

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 Except to the extent supplemented or superseded by the terms set forth herein or in the Schedules hereto, the provisions contained in the Securities Purchase Agreement - Standard Terms attached hereto as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

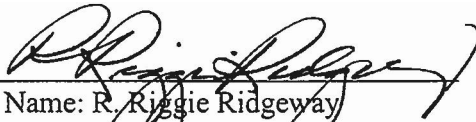
\* \* \*

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

COMPANY: Peoples Bancorporation, Inc.

By:   
Name: R. Reggie Ridgeway  
Title: Chief Executive Officer

Date: **APR 24 2009**  
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**SCHEDULE C**

**LITIGATION**

List any exceptions to the representation and warranty in Section 2.2(1) of the Securities Purchase Agreement - Standard Terms.

If none, please so indicate by checking the box: .

**SECURITIES PURCHASE AGREEMENT**

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

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

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## SECURITIES PURCHASE AGREEMENT – STANDARD TERMS

### Recitals:

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

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

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

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

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

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

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

### Article I Purchase; Closing

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

1.2 Closing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Article II Representations and Warranties

### 2.1 Disclosure.

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

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

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

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

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

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

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

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

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

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

(e) Authorization, Enforceability.

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



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

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

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

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

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

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

(i) Reports.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(u) Intellectual Property. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company and each Company Subsidiary owns or otherwise has the right to use, all intellectual property rights, including all trademarks, trade dress, trade names, service marks, domain names, patents, inventions, trade secrets, know-how, works of authorship and copyrights therein, that are used in the conduct of their existing businesses and all rights relating to the plans, design and specifications of any of its branch facilities (“*Proprietary Rights*”) free and clear of all liens and any claims of ownership by current or former employees, contractors, designers or others and (ii) neither the Company nor any of the Company Subsidiaries is materially infringing, diluting, misappropriating or violating, nor has the Company or any 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 30<sup>th</sup> calendar day following the Signing Date; *provided, however*, that in the event the Closing has not occurred by such 30<sup>th</sup> calendar day, the parties will consult in good faith to determine whether to extend the term of this Agreement, it being understood that the parties shall be required to consult only until the fifth day after such 30<sup>th</sup> calendar day and not be under any obligation to extend the term of this Agreement thereafter; *provided, further*, that the right to terminate this Agreement under this Section 5.1(a) shall not be available to any party whose breach of any representation or warranty or failure to perform any obligation under this Agreement shall have caused or resulted in the failure of the Closing to occur on or prior to such date; or

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

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

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

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

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

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

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

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

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

If to the Investor:

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

5.7 Definitions

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

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

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

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

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

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

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

\* \* \*

ANNEX A

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

[SEE ATTACHED]

## FORM OF [CERTIFICATE OF DESIGNATIONS]

OF

FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]

OF

[●]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*[Remainder of Page Intentionally Left Blank]*

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



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

***[Insert name of Issuer]***

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

Name:

Title:

**STANDARD PROVISIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Section 3. Dividends.

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

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

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

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

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

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

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

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

#### Section 4. Liquidation Rights.

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

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

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

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

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

#### Section 5. Redemption.

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

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

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

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

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

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

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

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

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

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

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

#### Section 7. Voting Rights.

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[SEE ATTACHED]

FORM OF [CERTIFICATE OF DESIGNATIONS]

OF

FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]

OF

[●]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*[Remainder of Page Intentionally Left Blank]*

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

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

***[Insert name of Issuer]***

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

Name:

Title:

**STANDARD PROVISIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

### Section 3. Dividends.

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

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

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

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

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

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

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

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

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

#### Section 4. Liquidation Rights.

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

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

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

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

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

#### Section 5. Redemption.

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

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

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

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

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

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

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

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

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

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

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

Section 7. Voting Rights.

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

## **FORM OF WAIVER**

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or any state or territory thereof or my employer or any of its directors, officers, employees and agents for any changes to my compensation or benefits that are required in order to comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008, as amended ("*EESA*"), and rules, regulations, guidance or other requirements issued thereunder (collectively, the "*EESA Restrictions*").

I acknowledge that the EESA Restrictions may require modification of the employment, compensation, bonus, incentive, severance, retention and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements), whether or not in writing, 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 and I hereby consent to all such modifications. I further acknowledge and agree that if my employer notifies me in writing that I have received payments in violation of the EESA Restrictions, I shall repay the aggregate amount of such payments to my employer no later than fifteen business days following my receipt of such notice.

This waiver includes all claims I may have under the laws of the United States or any other jurisdiction related to the requirements imposed by the EESA Restrictions (including without limitation, any claim for any compensation or other payments or benefits I would otherwise receive absent the EESA Restrictions, any challenge to the process by which the EESA Restrictions were adopted and any tort or constitutional claim about the effect of the foregoing on my employment relationship) and I hereby agree that I will not at any time initiate, or cause or permit to be initiated on my behalf, any such claim against the United States, my employer or its directors, officers, employees or agents in or before any local, state, federal or other agency, court or body.

