,631	2,429,867	2,355,512
SELECTED ACTUAL YEAR END BALANCES					
Total assets	\$ 299,447	\$ 231,291	\$ 214,134	\$ 192,531	\$ 180,052
Loans	199,003	139,646	115,565	107,661	114,360
Allowance for loan losses	1,416	1,136	1,298	1,081	1,245
Available For Sale Securities	49,543	37,054	66,760	52,163	49,754
Held To Maturity Securities	28,482	35,474	17,263	14,607	0
Deposits	199,187	150,260	152,961	137,563	131,171
Borrowings	69,367	52,185	40,057	34,837	31,615
Stockholders' Equity	21,564	21,033	19,708	18,613	15,926
SELECTED AVERAGE BALANCES					
Assets	\$ 271,695	\$ 225,647	\$ 200,217	\$ 183,999	\$ 174,513
Deposits	172,189	157,179	140,310	133,359	127,650
Stockholders' Equity	20,389	19,872	18,398	16,243	14,589
FINANCIAL RATIOS					
Return on average assets	1.03%	1.14%	1.11%	1.37%	1.22%
Return on average equity	13.71%	12.88%	12.13%	15.53%	14.83%
Average equity to average assets	7.50%	8.86%	9.19%	8.83%	8.36%
Dividend payout ratio	56.14%	42.86%	72.83%	31.43%	0.00%

GREER BANCSHARES INCORPORATED

*(Dollars in Thousands,
Except per Share Data)*

	2005 Quarter Ended				2004 Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Net interest income	\$2,653	\$2,433	\$2,152	\$2,012	\$2,245	\$1,759	\$1,689	\$1,654
Provision for loan losses	213	76	90	45	112	94	30	15
Noninterest income	591	540	480	650	446	624	549	590
Noninterest expense	1,894	2,031	1,849	1,763	1,605	1,538	1,503	1,443
Provision for income taxes	364	167	42	182	226	143	121	166
Net income	\$ 773	\$ 699	\$ 651	\$ 672	\$ 748	\$ 608	\$ 584	\$ 620
Basic earnings per share	\$ 0.31	\$ 0.28	\$ 0.27	\$ 0.28	\$ 0.30	\$ 0.25	\$ 0.24	\$ 0.26
Diluted earnings per share	\$ 0.30	\$ 0.28	\$ 0.26	\$ 0.28	\$ 0.30	\$ 0.24	\$ 0.24	\$ 0.25

DESCRIPTION OF THE COMPANY'S BUSINESS

Greer State Bank (the "Bank") was organized under a state banking charter in August 1988, and commenced operations on January 3, 1989. Greer Bancshares Incorporated (a one-bank holding company) is a South Carolina corporation formed in July 2001, primarily to hold all of the capital stock of Greer State Bank. Greer Bancshares Incorporated and the Bank, its wholly-owned subsidiary, are herein referred to as the "Company." In October 2004 the Company formed, and owns all the common stock of Greer Capital Trust I (the "Trust"). The Trust is a special purpose subsidiary organized for the sole purpose of issuing trust preferred securities. The Bank engages in commercial and retail banking, emphasizing the needs of small to medium businesses, professional concerns and individuals, primarily in Greer and surrounding areas in the upstate of South Carolina. The Company currently engages in no other business other than owning and managing the Bank and its "alternative investments" subsidiary, Greer Financial Services Corporation ("GFSC"), which offers securities exclusively through Raymond James Financial Services, Inc.

There were no significant changes to the Company's business in 2005.

Recent Events

In August 2005, the Bank opened a banking office on Wade Hampton Boulevard in Taylors. The Taylors Office is the Bank's fourth office, and its first located outside the city limits of Greer. In February 2006, the Company purchased 4.1 acres of land near its headquarters on Pennsylvania Avenue. The Company plans to begin construction of an operations/administration building during the latter half of 2006.

Critical Accounting Policies

General

The financial condition and results of operations presented in the consolidated financial statements, the accompanying notes to the consolidated financial statements and this section are, to a large degree, dependent upon our accounting policies. The selection and application of these accounting policies involve judgments, estimates and uncertainties that are susceptible to change. We discuss below those accounting policies that we believe are the most important to the portrayal and understanding of our financial condition and results of operations. These critical accounting policies require our most difficult, subjective and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting:

- Statement of Financial Accounting Standard ("SFAS") No. 5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and estimatable; and
- SFAS No. 114, Accounting by Creditors for Impairment of a Loan, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

GREER BANCSHARES INCORPORATED

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by our management and is based upon our periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by us in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment disclosures.

Results of Operations

This discussion and analysis is intended to assist the reader in understanding the financial condition and results of operations of Greer Bancshares Incorporated and its wholly-owned subsidiary, Greer State Bank. The commentary should be read in conjunction with the consolidated financial statements and the related notes and the other statistical information in this report.

The following discussion describes our results of operations for 2005 as compared to 2004 and 2004 compared to 2003 and also analyzes our financial condition as of December 31, 2005 as compared to December 31, 2004. Like most community banks, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on approximately 85 percent of which we pay interest. We also use Federal Home Loan Bank advances, federal funds purchased and reverse repurchase agreements for funding loans and investments. One of our key measures of success is net interest income, or the difference between the income on interest-earning assets, such as loans and investments, and the expense on interest-bearing liabilities, such as deposits and other borrowings. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on interest-bearing liabilities.

We have included a number of tables to assist in the description of these measures. For example, the "Average Balances" table shows the average balances during 2005, 2004 and 2003 of each category of assets and liabilities, as well as the yield we earned or the rate we paid with respect to each category. A review of this table shows that loans typically provide higher interest yields than do other types of interest earning assets, which is why we intend to channel a substantial percentage of our earning assets into our loan portfolio. Similarly, the "Rate/Volume Analysis" table helps demonstrate the impact of changing interest rates and the changing volume of assets and liabilities during the years shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates as shown in the "Sensitivity Analysis Table." Finally, we have included a number of tables that provide detail about our investment securities, loans and our deposits and other borrowings.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. We have included a detailed discussion of this process, as well as tables, describing our allowance for loan losses.

In addition to earning interest on loans and investments, we earn income through fees and other expenses we collect for services provided to our customers. We describe the various components of this noninterest income, as well as noninterest expense, in the following discussion.

GREER BANCSHARES INCORPORATED

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the consolidated financial statements and the related notes and the other statistical information also included in this report.

Management's Discussion and Analysis of Financial Condition and Results of Operations***Year ended December 31, 2005 compared with year ended December 31, 2004***

Net income for the year ended December 31, 2005 was \$2,794,553 or \$1.12 per diluted share, compared to \$2,559,686, or \$1.05 per diluted share for the year ended December 31, 2004, which was an increase of \$234,867, or 9.2%. The improvement in net income was primarily the result of continued growth in the Bank's loan portfolio. Net interest income increased \$1,902,948 or 25.9%, to \$9,249,955 for the year ended December 31, 2005. Noninterest income also increased \$134,163, or 6.3%, to \$2,261,086 for the year ended December 31, 2005. Noninterest expenses increased \$1,529,384, or 25.5%, primarily due to an increase of \$1,197,931, or 34.8%, in salaries and benefits. The increase in salaries and benefits related to the addition of sixteen full-time equivalent employees during 2005 due to an increase in the Company's total assets of \$68,978,065, combined with annual salary adjustments. Eight of the sixteen additional employees were employed to staff the new Taylors Office.