In witness whereof, I execute this waiver on my own behalf, thereby communicating my acceptance and acknowledgement to the provisions herein.

Respectfully,

---

Name:

Title:

Date:

**FORM OF OPINION**

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

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

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

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

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

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

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

ANNEX E

**FORM OF WARRANT**

[SEE ATTACHED]

**FORM OF WARRANT TO PURCHASE PREFERRED STOCK**

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

**WARRANT  
to purchase**

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

of \_\_\_\_\_

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

7. Transfer/Assignment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*[Remainder of page intentionally left blank]*

[Form of Notice of Exercise]

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

TO: [Company]

RE: Election to Purchase Preferred Stock

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

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

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

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

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

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

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

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

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

Name:

Title:

**Attest:**

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

Name:

Title:

**[Signature Page to Warrant]**

## SCHEDULE A

### Item 1

Name:

Corporate or other organizational form:

Jurisdiction of organization:

### Item 2

Exercise Price:<sup>2</sup>

### Item 3

Issue Date:

### Item 4

Liquidation Amount:

### Item 5

Series of Perpetual Preferred Stock:

### Item 6

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

### Item 7

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

### Item 8

Company's address:

### Item 9

Notice information:

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

<sup>3</sup> The initial number of shares of Preferred Stock for which this Warrant is exercisable shall include the number of shares required to effect the cashless exercise pursuant to Section 3(B) of this Warrant (e.g., such number of shares of Preferred Stock having an aggregate Liquidation Amount equal in value to the aggregate Exercise Price) such that, following exercise of this Warrant and payment of the Exercise Price in accordance with such Section 3(B), the net number of shares of Preferred Stock delivered to the 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.

**ADDITIONAL TERMS AND CONDITIONS**

**Company Information:**

Name of the Company: Peoples Bancorporation, Inc.

Corporate or other organizational form: Corporation

Jurisdiction of Organization: South Carolina

Appropriate Federal Banking Agency: Office of the Comptroller of the Currency

Notice Information: Peoples Bancorporation, Inc.  
1818 East Main Street  
Easley, SC 29640  
Attn: President  
Facsimile: (864) 859-5121

**Terms of the Purchase:**

Series of Preferred Stock Purchased: Fixed Rate Cumulative Perpetual Preferred  
Stock, Series T

Per Share Liquidation Preference of Preferred Stock: \$1,000.00

Number of Shares of Preferred Stock Purchased: 12,660

Dividend Payment Dates on the Preferred Stock: February 15, May 15, August 15 and  
November 15 of each year

Series of Warrant Preferred Stock: Fixed Rate Cumulative Perpetual Preferred  
Stock, Series W

Number of Warrant Shares: 633.00633

Number of Net Warrant Shares (after net settlement): 633

Exercise Price of the Warrant: \$0.01 per share

Purchase Price: \$12,660,000.00

**Closing:**

Location of Closing: Telephonic.

Time of Closing: 9:00 AM EDT.

Date of Closing: April 24, 2009

Wire Information for Closing:

ABA Number:

[REDACTED]

Bank:

[REDACTED]

Account Name:

[REDACTED]

Account Number:

[REDACTED]

Beneficiary:

Peoples Bancorporation, Inc.

Contact for Confirmation of Wire Information:

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]



## SCHEDULE B

### CAPITALIZATION

Capitalization Date: March 31, 2009

#### Common Stock

Par value: \$1.11

Total Authorized: 15,000,000 shares

Outstanding: 7,070,139 shares

Subject to warrants, options, convertible securities, etc.: 522,913 shares

Reserved for benefit plans and other issuances: None

Remaining authorized but unissued: 7,406,948 shares

Shares issued after Capitalization Date (other than pursuant to warrants, options, convertible securities, etc. as set forth above): None

#### Preferred Stock

Par value: None

Total Authorized: 15,000,000 shares

Outstanding (by series): None

Reserved for issuance: None

Remaining authorized but unissued: 15,000,000 shares

#### Holder of 5% or more of any class of capital stock

#### Primary Address

Robert E. Dye, Jr. (6.8%)  
Alexander C. Dye (6.5%)

P.O. Box 1989, Easley, SC 29641  
P.O. Box 1989, Easley, SC 29641

**SCHEDULE C**

**LITIGATION**

List any exceptions to the representation and warranty in Section 2.2(1) 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.

If none, please so indicate by checking the box: .

**SCHEDULEE**

**REGULATORY AGREEMENTS**

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

A Company Subsidiary, Bank of Anderson, N.A., is subject to and a party to a written agreement with the Comptroller of the Currency dated October 15, 2008. A copy of the agreement has been furnished to the Investor.

If none, please so indicate by checking the box:  D.

**#2008-141**

AGREEMENT BY AND BETWEEN  
Bank of Anderson, National Association  
Anderson, South Carolina  
and  
The Comptroller of the Currency

Bank of Anderson, National Association, Anderson, South Carolina ("Bank") and the Comptroller of the Currency of the United States of America ("Comptroller") wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank and his findings are contained in the Report of Examination ("ROE") for the examination commenced on April 28, 2008.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors ("Board"), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I  
JURISDICTION

(1) This Agreement shall be construed to be a "written agreement entered into with the agency" within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a "written agreement between such depository institution and such agency" within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a "written agreement" within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a "written agreement" within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Kent D. Stone  
Assistant Deputy Comptroller  
Carolinas Field Office  
212 South Tryon Street, Suite 700  
Charlotte, North Carolina 28281

## ARTICLE II

### COMPLIANCE COMMITTEE

(1) Within fifteen (15) days of the date of this Agreement, the Board shall appoint a Compliance Committee of at least five (5) directors, of which no more than one (1) shall be an

employee or controlling shareholder of the Bank or any of its affiliates (as the term "affiliate" is defined in 12 U.S.c. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the date of this Agreement and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) description of the action needed to achieve full compliance with each Article of this Agreement;
- (b) actions taken to comply with each Article of this Agreement; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

#### LOAN PORTFOLIO MANAGEMENT

(1) The Board shall, within sixty (60) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:

- (a) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;
- (b) a system to track and analyze exceptions;
- (c) procedures to ensure continued compliance with Call Report instructions;
- (d) procedures to ensure the continued accuracy of internal management information systems;
- (e) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately consider their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters;
- (f) procedures to track and analyze concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios;



- (g) a process to ensure market analysis is performed for various property types and geographic markets represented in the banks portfolio no less than quarterly;
- (h) a comprehensive loan review process that quantifies the overall level of credit risk and assesses the quality of credit risk management; and
- (i) procedures to ensure the re-appraisal of property that defines the criteria for when a new or adjusted appraisal is required based upon changes in market conditions or original project plans.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

(3) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of:

- (a) early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that will serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, division, group, indirect dealer, and individual lending officer;
- (c) previously charged-off assets and their recovery potential;

- (d) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;
- (e) adequacy of credit and collateral documentation; and
- (f) concentrations of credit.

(4) Beginning December 2008, on a monthly basis management will provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) credit and collateral documentation exceptions;
- (d) the identification and status of credit related violations of law, rule or regulation;
- (e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this Article and Paragraph;

- (f) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios;
- (g) the identification and amount of loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (h) the identification of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program and systems developed pursuant to this Article.

#### ARTICLE IV

##### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses ("ALLL") in accordance with generally accepted accounting principles. The ALLL policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council's "Interagency Policy Statement on the Allowance for Loan and Lease Losses" dated December 13, 2006 (OCC Bulletin 2006-47), and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan;
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies;
- (c) procedures for validating the ALLL methodology;
- (d) a process for summarizing and documenting, for the Board's review and approval, the amount to be reported in the Consolidated Report of Condition and Income ("Call Reports") for the ALLL. Any deficiency in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Call Report, through additional provision expense.

(2) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policies and procedures developed pursuant to this Article.

(3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the program.

## ARTICLE V

### CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding fifty thousand dollars (\$50,000) shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds fifty thousand dollars (\$50,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a monthly basis (in a format similar to Appendix A, attached hereto).

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are

criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed fifty thousand dollars (\$50,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

## ARTICLE VI

### CONSTRUCTION LOAN UNDERWRITING STANDARDS

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter adhere to a written program to improve its construction loan underwriting standards. The program shall include, but not be limited to, procedures for ensuring that:

- (a) market feasibility analyses are performed on construction projects;
- (b) cash flow analyses are performed on construction loan portfolios;
- (c) Current rental and sales information is maintained in all construction projects;
- (d) periodic independent inspections are performed on all construction projects;  
and
- (e) all construction loans are either in conformity with the Bank's construction loan policies and procedures or in compliance with the Bank's written provisions for exceptions to loan policies and procedures.

(2) Upon completion, the Board shall submit a copy of the program to the Assistant Deputy Comptroller for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## ARTICLE VII

### CONCENTRATIONS OF CREDIT



(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with *ACC* Banking Circular 255. The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet to identify any concentrations of credit;
- (b) a written analysis of any concentration of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;
- (c) policies and procedures to control and monitor concentrations of credit;
- (d) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis; and
- (e) a review of established North American Industry Classification System (NAICS) limits to ensure the concentrations of credit limits are reasonable and establish an effective risk measure.