Year ended December 31, 2004 compared with year ended December 31, 2003

Net income for the year ended December 31, 2004 was \$2,559,686 or \$1.05 per diluted share, compared to \$2,232,263 or \$.92 per diluted share, for the year ended December 31, 2003, which was an increase of \$327,423 or 14.7%. The improvement in net income was the result of growth in the Bank's loan portfolio. Net interest income increased \$826,311 or 12.7%, to \$7,347,007 for the year ended December 31, 2004. Non-interest income also increased \$224,622, or 11.8%, to \$2,126,923 for the year ended December 31, 2004. Non-interest expenses increased \$318,704, or 5.6%, primarily due to an increase of \$329,062 or 10.6%, in salaries and benefits. In addition to the annual salary adjustments made, the increase in salaries and benefits was the result of an increase of three full-time equivalent employees during 2004.

Net Interest Income

Net interest income, the difference between interest earned and interest paid, is the largest component of our earnings and changes in it have the greatest impact on net income. Variations in the volume and mix of assets and liabilities and their relative sensitivity to interest rate movements determine changes in net interest income. Interest rate spread and net interest margin are two significant elements in analyzing our net interest income. Interest rate spread is the difference between the yield on average earning assets and the rate on average interest bearing liabilities. Net interest margin is calculated as net interest income divided by average earning assets.

Net interest income increased from \$7,347,007 for the year ended December 31, 2004 to \$9,249,955 for the year ended December 31, 2005. The increase in net interest income of \$1,902,948 or 25.9% was the result of the significant growth in the loan portfolio experienced during 2005, as well as an increase in lending rates. During 2005, the Federal Open Market Committee raised the federal funds rate eight times for a total of 200 basis points. The prime lending rate, which generally moves up and down with changes in the federal funds rate, also increased 200 basis points during the year. At December 31, 2005, the Bank had approximately \$122 million in loans indexed to the Wall Street Journal prime rate. The Bank's loan portfolio increased by approximately \$59.3 million, or 42.5%, during 2005, which resulted in an increase of approximately \$4,119,000 in interest income on loans. The increase in the loan portfolio was due to continued improvements in the economy and the addition of four lending officers during 2005.

Net interest income increased \$826,311 or 12.7% from \$6,520,696 for the year ended December 31, 2003 to \$7,347,007 for the year ended December 31, 2004. The increase was the result of the significant growth in the loan portfolio experienced in the second half of 2004. Beginning on June 30, 2004, the Federal Open Market Committee raised the federal funds rate five times for a total of 125 basis points. The prime lending rate also increased 125 basis points during the last six months of 2004. At December 31, 2004, the Bank had approximately \$83 million in loans indexed to the Wall Street Journal prime rate. The Bank's loan portfolio increased by approximately \$24 million, or 21%, during 2004. The majority of the growth occurred in the last six months of the year.

GREER BANCSHARES INCORPORATED

The following table sets forth for the periods indicated, the weighted-average yields earned, the weighted-average yields paid, the net interest spread and the net interest margin on earning assets. The table also indicates the average monthly balance and the interest income or expense by specific categories.

Average Balances, Income, Expenses, and Rates

Year Ended December 31, (Dollars in Thousands)	2005			2004			2003		
	Average Balance	Income/Expense	Yield/Rate (2)	Average Balance	Income/Expense	Yield/Rate (2)	Average Balance	Income/Expense	Yield/Rate (2)
Assets:									
Interest Earning Assets:									
Taxable Investments	\$ 59,317	\$ 2,468	4.16%	\$ 51,253	\$ 2,011	3.92%	\$ 42,680	\$ 1,435	3.36%
Non-Taxable Investments	21,995	1,000	6.89%	32,720	1,435	6.81%	31,331	1,405	6.92%
Int. Bearing Deposits in other banks	2,219	64	2.88%	1,402	16	1.14%	2,046	24	1.17%
Federal Funds Sold	3,578	96	2.68%	1,748	22	1.26%	3,067	35	1.14%
Loans (1)	163,580	11,831	7.24%	125,013	7,712	6.18%	107,961	7,241	6.57%
Total Interest Earning Assets	250,689	15,459	6.39%	212,136	11,196	5.76%	187,085	10,140	5.75%
Other noninterest-earning assets	15,893			17,132			13,132		
Total Assets	\$266,582			\$225,647			\$200,217		
Liabilities and Stockholder's Equity									
Interest Bearing Liabilities:									
NOW Accounts	\$ 29,864	32	0.11%	\$ 34,832	139	0.40%	\$ 32,029	217	0.68%
Money Market and Savings	29,566	684	2.31%	27,720	378	1.36%	26,917	324	1.20%
Time Deposits	81,948	2,511	3.06%	68,641	1,583	2.31%	58,077	1,410	2.43%
Federal Funds Purchased	1,261	172	13.64%	922	19	2.06%	98	1	1.02%
Repurchase Agreements	4,716	47	1.00%	—	—	—	—	—	—
FHLB Borrowings	58,850	2,424	4.12%	44,396	1,675	3.77%	39,653	1,667	4.20%
Other Long Term Debt	6,186	340	5.50%	1,331	55	4.13%	—	—	—
Total Interest Bearing Liabilities	212,391	6,210	2.92%	177,842	3,849	2.16%	156,774	3,619	2.31%
Noninterest-Bearing Liabilities:									
Demand Deposits	30,811			25,893			23,287		
Other Liabilities	2,531			2,040			1,758		
Total Noninterest-Bearing Liabilities	33,342			27,933			25,045		
Total Liabilities	245,733			205,775			181,819		
Stockholders' Equity	20,849			19,872			18,398		
Total Liabilities and Stockholders' Equity	\$266,582			\$225,647			\$200,217		
Net Interest Spread			3.47%			3.60%			3.44%
Net Interest Income		<u>\$ 9,250</u>			<u>\$ 7,347</u>			<u>\$ 6,521</u>	
Net Interest Margin			3.82%			3.78%			3.82%

(1) The effect of loans in nonaccrual status and fees collected is not significant to the computations. All loans and deposits are domestic.

(2) All Yields/Rates are computed on a Tax Equivalent Basis at a Federal Tax Rate of 34%.

The following table sets forth the effect that the varying levels of earning assets and interest-bearing liabilities and the changes in applicable rates have had on changes in net interest income during the periods indicated. The net changes in net interest income in this table can be traced to the difference in net interest income in the previous table, "Average Balances, Income, Expenses, and Rates."

GREER BANCSHARES INCORPORATED

Analysis of Changes in Net Interest Income

Year Ended December 31, (Dollars in Thousands)	2005 Compared with 2004 Variance Due to			2004 Compared with 2003 Variance Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Taxable Investments	\$ 317	\$ 140	\$ 457	\$ 288	\$ 288	\$ 576
Non-Taxable Investments	(470)	35	(435)	62	(32)	30
Interest-Bearing Deposits in other banks	9	39	48	(8)	(0)	(8)
Federal Funds Sold	23	51	74	(15)	2	(13)
Loans	2,379	1,740	4,119	901	(430)	471
Total	2,258	2,005	4,263	\$1,228	\$(172)	\$1,056
Interest Expense:						
NOW Accounts	(20)	(87)	(107)	\$ 19	\$ (97)	\$ (78)
Money Market and Savings	25	281	306	10	44	54
Time Deposits	307	620	927	256	(83)	173
Federal Funds Purchased	57	96	153	8	10	18
Repurchase Agreements	47	—	47	—	—	—
FHLB Borrowings	545	204	749	199	(191)	8
Other Long Term Debt	201	84	285	55	—	55
Total	\$1,162	\$1,198	\$2,360	\$ 547	\$(317)	\$ 230
Net Interest Income	\$1,096	\$ 807	\$1,903	\$ 681	\$ 145	\$ 826

(1) The rate/volume variances (change in volume times change in rate) have been allocated to the change attributable to rate.