(2) For purposes of this Article, a concentration of credit is as defined in the "Loan Portfolio Management" booklet of the Comptroller's Handbook.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph (b) and that the analysis demonstrate that the concentration will not subject the Bank to undue credit or interest rate risk.

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Assistant Deputy Comptroller immediately following the review.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## ARTICLE VIII

### STRATEGIC PLAN

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;

- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) a management employment and succession program to promote the retention and continuity of capable management;
- (g) product line development and market segments that the Bank intends to promote or develop;
- (h) an action plan to improve bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;
- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;

(k) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and

(1) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three year capital program. The program shall include:

(a) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;

(b) projections of the sources and timing of additional capital to meet the Bank's CUITent and future needs;

(c) the primary source(s) from which the Bank will strengthen its capital stmcture to meet the Bank's needs;

(d) contingency plans that identify alternative methods should the primary source(s) under (c) above not be available; and

(e) a dividend policy that pemlits the declaration of a dividend only:

(i) when the Bank is in compliance with its approved capital program;  
and

(ii) when the Bank is in compliance with 12 U.S.c. §§ 56 and 60.

(3) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the strategic and capital plans.

#### ARTICLE IX

#### PROFIT PLAN

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written profit plan to improve and sustain the earnings of the Bank. This plan shall include, at minimum, the following elements:

(a) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;

(b) realistic and comprehensive budgets, including projected balance sheets and year-end income statements;

(c) a budget review process to monitor both the Bank's income and expenses, and to compare actual figures with budgetary projections; and

(d) a description of the operating assumptions that form the basis for major projected income and expense components.

(2) The budgets and related documents required in paragraph (1) above for 2008 shall be submitted to the Assistant Deputy Comptroller upon completion. The Board shall submit to the Assistant Deputy Comptroller annual budgets as described in paragraph (1) above for each year this Final Agreement remains in effect. The budget for each year shall be submitted on or before January 31, of that year.

(3) The Board shall forward comparisons of its balance sheet and profit and loss statement to the profit plan projections to the Assistant Deputy Comptroller on a quarterly basis.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE X

LIQUIDITY

(1) The Board shall ensure the level of liquidity at the Bank is sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base. Such actions may include, but are not necessarily limited to:

- (a) selling assets;
- (b) obtaining lines of credit from the Federal Reserve Bank;
- (c) obtaining lines of credit from correspondent banks;
- (d) recovering charged-off assets; and
- (e) injecting additional equity capital.

(2) The Board shall review the Bank's liquidity on a monthly basis. Such reviews shall consider:

- (a) a maturity schedule of certificates of deposit, including large uninsured deposits;
- (b) the volatility of demand deposits including escrow deposits;
- (c) the amount and type of loan commitments and standby letters of credit;

- (d) an analysis of the continuing availability and volatility of present funding sources;
- (e) an analysis of the impact of decreased cash flow from the Bank's loan portfolio resulting from delinquent and non-performing loans;
- (f) an analysis of the impact of decreased cash flow from the sale of loans or loan participations; and
- (g) geographic disbursement of and risk from brokered deposits.

(3) The Board shall take appropriate action to ensure adequate sources of liquidity in relation to the Bank's needs. Monthly reports shall set forth liquidity requirements and sources and establish a contingency plan. Copies of these reports shall be forwarded to the Assistant Deputy Comptroller in the Bank's quarterly report to the Assistant Deputy Comptroller.

## ARTICLE XI

### BROKERED DEPOSITS

(1) The Bank may accept Brokered Deposits (as defined by 12 C.F.R. § 337.6(a)(2)) for deposit at the Bank only after obtaining a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.



(2) The limitation of paragraph (1) shall include the acquisition of Brokered Deposits through any transfer, purchase, or sale of assets, including Federal funds transactions.

(3) If the Bank seeks to acquire Brokered Deposits, the Board shall apply to the Assistant Deputy Comptroller for written permission. Such application shall contain, at a minimum, the following:

- (a) the dollar volume, maturities, and cost of the Brokered Deposits to be acquired;
- (b) the proposed use of the Brokered Deposits, i.e., short-term liquidity or restructuring of liabilities to reduce cost;
- (c) alternative funding sources available to the Bank; and
- (d) the reasons why the Bank believes that the acceptance of the Brokered Deposits does not constitute an unsafe and unsound practice in its particular circumstances.
- (e) The Assistant Deputy Comptroller may require the submission of such additional information as necessary to make an informed decision. Upon consideration of the Bank's application, the Assistant Deputy Comptroller will determine whether the proposed acquisition of Brokered Deposits may be accomplished in a safe and sound manner and may condition the Bank's acquisition as the Assistant Deputy Comptroller shall deem appropriate.