The Company monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on its net interest income. The principal monitoring technique employed by the Company is the use of an interest rate risk management model that measures the effects movements in interest rates will have on net interest income and the present value of equity. Included in the interest rate risk management reports generated by the model is a report that measures our interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates.

The table included above shows the changes in interest income and expense during 2005 and 2004, and allocates the appropriate amount of income or expense to changes in rate or changes in volume. In 2005 interest income increased by approximately \$4,263,000 and interest expense increased by approximately \$2,360,000, which resulted in an increase of approximately \$1,903,000 in net interest income. The increases in both interest income and interest expense were due to the increases in volume and rate during the year. Earning assets increased in 2005 by approximately \$62,946,000, and interest-bearing liabilities increased by approximately \$59,061,000. Market interest rates increased during 2005 as the Federal Open Market Committee increased its target for the federal funds rate by a total of 200 basis points. Interest rate increases accounted for \$2,005,000 of the increase in interest income and \$1,198,000 of the increase in interest expense.

In 2004 interest income increased by approximately \$1,056,000, which was due to an increase in earning assets of approximately \$15,000,000. Interest expense increased by approximately \$230,000 in 2004 due to an increase of approximately \$8,412,000 in interest-bearing liabilities. The yield on earning assets declined during the first six months of 2004 as rates remained at fifty-year lows; however, market rates increased during the last half of the year and the yield on earning assets increased back to the level at which it was at the beginning of the year. The average rate paid on interest-bearing liabilities declined only by fifteen basis points in 2004, since minimum rates had previously been reached on many of the deposits. The result was a minimal decline in the spread and net interest margin.

GREER BANCSHARES INCORPORATED

The following table presents the Company's rate sensitivity at each of the time intervals indicated as of December 31, 2005. The table may not be indicative of the Company's rate sensitivity position at other points in time.

Interest Rate Sensitivity Analysis

December 31, 2005 (Dollars in thousands)	Three Months or Less	After Three Months Through Twelve Months	After One Year Through Five Years	After Five Years	Totals
Interest earning assets:					
Federal Funds Sold	\$ —	\$ —	\$ —	\$ —	\$ —
Interest bearing due from banks	563	0	0	0	563
Investment securities	4,790	10,337	24,748	41,978	81,853
Loans	120,447	23,034	50,627	4,895	199,003
Total interest earning assets	<u>125,800</u>	<u>33,371</u>	<u>75,375</u>	<u>46,873</u>	<u>281,419</u>
Cumulative interest earning assets	<u>\$125,800</u>	<u>\$ 159,171</u>	<u>\$ 234,546</u>	<u>\$281,419</u>	<u>\$281,419</u>
Interest bearing liabilities:					
Certificates of deposit	18,440	48,241	27,716	0	94,397
IRA's	2,379	3,408	5,169	0	10,956
Money Market Accounts	436	5,047	10,248	0	15,731
Transaction Accounts	0	549	27,302	27,665	55,516
Savings Accounts	1,677	1,307	1,794	1,742	6,520
Reverse Repurchase	8,589	0	0	0	8,589
FHLB Advances	29,514	2,141	28,013	0	59,668
Other Long Term Debt	—	—	—	6,186	6,186
Total interest bearing liabilities	<u>61,035</u>	<u>60,693</u>	<u>100,242</u>	<u>35,593</u>	<u>257,563</u>
Cumulative interest bearing liabilities	<u>\$ 61,035</u>	<u>\$ 121,728</u>	<u>\$ 221,970</u>	<u>\$257,563</u>	<u>\$257,563</u>
Gap Analysis:					
Interest sensitivity gap	<u>\$ 64,765</u>	<u>(\$27,322)</u>	<u>(\$24,867)</u>	<u>\$ 11,280</u>	<u>\$ 23,856</u>
Cumulative interest sensitivity gap	<u>\$ 64,765</u>	<u>\$ 37,443</u>	<u>\$ 12,576</u>	<u>\$ 23,856</u>	<u>\$ 23,856</u>
Cumulative gap ratio of interest earning assets to interest bearing liabilities	<u>206%</u>	<u>131%</u>	<u>106%</u>	<u>109%</u>	<u>109%</u>

The above table reflects the balances of interest-earning assets and interest-bearing liabilities at the earlier of their repricing or maturity dates. Overnight federal funds are reflected at the earliest pricing interval due to the immediate availability of the instruments. Debt securities are reflected at each instrument's ultimate maturity date. Scheduled payment amounts of fixed rate amortizing loans are reflected at each scheduled payment date. Scheduled payment amounts of variable rate amortizing loans are reflected at each scheduled payment date until the loan may be repriced contractually; the unamortized balance is reflected at that point. Interest-bearing liabilities with no contractual maturity, such as savings deposits and interest-bearing transaction accounts, are reflected in the repricing period indicated by appropriate historical data. Due to contractual arrangements, the Company has the opportunity to vary the rates paid on those deposits within a thirty-day or shorter period; however, historically rates on these types of deposits have not been immediately adjusted. When adjustments have been made to rates on savings and transaction accounts in the past, the adjustments have been only a fraction of the movement in overnight rates. Fixed rate time deposits, principally certificates of deposit, are reflected at their contractual maturity date. Securities sold under agreements to repurchase mature on a daily basis and are reflected in the earliest pricing period. Advances from Federal Home Loan Bank are reflected at their contractual maturity date.

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The Company generally would benefit from increasing market rates of interest when it has an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when it is liability-sensitive. We are asset-sensitive over the one to twelve month time frame. However, gap analysis is not a precise indicator of interest rate sensitivity. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. The analysis also does not consider any options relating to assets and liabilities (such as floors, ceilings, calls, etc.). Since gap analysis is not a precise indicator of interest sensitivity, management uses the Risk Analytics Interest Rate Risk Management Model. The model calculates the effects of interest rate movements on net interest income, and considers all characteristics of the Company's assets and liabilities, based on assumptions made by management.

Provision for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem credits. On a quarterly basis, the Bank's Board of Directors reviews and approves the appropriate level for the Bank's allowance for loan losses based upon management's recommendations, the results of the internal monitoring and reporting system and a review of historical statistical data for both the Bank and other financial institutions.

Additions to the allowance for loan losses, which are expensed as the provision for loan losses on our income statement, are made as needed to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. Loan losses and recoveries are charged or credited directly to the allowance. The amount of the provision is a function of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, the amount of loan losses actually charged against the reserve during a given period, and current and anticipated economic conditions. During 2005, we provided \$424,194 for loan losses, raising the balance to \$1,415,897 December 31, 2005 after charging off current year net bad debts of \$144,555. The reserve for loan losses was approximately .71% and .81% of total loans on December 31, 2005 and 2004, respectively. Non-performing loans (i.e., loans ninety days or more past due and loans on non-accrual status) as a percentage of average assets declined from December 31, 2004 to December 31, 2005 from .25% to .19%. The decrease in loan loss reserve as a percentage of loans was due to the decline in non-performing loans from 2004 to 2005. The Company's loan loss reserve model indicated the reserve was adequate at December 31, 2005.

The Bank's allowance for loan losses is based upon judgments and assumptions of risk elements in the portfolio, future economic conditions and other factors affecting borrowers. The process includes identification and analysis of loss potential in various portfolio segments utilizing a credit risk grading process and specific reviews and evaluations of significant problem credits. In addition, management monitors the overall portfolio quality through observable trends in delinquencies, charge-offs and general conditions in the market area. The adequacy of the allowance for loan losses and the effectiveness of our monitoring and analysis system are also reviewed periodically during examinations by the banking regulators.