## ARTICLE XII

### CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory "written agreement entered into with the agency" as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his

supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

/S/ *Kent D. Stone* October 15, 2008

Kent D. Stone Assistant Deputy Comptroller Carolinas Field Office	Date
---	------

**[Bank Signatures Omitted]**

**DISCLOSURE SCHEDULES**

List any information required pursuant to Section 2.1(a) of the Securities Purchase Agreement-Standard Tenns.

2.2(h) - Audited Financial Statements for the years ended December 31, 2006, 2007 and 2008 are attached. Complete unaudited financial statements for the quarter ended March 31, 2009 are not yet available and will be provided to Investor as soon as reasonably possible. Attached are incomplete consolidated balance sheets, income statements and stockholders' equity statements for the first quarter of 2009.

If none, please so indicate by checking the box:

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ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The section "MARKET RISK - INTEREST RATE SENSITIVITY" included in nBusiness" under Item 1 of this Annual Report on Form 10-K is incorporated herein by reference.

ITErj 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are filed with this report:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2008 and 2007.

Consolidated Statements of Income for the years ended December 31, 2008 and 2007.

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2008 and 2007.

Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007.

Notes to Consolidated Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors  
Peoples Bancorporation, Inc.  
Easley, South Carolina

We have audited the accompanying consolidated balance sheets of Peoples Bancorporation, Inc. and Subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years then ended. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Peoples Bancorporation, Inc. and Subsidiaries as of December 31, 2008 and 2007 and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 included in Management's Annual Report on Internal Control Over Financial Reporting included in the Company's Form 10-K filed with the Securities and Exchange Commission and, accordingly, we do not express an opinion thereon.

s/Elliott Davis, LLC

Greenville, South Carolina  
March 30, 2009

<PAGE>

PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Amounts in thousands except share information)

<TABLE>  
<CAPTION>

	December 31,	
	2008	2007
ASSETS		
<S>	<C>	
CASH AND DUE FROM BANKS	\$ 7,874	8,618
INTEREST - BEARING DEPOSITS IN OTHER BANKS	765	643
FEDERAL FUNDS SOLD	9,185	1,263
	17,824	10,524
SECURITIES		
Trading assets	47	
Available for sale	96,003	84,796
Held to maturity (fair value of \$12,666 (2008) and \$13,113 (2007))	12,651	13,102
<b>Other investments, at cost</b>	3,546	4,795
LOANS, net of allowance for loan losses of \$9,217 (2008) and \$4,310 (2007)	389,494	414,688
PREMISES AND EQUIPMENT, net of accumulated depreciation ...	13,200	13,757
ACCRUED INTEREST RECEIVABLE	2,685	3,321
ASSETS ACQUIRED IN SETTLEMENT OF LOANS	5,428	1,023
CASH SURRENDER VALUE OF LIFE INSURANCE	11,815	11,350
OTHER ASSETS	7,182	1,087
<b>Total assets</b>	<b>\$ 559,875</b>	<b>\$ 558,443</b>
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS		
<b>Noninterest-bearing</b>	51,091	\$ 53,950
Interest-bearing	394,278	363,671
<b>Total deposits</b>	445,369	417,621
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	22,181	19,824
FEDERAL FUNDS PURCHASED	1,028	429
ADVANCES FROM FEDERAL HOME LOAN BANK ..	34,600	65,100
NOTES PAYABLE - OTHER	11,000	
ACCRUED INTEREST PAYABLE	2,636	4,465
OTHER LIABILITIES	1,549	763
<b>Total liabilities</b>	<b>518,363</b>	<b>508,202</b>
COMMITMENTS AND CONTINGENCIES - Notes 11 and 12		
SHAREHOLDERS' EQUITY		
Common stock - 15,000,000 shares authorized; \$1.11 par value per share; 7,070,139 (2008) shares and 7,056,337 (2007) shares issued and outstanding	7,848	7,833
Additional paid-in capital	41,752	41,624
Retained earnings (deficit)	(9,564)	
<b>Accumulated other comprehensive income</b>	1,476	784
<b>Total shareholders' equity</b>	<b>41,512</b>	<b>50,241</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 559,875</b>	<b>\$ 558,443</b>

<TABLE>

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



<PAGE>

PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Amounts in thousands except per share information)