Based on present information and ongoing evaluation, management considers the allowance for loan losses to be adequate to meet presently known and inherent risks in the loan portfolio. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions about future events that it believes to be reasonable, but which may or may not prove to be accurate. Our losses will undoubtedly vary from our estimates. Also, there is a possibility that charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required. The Company does not allocate the allowance for loan losses to specific categories of loans but evaluates the adequacy on an overall portfolio basis utilizing a risk grading system.

Noninterest Income

Noninterest income for the year ended December 31, 2005 was \$2,261,086 compared to \$2,126,923 for the year ended December 31, 2004, an increase of \$134,163 or 6.3%. Service charges and customer service fees relating to deposit accounts, which declined from \$1,153,546 for the year ended December 31, 2004 to \$982,321 for the year ended December 31, 2005, were the most significant portion of noninterest income. The majority of the decline in service charges and customer service fees was due to a decline of \$128,470 in non-sufficient funds fees and a decline of \$13,443 in service charges on business checking accounts, due to the offering of free business accounts in 2005. Gains on the sale of investment securities were \$342,394 in 2005, compared to \$295,572 in 2004. Investment securities were sold to fund the significant growth in the loan portfolio experienced during 2005. Other operating income, which is included in total

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non-interest income, increased from \$677,805 in 2004 to \$936,371 in 2005. The largest component of other operating income is income from financial management services, which increased from \$281,964 in 2004 to \$410,798 in 2005. Another significant component of other operating income is earnings on bank owned life insurance, which increased from \$159,020 in 2004 to \$200,251 in 2005, due to the purchase of an additional policy during the year.

Noninterest income for the year ended December 31, 2004 was \$2,126,923 compared to \$1,902,301 for the year ended December 31, 2003, an increase of \$224,622, or 11.8%. Service charges and customer service fees relating to deposit accounts, which increased from \$1,167,683 for the year ended December 31, 2003 to \$1,153,546 for the year ended December 31, 2004 were the most significant portion of noninterest income. Gains on the sale of investment securities were \$295,572 in 2004 compared to \$122,585 in 2003. Investment securities were sold to fund significant growth in the loan portfolio experienced in the last half of 2004. Other operating income, which is included in total noninterest income, increased from \$612,033 in 2003 to \$677,805 in 2004. The largest component of other operating income is income from financial management services, which increased from \$262,182 in 2003 to \$281,964 in 2004.

Noninterest Expenses

Noninterest expenses were \$7,537,071 for the year ended December 31, 2005 compared to \$6,007,687 for the year ended December 31, 2004. This was comprised primarily of salaries and employee benefits totaling \$4,637,950 for the year ended December 31, 2005 compared to \$3,440,019 for the year ended December 31, 2004. The increase in salaries and benefits was due to the increase of sixteen full-time equivalent employees during 2005 to support the growth experienced by the Company. Eight of the sixteen employees were hired to staff the Bank's Taylors Office, which was opened in August 2005. Also included in noninterest expenses is marketing expenses which increased from \$178,800 in 2004 to \$239,344 in 2005. The increase was due to an enhanced marketing effort designed to assist the growth of the Company. Professional fees increased from \$260,116 in 2004 to \$343,558 in 2005. The increase was due primarily to an increase of \$46,772 in fees paid to consultants, the majority of which was for consultation regarding future branch sites, and an increase of \$35,800 in professional audit and accounting fees, which was due to increased compliance and accounting requirements.

Noninterest expenses were \$6,007,687 for the year ended December 31, 2004 compared to \$5,688,983 for the year ended December 31, 2003. This was comprised primarily of salaries and employee benefits totaling \$3,440,019 for the year ended December 31, 2004 compared to \$3,110,957 for the year ended December 31, 2003. The increase in salaries was due to annual salary adjustments and the addition of staff to support the Company's growth. Also, occupancy and equipment declined \$132,562, or 15.2%, from \$870,096 in 2003 to \$737,534 in 2004. The decline was due primarily to a decline in depreciation expense of \$110,405, or 24.8%, from \$445,725 in 2003 to \$335,320 in 2004. This decrease was due to certain equipment and software becoming fully depreciated early in 2004. Internet banking expense, a component of other noninterest expense, increased to \$73,870 in 2004 from \$54,293 in 2003, as the result of growth and additional features implemented in 2004. Marketing expenses declined by \$43,750, or 19.7%, in 2004 to \$178,800 from \$222,550 in 2003. Included in marketing expenses in 2003 were approximately \$70,000 in expenses for marketing programs relating to one-time promotions. All other operating expenses increased primarily as a result of the continued growth of the Company.

Income Taxes

For the year ended December 31, 2005, the Company recorded income tax expense in the amount of \$755,223, which was net of a one-time adjustment of \$130,500 made in June 2005 to reverse a valuation allowance that was no longer needed. The gross amount of tax expense before the adjustment resulted in an effective tax rate of 24.9%. The effective tax rate for 2005 was higher than previous years due to the decline in tax-exempt income in 2005. Tax-exempt income totaled \$1,000,288 in 2005, compared to \$1,434,924 in 2004. The decline was due to the sale of \$9,757,000 in tax-exempt municipal securities during 2005.

For the years ended December 31, 2004 and 2003, the Company recorded income tax expense in the amounts of \$655,557 and \$491,751, respectively. This resulted in an effective tax rate of 20.4% and 18.1% for the years ended December 31, 2004 and 2003, respectively. The increase in the effective tax rate is due to the decrease in the amount of tax-free income as a percentage of net interest income, which was 19.5% for 2004 and 21.6% for 2003. The amount of tax-free income the Company has is related to the amount of municipal securities and loans to municipalities that qualify as tax-exempt.

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Capital Resources

Total capital of the Company increased in 2005 by net income of \$2,794,553 and \$335,169 from the exercise of stock options, related tax benefits and a stock grant. Total capital was decreased by the change in accumulated other comprehensive income of (\$1,034,096). In addition, the Company paid cash dividends on April 15, June 15, September 15 and December 15, 2005 totaling \$1,564,543, or \$.64 per share. In 2004, total capital of the Company was increased by net income of \$2,559,686 and \$132,783 from the exercise of stock options. Total capital was decreased by the change in accumulated other comprehensive income of (\$268,560). In addition, the Company paid cash dividends on June 15, September 15 and December 15, 2004 totaling \$1,093,602, or \$.45 per share. The Company also paid cash in lieu of fractional shares in the amount of \$4,865 relating to a 3 for 2 stock split that was effective on March 15, 2004. In 2003, total capital of the Company was increased by net income of \$2,232,263, the exercise of stock options totaling \$161,779 and the change in accumulated other comprehensive income of \$313,607. The Company also paid cash dividends in the amount of \$1,613,132, or \$.67 per share on May 15 and November 15, 2003.

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital of the Company consists of common shareholders' equity minus unrealized gains plus unrealized losses on securities available for sale. In addition to Tier 1 capital requirements, Tier 2 capital consists of the allowance for loan losses subject to certain limitations. A bank holding company's qualifying capital base for purposes of its risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital. The holding company and banking subsidiary are also required to maintain capital at a minimum level based on average assets, which is known as the leverage ratio. Only the strongest bank holding companies and banks are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 100 to 200 basis points above the minimum.

Greer State Bank and the holding company exceeded the Federal Reserve's fully phased-in regulatory capital requirements at December 31, 2005, 2004 and 2003 as set forth in the following table.

Risk-Based Capital Ratios

(Dollars in thousands)

<u>Bank</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Tier 1 Capital	\$ 26,632	\$ 25,355	\$ 18,428
Tier 2 Capital	1,406	1,136	1,299
Total Qualifying Capital	<u>\$ 28,038</u>	<u>\$ 26,491</u>	<u>\$ 19,727</u>
Risk-adjusted total assets (including off-balance-sheet exposures)	<u>\$230,014</u>	<u>\$163,850</u>	<u>\$141,064</u>
Tier 1 risk-based capital ratio	11.58%	15.47%	13.06%
Total risk-based capital ratio	12.19%	16.17%	13.98%
Tier 1 leverage ratio	9.07%	10.82%	8.92%
	<u>Tier 1</u>	<u>Total</u>	<u>Tier 1</u>
	<u>Risk-Based</u>	<u>Risk-Based</u>	<u>Leverage</u>
Greer Bancshares capital ratios at December 31, 2005 were:	12.03%	12.64%	9.45%

Liquidity

The Company manages its liquidity from both the asset and liability side of the balance sheet through the coordination of the relative maturities of its assets and liabilities. Short-term liquidity needs are generally met from cash, due from banks, federal funds purchased and sold and deposit levels. The Company has federal funds lines in place totaling \$16.6 million, the ability to borrow additional funds from the Federal Home Loan Bank of up to 30% of the Bank's assets and also has a reverse repurchase line totaling \$20 million. Management has established policies and procedures governing the length of time to maturity on loans and investments, and has established policies regarding the use of alternative

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funding sources. In the opinion of management, our deposit base and lines of credit can adequately support our short-term liquidity needs.

Impact of Off-Balance Sheet Instruments

The Company has certain off-balance-sheet instruments in the form of contractual commitments to extend credit to customers. These legally binding commitments have set expiration dates and are at predetermined interest rates. The underwriting criteria for these commitments are the same as for loans in our loan portfolio. Collateral is also obtained, if necessary, based on the credit evaluation of each borrower. Although many of the commitments will expire unused, management believes that we have the necessary resources to fund these commitments. At December 31, 2005 and 2004, the Company's commitments to extend credit totaled approximately \$45,327,000 and \$31,136,000, respectively.

Impact of On-Balance Sheet Instruments

The Company utilizes derivative contracts to manage interest rate risk. The instruments consist of interest rate swaps and swaptions. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or referenced interest rate. The Company uses derivatives as fair value hedges for certain fixed rate Federal Home Loan Bank advances. The remaining terms on our derivatives at December 31, 2005 ranged from three years to six years. We do not utilize derivatives for trading purposes.

Under SFAS 133, derivatives are recorded in the balance sheet at fair value. For fair value hedges, the change in fair value of the derivative and the corresponding change in fair value of the hedged risk in the underlying item being hedged are accounted for in earnings. Any material difference in these two changes in fair value results in hedge ineffectiveness that results in an impact to earnings.

Investment Portfolio

The following tables summarize the carrying value and estimated market value of investment securities and weighted-average yields of those securities at December 31, 2005, 2004 and 2003. The yields are based upon amortized cost. The yield on securities of state and political subdivisions is presented on a tax equivalent basis using a federal income tax rate of 34%. For mortgage-backed securities, the amounts are based on the actual contracted maturities; prepayments were not considered.

Investment Securities Portfolio Composition

(Dollars in Thousands) December 31, 2005	Due One Year or Less	One Year Through Five Years	Five Years through Ten Years	After Ten Years	Total	Estimated Market Value	Average Maturity in Years
Held-To-Maturity							
Mortgage Backed Securities	\$ —	\$ —	\$ 5,440	\$23,042	\$28,482	\$27,534	12.44
Available-For-Sale							
U.S. Govt Agencies and Mortgage Backed Securities	2,713	2,782	8,488	13,010	26,993	26,437	5.93
States of the U.S. and Political Subdivisions	130	809	3,669	16,198	20,806	21,263	8.54
Corporate Securities	—	2,063	—	—	2,063	1,843	2.33
Total	<u>\$ 2,843</u>	<u>\$ 5,654</u>	<u>\$ 12,157</u>	<u>\$29,208</u>	<u>\$49,862</u>	<u>\$49,543</u>	
Held-To-Maturity							
Weighted Average Yields:							
Mortgage Backed Securities	0.00%	0.00%	3.91%	4.45%			
Available-For-Sale							
Weighted Average Yields:							
U.S. Govt Agencies and Mortgage Backed Securities	3.03%	4.38%	4.33%	4.70%			
States of the U.S. and Political Subdivisions	4.90%	4.41%	4.61%	4.52%			
Corporate Securities	0.00%	4.71%	0.00%	0.00%			

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(Investment Portfolio, cont.)

<i>(Dollars in Thousands)</i> December 31, 2004	<u>Due One Year or Less</u>	<u>One Year Through Five Years</u>	<u>Five Years through Ten Years</u>	<u>After Ten Years</u>	<u>Total</u>	<u>Estimated Market Value</u>	<u>Average Maturity in Years</u>
Held-To-Maturity							
Mortgage Backed Securities	\$ —	\$ —	\$ 7,108	\$28,366	\$35,474	\$35,316	13.44
Available-For-Sale							
U.S. Govt Agencies and Mortgage Backed Securities	—	3,097	3,799	2,209	9,105	9,043	8.00
States of the U.S. and Political Subdivisions	368	912	5,476	15,716	22,472	23,906	10.38
Corporate Securities	1,021	3,094	—	—	4,115	4,105	2.88
Total	\$ 1,389	\$ 7,103	\$ 9,275	\$17,925	\$35,692	\$37,054	
Held-To-Maturity							
Weighted Average Yields:							
Mortgage Backed Securities	0.00%	0.00%	3.81%	4.44%			
Available-For-Sale							
Weighted Average Yields:							
U.S. Govt Agencies and Mortgage Backed Securities	0.00%	2.70%	4.38%	4.92%			
States of the U.S. and Political Subdivisions	6.65%	6.48%	6.34%	6.68%			
Corporate Securities	3.38%	4.70%	0.00%	0.00%			

<i>(Dollars in Thousands)</i> December 31, 2003	<u>Due One Year or Less</u>	<u>One Year Through Five Years</u>	<u>Five Years through Ten Years</u>	<u>After Ten Years</u>	<u>Total</u>	<u>Estimated Market Value</u>	<u>Average Maturity in Years</u>
Held-To-Maturity							
Mortgage Backed Securities	\$ —	\$ 15,291	\$ 1,972	\$ —	\$17,263	\$17,278	2.89
Available-For-Sale							
U.S. Govt Agencies and Mortgage Backed Securities	6,016	11,914	5,087	1,995	25,012	25,240	4.30
States of the U.S. and Political Subdivisions	115	6,797	22,808	3,741	33,461	34,991	7.68
Corporate Securities	3,031	1,061	—	—	4,092	4,132	0.69
Total	\$ 9,162	\$ 19,772	\$ 27,895	\$ 5,736	\$62,565	\$64,363	
Held-To-Maturity							
Weighted Average Yields:							
Mortgage Backed Securities	0.00%	3.66%	4.06%	0.00%			
Available-For-Sale							
Weighted Average Yields:							
U.S. Treasury Securities	0.00%	0.00%	0.00%	0.00%			
U.S. Govt Agencies and Mortgage Backed Securities	3.57%	3.32	4.67	5.28%			
States of the U.S. and Political Subdivisions	6.51%	6.39%	6.43%	5.60%			
Corporate Securities	5.19%	3.38%	0.00%	0.00%			
Other Securities	0.00%	0.00%	3.69%	0.00%			

GREER BANCSHARES INCORPORATED**Loan Portfolio****Credit Risk Management**

Credit risk entails both general risk, which is inherent in the process of lending, and risk that is specific to individual borrowers. The management of credit risk involves both the process of loan underwriting and loan administration. The Company manages credit risk through a strategy of making loans within our primary marketplace and within our limits of expertise. Although management seeks to avoid concentrations of credit by loan type or industry through diversification, a substantial portion of the borrowers' ability to honor the terms of their loans is dependent on the business and economic conditions in Greenville and Spartanburg Counties and the surrounding areas comprising our marketplace. Additionally, since real estate is considered by the Company as the most desirable non-monetary collateral, a significant portion of our loans are collateralized by real estate; however, the cash flow of the borrower or the business enterprise is generally considered as the primary source of repayment. Generally, the value of real estate is not considered by the Company as the primary source of repayment for performing loans. We also seek to limit total exposure to individual and affiliated borrowers. We manage the risk specific to individual borrowers through the loan underwriting process and through an ongoing analysis of the borrower's ability to service the debt as well as the value of the pledged collateral.