<TABLE>  
<CAPTION>

	For the years ended December 31,	
	2008	2007
INTEREST INCOME		
<S>	<C>	<C>
<b>Interest and fees on loans</b>	\$ 27,188	\$ 30,959
<b>Interest on securities</b>		
Taxable	3,050	3,037
Tax-exempt	1,502	1,422
<b>Interest on federal funds sold</b>	61	128
<b>Total interest income</b>	31,801	35,546
INTEREST EXPENSE		
Interest on deposits	13,113	14,308
<b>Interest on federal funds purchased and securities sold under repurchase agreements</b>	343	455
<b>Interest on advances from Federal Home Loan Bank</b>	1,606	1,859
Interest on notes payable	105	
<b>Total interest expense</b>	15,167	16,622
<b>Net interest income</b>	16,634	18,924
PROVISION FOR LOAN LOSSES	13,820	900
<b>Net interest income after provision for loan losses</b>	2,814	18,024
NONINTEREST INCOME		
<b>Service charges on deposit accounts</b>	1,900	1,844
<b>Customer service fees</b>	133	124
Mortgage banking	359	468
<b>Brokerage services</b>	196	205
<b>Bank owned life insurance</b>	532	476
Loss on sale of securities available for sale	(48)	
<b>Gain (loss) on sale of assets acquired in settlement of loans</b>	(41)	16
<b>Impairment write-down on FHLMC preferred stock</b>	(2,890)	
<b>Other noninterest income</b>	591	709
<b>Total noninterest income</b>	732	3,842
NONINTEREST EXPENSES		
Salaries and benefits	9,415	9,385
Occupancy	956	866
<b>Equipment</b>	1,351	1,364
Marketing and advertising	403	508
<b>Communications</b>	268	253
Printing and supplies	186	198
Bank paid loan costs	813	200
<b>Directors fees</b>	435	450
Other post employment benefits	351	261
Legal and professional fees	650	442
Other operating	2,278	2,039
<b>Total noninterest expenses</b>	17,106	15,966
<b>Income (loss) before income taxes</b>	(13,560)	5,900
PROVISION (BENEFIT) FOR INCOME TAXES	(5,184)	1,557
<b>Net income (loss)</b>	\$ (8,376)	\$ 4,343
BASIC NET INCOME (LOSS) PER COMMON SHARE	\$ (1.19)	\$ 0.59
DILUTED NET INCOME (LOSS) PER COMMON SHARE	\$ (1.19)	\$ 0.59

</TABLE>

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

<PAGE>

PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
For the years ended December 31, 2008 and 2007  
(Amounts in thousands except share information)

<TABLE>  
<CAPTION>

	Common stock		Additional	Retained	Accumulated	Total
	Shares	Amount	paid-in	earnings	other	share-
			capital	(deficit)	comprehensive	holders' equity
					income	
BALANCE, DECEMBER 31, 2006	6,666,568	\$ 7,400	38,614	\$ 32	18	46,064
<b>Net income</b>				4,343		<b>4,343</b>
<b>Other comprehensive income, net of tax:</b>						
Unrealized holding gains on securities available for sale, net of income taxes of \$396					766	766
<b>Comprehensive income</b>						<b>5,109</b>
Stock dividend (5%)	335,462	373	2,654	(3,027)		
<b>Cash in lieu of fractional shares on stock dividend</b>				(5)		(5)
Cash dividends (\$.20 per share)				(1,343)		(1,343)
<b>Proceeds from stock options exercised</b>	54,307	60	144			204
<b>Tax benefit of stock options exercised</b>			119			119
<b>Stock-based compensation</b>			93			93
BALANCE, DECEMBER 31, 2007	7,056,337	7,833	41,624		784	50,241
Net loss				(8,376)		(8,376)
<b>Other comprehensive income, net of tax:</b>						
Unrealized holding gains on securities available for sale, net of income taxes of \$1,356					2,631	2,631
Less reclassification adjustment for losses included in net income, net of income taxes of (\$999)					(1,939)	(1,939)
<b>Comprehensive income</b>						<b>(7,684)</b>
Cash dividends (\$.15 per share)				(1,060)		(1,060)
<b>Proceeds from stock options exercised</b>	13,802	15	56			71
Stock-based compensation			72			72
Cumulative effect of post retirement cost of life insurance				(128)		(128)
BALANCE, DECEMBER 31, 2008	7,070,139	7,848	\$ 41,752	\$ (9,564)	\$ 1,476	\$ 41,512

</TABLE>

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

<PAGE>

PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Amounts in thousands)