The Bank's loan officers and loan administration staff are charged with monitoring our loan portfolio and identifying changes in the economy or in a borrower's circumstances which may affect the ability to repay the debt or the value of the pledged collateral. In order to assess and monitor the degree of risk in our loan portfolio, several credit risk identification and monitoring processes are utilized. We use an outside consultant, a former Office of the Comptroller of the Currency ("OCC") bank examiner, to perform loan reviews on a monthly basis.

Lending Activities

The Company extends credit primarily to consumers and small to medium businesses in Greenville and Spartanburg Counties and, to a limited extent, customers in surrounding areas.

The Company's corporate office is located in Greer, South Carolina, and its service area is mixed in nature. The Greenville-Spartanburg area is a regional business center whose economy contains elements of manufacturing, higher education, regional health care and distribution facilities. Outside the incorporated city limits of Greer, the economy includes manufacturing, agriculture and industry. No particular category or segment of the economy previously described is expected to grow or contract disproportionately in 2006.

Total loans outstanding were \$199,002,801 and \$139,646,433 at December 31, 2005 and 2004, respectively. There are no significant concentrations of loans in our loan portfolio to any particular individuals or industry or group of related individuals or industries.

The Company's ratio of loans to deposits was 99.9% and 92.9% at December 31, 2005 and 2004, respectively. The loan to deposit ratio is used to monitor a financial institution's potential profitability and efficiency of asset distribution and utilization. Generally, a higher loan to deposit ratio is indicative of higher interest income since loans yield a higher return than alternative investment vehicles. Management has concentrated on maintaining quality in the loan portfolio while continuing to increase the deposit base. The increase in the loans to deposits ratio is due to the significant growth experienced in the loan portfolio during 2005. The growth was funded primarily by an increase in deposits; however, the Company also utilized approximately \$8,300,000 in additional advances from the Federal Home Loan Bank, approximately \$8,600,000 in repurchase agreements and \$1,931,000 in federal funds purchased.

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The following table summarizes the composition of the loan portfolio by category at the dates indicated.

Loan Portfolio Composition

December 31, (Dollars in Thousands)	2005		2004		2003		2002		2001	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial	\$ 43,509	21.86%	\$ 31,188	22.33%	\$ 28,122	24.33%	\$ 23,293	21.64%	\$ 24,482	21.41%
Real Estate-Construction	42,980	21.60%	28,362	20.31%	15,288	13.23%	13,596	12.63%	11,361	9.93%
Real Estate Mortgage:										
Residential 1-4	58,898	29.60%	40,772	29.20%	36,777	31.82%	43,527	40.43%	49,196	43.02%
Multi-Family	921	0.46%	1,636	1.17%	1,732	1.50%	639	0.59%	413	0.36%
NonFarm/Nonresidential	40,374	20.29%	26,810	19.20%	21,099	18.26%	15,555	14.45%	17,149	15.00%
Installment Loans to Individuals	10,476	5.26%	9,694	6.94%	9,154	7.92%	9,535	8.86%	9,956	8.71%
Lease Financing	899	0.45%	977	0.70%	931	0.81%	462	0.43%	469	0.41%
Obligations of State and Political Subdivisions	104	0.05%	207	0.15%	2,462	2.13%	1,054	0.97%	1,334	1.16%
Other	842	.43%	—	—	—	—	—	—	—	—
Total Loans	\$199,003	100.00%	\$139,646	100.00%	\$115,565	100.00%	\$107,661	100.00%	\$114,360	100.00%

The Company's loan portfolio contains a significant percentage of real estate mortgage loans. Real estate mortgage loans increased by approximately \$45,593,000, or 46.7%, to \$143,172,000 during the twelve months ended December 31, 2005. At December 31, 2005 real estate mortgage loans represented 71.9% of the total loan portfolio compared to 69.9% at December 31, 2004. The increase in real estate mortgage loans as a percentage of total loans can be attributed to the demand in the Company's market area for commercial and residential construction, which is fueled by a strong local economy. The Company also added three experienced commercial lenders during 2005 that have attracted significant commercial real estate loans. In addition, in an effort to effectively manage its interest rate risk, over the past several years the Company has not offered in-house long-term fixed rate mortgage loans; however, the Company has offered five-year and seven-year balloon mortgage loan products at attractive rates. The Company continues to offer fixed rate long term mortgages through an investor loan program.

The Company also has a significant amount of commercial and industrial loans. Commercial and industrial loans increased approximately \$12,321,000, or 39.7%, to \$43,509,000 at December 31, 2005 due primarily to the increase in lending personnel. Commercial and industrial loans comprised 21.9% and 22.3% of the total loan portfolio at December 31, 2005 and 2004, respectively.

Maturities and Sensitivity of Loans to Changes in Interest Rates

The following table summarizes the loan maturity distribution for the selected categories as of December 31, 2005. The Company has a total of approximately \$121,800,000 million in loans indexed to the Wall Street Journal Prime rate.

December 31, 2005 (Dollars in Thousand)	Commercial		Real Estate- Construction		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Due One Year or Less:	\$29,063	66.80%	\$29,072	67.64%	\$58,231	67.25%
Due One Year through Five Years:						
Fixed Rate	10,359	23.81%	2,290	5.33%	12,649	14.61%
Variable Rate	90	0.21%	5,136	11.95%	5,226	6.03%
Due After Five Years:						
Fixed Rate	3,997	9.18%	6,450	15.01%	10,447	12.07%
Variable Rate	—	0.00%	32	0.07%	32	0.04%
Total	\$43,509	100.00%	\$42,980	100.00%	\$86,585	100.00%

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Risk Elements

At December 31, 2005, there were no restructured loans, \$32,333 in loans 90 days past due and still accruing interest and \$484,000 in non-accrual status. At December 31, 2004, there were no restructured loans, \$388 in loans 90 days past due and still accruing interest, and \$567,000 in non-accrual status. At December 31, 2003, there were no restructured loans, \$0 in loans 90 days past due and still accruing interest, and \$1,249,000 in non-accrual status.

The accrual of interest on loans is discontinued when, in our judgment, the interest will not be collectible in the normal course of business. Accrual of interest of such loans is typically discontinued when the loan is 90 days past due or impaired. All interest accrued, but not collected for loans that are placed on non-accrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table sets forth certain information with respect to our allowance for loan losses and the composition of charge-offs and recoveries for each of the last five years.

Summary of Loan Loss Experience

(Dollars in Thousands)

	2005	2004	2003	2002	2001
Total loans outstanding at end of year	<u>\$199,003</u>	<u>\$139,646</u>	<u>\$115,565</u>	<u>\$107,661</u>	<u>\$114,360</u>
Average loans outstanding	<u>\$163,580</u>	<u>\$125,013</u>	<u>\$107,961</u>	<u>\$107,265</u>	<u>\$114,378</u>
Balance, beginning of year	\$ 1,136	\$ 1,298	\$ 1,081	\$ 1,244	\$ 948
Loans charged-off					
Commercial and industrial	24	347	92	910	6
Real estate - mortgage	20	31	20	3	42
Consumer	116	42	35	60	33
Total loans charged-off	<u>160</u>	<u>420</u>	<u>146</u>	<u>973</u>	<u>81</u>
Recoveries of previous loan losses					
Commercial and industrial	4	4	352	2	3
Real estate - mortgage	0	0	0	0	3
Consumer	9	3	2	20	16
Total loan recoveries	<u>16</u>	<u>7</u>	<u>354</u>	<u>22</u>	<u>22</u>
Net charge-offs	<u>144</u>	<u>413</u>	<u>(208)</u>	<u>951</u>	<u>59</u>
Provision charged to operations	<u>424</u>	<u>251</u>	<u>10</u>	<u>788</u>	<u>355</u>
Balance, end of year	<u>\$ 1,416</u>	<u>\$ 1,136</u>	<u>\$ 1,298</u>	<u>\$ 1,081</u>	<u>\$ 1,244</u>
Ratios:					
Allowance for loan losses to average loans	0.87%	0.91%	1.20%	1.01%	1.09%
Allowance for loan losses to period end loans	0.71%	0.81%	1.12%	1.00%	1.09%
Net charge offs to average loans	0.09%	0.33%	-0.19%	0.89%	0.05%

The allowance for loan losses is maintained at a level determined by management to be adequate to provide for probable losses inherent in the loan portfolio including commitments to extend credit. The allowance is maintained through the provision for loan losses which is a charge to operations. The potential for loss in the portfolio reflects the risks and uncertainties inherent in the extension of credit.

The Bank's provision and allowance for loan losses is subjective in nature and relies on judgments and assumptions about future economic conditions and other factors affecting borrowers. Management is not aware of any trends, material risks or uncertainties affecting the loan portfolio nor is management aware of any information about any significant borrowers which causes serious doubts as to the ability of the borrower to comply with the loan repayment terms. However, it

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should be noted that no assurances can be made that future charges to the allowance for loan losses or provisions for loan losses may not be significant to a particular accounting period.

Interest is discontinued on impaired loans when management determines that a borrower may be unable to meet payments as they become due. As of December 31, 2005 we had one impaired loan, which totaled \$351,315. The average amount of impaired loans outstanding during 2005 was \$347,507. There was no interest income recognized on the impaired loan.

Deposits

Average deposits were approximately \$172,189,000 and \$157,086,000 during 2005 and 2004, respectively. The most significant increase was in the average balance of time deposits, which increased by \$13,307,000, or 19.4%. Management believes the increase in time deposits is the result of the continued increase in interest rates that occurred during 2005, as well as the result of a marketing effort emphasizing special rates on certificates of deposit. As the economy improved and short term interest rates continued to increase, the Company's loan demand also increased. Management raised time deposits rates in an effort to raise deposits to fund the loan growth. These actions resulted in the significant increase in time deposits. Average balances in NOW accounts declined by approximately \$4,968,000 from 2004 to 2005 although the number of accounts increased by 141. Management believes the decline in amount of NOW accounts balances was due to customers moving funds from the interest-bearing transaction accounts to time deposits as interest rates increased.

Contractual maturities of all time deposits at December 31, 2005 were as follows: twelve months or less - \$72,645,186, over twelve months through thirty-six months - \$30,902,012, and over thirty-six months - \$467,867.

The following table summarizes the Bank's average deposits by categories at the dates indicated.

Year Ended December 31, (Dollars in thousands)	2005		2004		2003	
	Average Balance	Percent	Average Balance	Percent	Average Balance	Percent
Noninterest-Bearing Deposits						
Demand Deposits	\$ 30,811	17.89%	\$ 25,893	16.53%	\$ 23,287	16.60%
Interest Bearing Liabilities						
NOW Accounts	29,864	17.34%	34,832	22.16%	32,029	22.83%
Money Market and Savings	29,566	17.17%	27,720	17.64%	26,917	19.18%
Time Deposits	81,948	47.59%	68,641	43.67%	58,077	41.39%
Total Deposits	\$172,189	100.00%	\$157,086	100.00%	\$140,310	100.00%

Core deposits, which exclude time deposits of \$100,000 or more, provide a relatively stable funding source for our loan portfolio and other earning assets. Our core deposits were approximately \$135,003,000, \$112,039,000, and \$120,396,000 at December 31, 2005, 2004 and 2003, respectively. The decrease in core deposits in 2004 was the result of the loss of a significant amount of deposits of one depositor.

Time deposits over \$100,000 totaled approximately \$64,184,000, \$38,220,000 and \$32,943,000 at December 31, 2005, 2004 and 2003, respectively. Scheduled maturities were as follows:

Year Ended December 31, (Dollars in thousands)	2005	2004	2003
Maturing in 3 months or less	\$12,506	\$ 9,425	\$ 6,898
Maturing after 3 months but less than 6 months	13,192	13,075	5,254
Maturing after 6 months but less than 12 months	12,177	12,304	6,913
Maturing after 12 months	26,309	3,416	13,878
Total	\$64,184	\$38,220	\$32,943

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Short-Term Borrowings

At December 31, 2005, the Company had purchased federal funds totaling \$1,931,000 and had \$8,588,767 in securities sold under agreements to repurchase. In 2004 and 2003, the Company had no short-term borrowings.

	<u>Federal Funds Purchased</u>	<u>Securities Sold Under Agreements To Repurchase</u>
Average balance outstanding during the year	\$1,261,391	\$ 4,716,000
Average rate paid during the year	3.76%	2.00%
Average rate on year end balance	4.60%	4.58%

Borrowings

Advances from the Federal Home Loan Bank ("FHLB") totaled \$ 60,488,091 at December 31, 2005 and \$52,185,015 at December 31, 2004. At December 31, 2005 and 2004, none of these advances had variable rates of interest. Interest rates on the advances are fixed and range from 2.47% to 6.67%. During 2005, interest expense on some of these fixed rate notes was increased by \$16,798, and in 2004 was reduced by \$245,844, through the utilization of interest rate swaps. For financial statement purposes, we have netted the income from the swaps against the interest expense on FHLB borrowings. The Company has pledged its 1 to 4 family residential mortgages, commercial real estate mortgages, home equity lines of credit and certain mortgage backed securities as collateral.

In October 2004, the Company issued \$6,186,000 of junior subordinated debentures to its newly formed, wholly-owned Trust to fully and unconditionally guarantee the trust preferred securities issued by the Trust. These long term obligations currently qualify as Tier I capital for the Company. Also, see the detailed discussion regarding the accounting treatment of the Trust in the summary of significant accounting policies.

The junior subordinated debentures mature in October 2034. Interest payments are due quarterly to the Trust at three-month LIBOR plus 220 basis points.

The following table reflects our contractual obligations as of December 31, 2005:

Contractual Obligations	Payments Due by Period				
	<u>Less Than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>Greater Than 5 Years</u>	<u>Total</u>
<i>(in thousands)</i> Borrowings	\$ 6,100	\$13,179	\$14,172	\$ 27,038	\$60,489

Stock Information and Dividend History

The common stock of Greer Bancshares Incorporated is traded in the over-the-counter market and quoted on the OTC Bulletin Board (symbol: GRBS) and in two local newspapers, The Greenville News and The Spartanburg Herald, in the area OTC listings section. As of March 1, 2006, there were 1196 record holders of our common stock, \$5.00 par value per share.