<TABLE>  
<CAPTION>

	For the years ended December 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
<S>	<C>	<C>
Net income (loss)	\$ (8,376)	4,343
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Gain on sale of premises and equipment	(5)	(177)
Loss on sale of securities available for sale	48	
(Gain) loss on sale of assets acquired in settlement of loans	41	(16)
Loss from trading assets	145	
Other than temporary impairment write-down on FHLMC preferred stock	2,890	
Provision for loan losses	13,820	900
Benefit from deferred income taxes	(3,031)	(96)
Depreciation	1,142	1,110
Amortization and accretion (net) of premiums and discounts on securities	17	51
Stock-based compensation	72	93
(Increase) decrease in accrued interest receivable	636	(278)
(Increase) decrease in other assets	(3,462)	157
Increase (decrease) in accrued interest payable	(1,829)	1,539
Increase (decrease) in other liabilities	786	(648)
Net cash provided by operating activities	2,894	6,978
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities held to maturity	(444)	
Purchases of securities available for sale	(28,289)	(14,091)
Sales (purchases) of other investments	1,249	(512)
Proceeds from principal pay downs on securities available for sale	7,419	7,575
Proceeds from the maturities and calls of securities available for sale	2,750	4,600
Proceeds from the sale of securities available for sale	4,845	
Proceeds from maturity of securities held to maturity	865	315
Investment in bank owned life insurance	(593)	(416)
Proceeds from sale of other real estate owned	3,283	112
Net (increase) decrease in loans	3,686	(62,441)
Proceeds from the sale of premises and equipment	97	523
Purchase of premises and equipment	(677)	(4,096)
Net cash used for investing activities	(5,809)	(68,431)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	27,748	32,576
Net increase in federal funds purchased	599	429
Net increase in securities sold under repurchase agreements	2,357	1,456
Net increase (decrease) in advances from Federal Home Loan Bank	(19,500)	15,100
Proceeds from the exercise of stock options	71	204
Tax benefit of stock options exercised		119
Cash dividends paid	(1,060)	(1,343)
Cash in lieu of fractional shares on stock dividends		(5)
Net cash provided by financing activities	10,215	48,536
Net increase (decrease) in cash and cash equivalents	7,300	(12,917)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,524	23,441
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 17,824	\$ 10,524
CASH PAID FOR		
Interest	\$ 16,996	\$ 15,083
Income taxes	126	\$ 1,504
NON-CASH TRANSACTIONS		
Change in unrealized gain (loss) on available for sale securities	\$ 1,049	\$ 1,162
Loans transferred to other real estate	\$ 7,688	\$ 864

</TABLE>

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

Haynsworth Sinkler Boyd, P. A.  
4/13/2009

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PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

Principles of consolidation and nature of operations

The consolidated financial statements include the accounts of Peoples Bancorporation, Inc. (the "Company") and its wholly-owned subsidiaries, The Peoples National Bank, Bank of Anderson, N.A., and Seneca National Bank (collectively referred to as the "Banks"). All significant intercompany balances and transactions have been eliminated. The Banks operate under individual national bank charters and provide full banking services to customers. The Banks are subject to regulation by the Office of the Comptroller of the Currency. The Company is subject to regulation by the Federal Reserve Board.

Estimates

The preparation of consolidated 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 interest and noninterest income and expenses during the reporting period. Actual results could differ from those estimates.

Segments

The Company, through its subsidiaries, provides a broad range of financial services to individuals and companies. These services include demand, time and savings deposits; lending and ATM processing and are substantially the same across subsidiaries. While the Company's decision-makers monitor the revenue streams of the various financial products and services by product line and by subsidiary, the operations and the allocation of resources are managed, and financial performance is evaluated, on an organization-wide basis. Accordingly, the Company's banking operation is considered by management to be one reportable operating segment.

Securities

The Company accounts for securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities. Debt securities are classified upon purchase as available for sale, held to maturity, or trading. Such assets classified as available for sale are carried at fair value. Unrealized holding gains or losses are reported as a component of shareholders' equity (accumulated other comprehensive income (loss)) net of deferred income taxes. Securities classified as held to maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts into interest income using a methodology which approximates a level yield of interest over the estimated remaining period until maturity. To qualify as held to maturity, the Company must have the ability and intent to hold the securities to maturity. Trading securities are carried at market value. Unrealized holding gains or losses are recognized in income. The Company had no trading securities at December 31, 2007. Gains or losses on dispositions of securities are based on the difference between the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

Loans and interest on loans

Loans are stated at the principal balance outstanding reduced by the allowance for loan losses. Interest income is recognized over the term of the loan based on the contractual interest rate and the principal balance outstanding.

Loans generally are placed on non-accrual status when principal or interest becomes ninety days past due or when payment in full is not anticipated. Interest payments received after a loan is placed on non-accrual

<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

status are applied as principal reductions until such time the loan is returned to accrual status. Generally, a loan is returned to accrual status when the loan is brought current and the collectibility of principal and interest is no longer in doubt.

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 management believes 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 management and is based upon management's periodic review of the anticipated 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.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. 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, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Additions to premises and equipment and major replacements or betterments are added at cost. Maintenance, repairs, and minor replacements are charged to expense when incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in income.

<PAGE>

NOTE - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

Assets acquired in settlement of loans

Assets acquired in settlement of loans represents properties acquired through foreclosure and is carried at the lower of cost or fair value, adjusted for estimated selling costs. Fair values of real estate owned are reviewed regularly and writedowns are recorded when it is determined that the carrying value of real estate exceeds the fair value less estimated costs to sell. Costs relating to the development and improvement of such property are capitalized, whereas those costs relating to holding the property are charged to expense. At December 31, 2008 and 2007 real estate owned by the Company totaled \$5,428,000 and \$1,023,000, respectively. During 2008 and 2007, the Company transferred loans of \$7,688,000 and \$864,000, respectively to assets acquired in settlement of loans.