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The following table sets forth the high and low "bid" prices per share of the common stock for each quarterly period during the past two fiscal years, as reported on NASDAQ.com. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

2005 Quarter	High	Low
First	\$19.80	\$17.00
Second	\$22.90	\$19.24
Third	\$26.84	\$22.90
Fourth	\$28.25	\$26.00
2004 Quarter	High	Low
First	\$18.75	\$11.55
Second	\$18.50	\$17.00
Third	\$17.00	\$15.00
Fourth	\$18.50	\$15.00

Beginning in 1992, the Company has declared annual cash and/or stock dividends or stock splits. In May 2003, the Company paid a 23 cents per share cash dividend and in November 2003, the Company paid a 44 cents per share cash dividend, totaling 67 cents per share during the year ending December 31, 2003. The 44 cents per share paid in November included a special one-time dividend of 20 cents per share. In 2004, the Company paid 15 cents per share cash dividends in June, September and December, for total cash dividends in 2004 of 45 cents per share. A 3-for-2 stock split was issued effective March 15, 2004 and affected in the form of a stock dividend. Cash dividends, as well as the prices listed above, have been adjusted to reflect the stock splits. In 2005, the Company paid 16 cents per share cash dividends in April, June, September and December for total cash dividends in 2005 of 64 cents per share.

Our ability to continue to pay cash dividends is dependent upon receiving cash dividends from the Bank. Federal and state banking regulations restrict the amount of cash dividends that can be paid to the Company from the Bank. The payment of dividends in the future is subject to earnings, capital requirements, financial condition, and such other factors as the Board of Directors of Greer Bancshares Incorporated, the Commissioner of Banking for South Carolina and the FDIC may deem relevant.

Accounting and Financial Reporting Issues

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosures related to the income tax and cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective beginning as of the first annual reporting period beginning after December 15, 2005. SFAS No. 123(R) allows for adoption using either the modified prospective or modified retrospective methods. The Company anticipates using the modified prospective method when this statement is adopted in the first quarter of 2006. The Company has evaluated the impact upon adoption of SFAS No. 123(R) and has concluded that the adoption will not have a material impact on financial position or results of operations.

In April 2005, the Securities and Exchange Commission's ("SEC") Office of the Chief Accountant and its Division of Corporation Finance issued Staff Accounting Bulletin ("SAB") No. 107 to provide guidance regarding the application of SFAS No. 123(R). SAB No. 107 provides interpretive guidance related to the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as the staff's views regarding the valuation of share-based payment arrangements for public companies. SAB No. 107 also reminds public companies of the importance of including disclosures within filings made with the SEC relating to the accounting for share-based payment transactions, particularly during the transition to SFAS No. 123(R).

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29". The standard is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and eliminates the exception under ABP Opinion No. 29 for an exchange of similar productive assets and replaces it with an exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The standard is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on the Company's financial position or results of operations.

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In March 2004, the FASB issued Emerging Issues Task Force (“EITF”) Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments” (“EITF-03-1”). This issue addresses the meaning of other-than-temporary impairment and its application to investments classified as either available for sale or held to maturity under SFAS No. 115 and it also provides guidance on quantitative and qualitative disclosures. The disclosure requirements in paragraph 21 of EITF-03-1 were effective for annual financial statements for fiscal years ending after December 15, 2003 and were adopted by the Company effective December 31, 2003.

The recognition and measurement guidance in paragraphs 6-20 of EITF-03-1 was to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004, but was delayed by FASB action in October 2004 through the issuance of a proposed FASB Staff Position (“FSP”) on the issue. In July 2005, the FASB issued FSP FAS 115-1 and FAS 124-1—“The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments”. This final guidance eliminated paragraphs 10-18 of EITF-03-1 (paragraphs 19-20 have no material impact on the financial position or results of operations of the Company) and will be effective for other-than-temporary impairment analysis conducted in periods beginning after December 15, 2005. The Company has evaluated the impact that the adoption of FSP FAS 115-1 and FAS 124-1 and has concluded that the adoption will not have a material impact on financial position and results of operations upon adoption.

In December 2005, the FASB issued FSP SOP 94-6-1, “Terms of Loan Products that May Give Rise to a Concentration of Credit Risk”. The disclosure guidance in this FSP is effective for interim and annual periods ending after December 19, 2005. The FSP states that the terms of certain loan products may increase a reporting entity’s exposure to credit risk and thereby may result in a concentration of credit risk as that term is used in SFAS No. 107, either as an individual product type or as a group of products with similar features. SFAS No. 107 requires disclosures about each significant concentration, including “information about the (shared) activity, region, or economic characteristic that identifies the concentration.” The FSP suggests possible shared characteristics on which significant concentrations may be determined which include, but are not limited to borrowers subject to significant payment increases, loans with terms that permit negative amortization and loans with high loan-to-value ratios.

This FSP requires entities to provide the disclosures required by SFAS No. 107 for loan products that are determined to represent a concentration of credit risk in accordance with the guidance of this FSP for all periods presented. The Company adopted this disclosure standard effective December 31, 2005.

Forward Looking Information

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those projected in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words “may,” “would,” “could,” “will,” “expect,” “anticipate,” “believe,” “intend,” “plan,” and “estimate,” as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties include, but are not limited to: significant increases in competitive pressure in the banking and financial services industries; changes in the interest rate environment which could reduce anticipated or actual margins; changes in political conditions or the legislative or regulatory environment; general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality; changes occurring in business conditions and inflation; changes in technology; changes in monetary and tax policies; the level of allowance for loan loss; the rate of delinquencies and amounts of charge-offs; the rates of loan growth; adverse changes in asset quality and resulting credit risk-related losses and expenses; changes in the securities markets; and other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

ADDITIONAL TERMS AND CONDITIONS

Company Information:

Name of the Company: Greer Bancshares Incorporated

Corporate or other organizational form: Corporation

Jurisdiction of Organization: South Carolina

Appropriate Federal Banking Agency: FDIC

Notice Information: Greer Bancshares Incorporated
1111 West Poinsett Street
Greer, South Carolina 29650
Attn: Kenneth M. Harper, CEO

With a copy to:
William L. Pitman, Esq.
Smith Moore Leatherwood, LLP
300 East McBee Avenue, Suite 500
Greenville, SC 29601

Terms of the Purchase:

Series of Preferred Stock Purchased: Fixed Rate Cumulative Preferred Stock, Series 2009-SP

Per Share Liquidation Preference of Preferred Stock: \$1,000

Number of Shares of Preferred Stock Purchased: 9,993

Dividend Payment Dates on the Preferred Stock: February 15, May 15, August 15 and November 15

Series of Warrant Preferred Stock: Fixed Rate Cumulative Preferred Stock, Series 2009-WP

Number of Warrant Shares: 500.005

Number of Net Warrant Shares (after net settlement): 500

Exercise Price of the Warrant: \$0.01 per share

Purchase Price: \$9,993,000.00

Closing:

Location of Closing: At a place to be determined by the parties

Time of Closing: At a time to be determined by the parties

Date of Closing: January 30, 2009

Wire Information for Closing:

ABA Number: [REDACTED]
Bank: Greer State Bank
Account Name: Greer Bancshares Incorporated
Account Number: [REDACTED]
Beneficiary: Greer Bancshares Incorporated

Contact for Confirmation of Wire Information:

J. Richard Medlock, CFO
Greer Bancshares Incorporated
1111 West Poinsett Street
Greer, South Carolina 29650
Business Phone: (864) 848-5120
[REDACTED]

SCHEDULE B

CAPITALIZATION

“Confidential Business Information” -- REDACTED

LITIGATION

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

If none, please so indicate by checking the box:

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.

“Confidential Business Information” -- REDACTED

If none, please so indicate by checking the box:

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:

**OTHER EXCEPTIONS TO REPRESENTATIONS
AND WARRANTIES**

“Confidential Business Information” -- REDACTED