Advertising and public relations expense

Advertising, promotional and other business development costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Income taxes

The provision for income taxes includes deferred taxes on temporary differences between the recognition of certain income and expense items for tax and financial statement purposes. Income taxes are computed on the liability method as described in SFAS No. 109, Accounting for Income Taxes.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 48, Accounting for uncertainty in Income Taxes, to clarify the accounting and disclosure for uncertainty in tax positions, as defined. FIN No. 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company implemented the provisions of FIN No. 48 as of January 1, 2007, and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company believes that its income tax filing positions taken or expected to be taken in an its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN No. 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN No. 48 at January 1, 2007.

Statements of cash flows

For the purposes of reporting cash flows, the Company considers cash and cash equivalents to be those amounts included in the balance sheet captions "Cash and Due From Banks," "Interest-bearing Deposits in Other Banks" and "Federal Funds Sold." Cash and cash equivalents have an original maturity of three months or less.

Risk and uncertainties

In the normal course of its business the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of real estate held by the Company, and the valuation of loans held for sale and mortgage-backed securities available for sale.

<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

The Company is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances, and operating restrictions, resulting from the regulators' judgments based on information available to them at the time of their examination.

**Reclassifications**

Certain prior year amounts have been reclassified to conform with the current presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

**Stock option compensation plans**

The Company has an employee stock option compensation plan through which the Board of Directors may grant stock options to officers and employees to purchase common stock of the Company at prices not less than 100 percent of the fair value of the stock on the date of grant. The Company also has another employee stock option plan under which options may no longer be granted, but under which exercisable options remain outstanding. The outstanding options under both plans become exercisable in various increments beginning on the date of grant and expiring ten years from the date of grant. The Company also has a non-employee directors' stock option plan through which non-employee directors of the Company are granted options to purchase 500 shares of common stock for each year served on the board to a maximum of 5,000 options per director. The option price shall not be less than 100 percent of the fair value of the stock on the grant date. The outstanding options become exercisable on the grant date and expire at the earlier of the end of the director's term or ten years from the grant date. The Company also has another non-employee directors' stock option plan under which options may no longer be granted, but under which exercisable options remain outstanding.

The Company follows the requirements of SFAS No. 123(R) to account for its stock option plans. In accordance with the provisions of this statement, the Company recorded approximately \$72,000 and \$93,000 of compensation expense in 2008 and 2007, respectively.

**Recently issued accounting standards**

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. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard does not require any new fair value measurements, but rather eliminates inconsistencies found in various prior pronouncements. SFAS No. 157 was effective for the Company on January 1, 2008. Upon adoption, the Company elected not to expand its use of fair value accounting.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for acquisitions by the Company taking place on or after January 1, 2009. The Company will assess the impact of SFAS No. 141(R) if and when a future acquisition occurs.



<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

Also, in December 2007, the FASB issued SFAS No. 160, **Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51**. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Before this statement, limited guidance existed for reporting noncontrolling interests (minority interest) **As a result, diversity in practice exists. In some cases minority interest is reported as a liability and in others it is reported in the mezzanine section between liabilities and equity.** Specifically, SFAS No. 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in **consolidated net income on the face of the income statement.** SFAS No. 160 **clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date.** SFAS No. 160 also includes **expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests.** SFAS No. 160 was effective for the Company on January 1, 2009. SFAS No. 160 had no impact on the Company's **financial position, results of operations or cash flows.**

In February 2008, the FASB issued FASB Staff Position ("FSP") No. 140-3, **Accounting for Transfers of Financial Assets and Repurchase Financing Transactions.** This FSP provides guidance on accounting for a **transfer of a financial asset and the transferor's repurchase financing** of the asset. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140. However, if **certain criteria are met, the initial transfer and repurchase financing are not evaluated as a linked transaction and are evaluated separately** under SFAS No. 140. FSP No. 140-3 was effective for the Company on January 1, 2009. The adoption of FSP No. 140-3 had no impact on the Company's **financial position, results of operations or cash flows.**

In March 2008, the FASB issued SFAS No. 161, **Disclosures about Derivative Instruments and Hedging Activities.** SFAS No. 161 requires **enhanced disclosures about an entity's derivative and hedging activities,** thereby improving the transparency of financial reporting. It is intended to enhance the current disclosure framework in SFAS No. 133 by requiring that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This **disclosure is intended to convey the purpose of derivative use in terms of the risks that the entity is intending to manage.** SFAS No. 161 was effective for the Company on January 1, 2009 and will result in **additional disclosures if the Company enters into any material derivative or hedging activities.**

In April 2008, the FASB issued FSP No. 142-3, **Determination of the Useful Life of Intangible Assets.** This FSP amends the factors that **should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset** under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other accounting principles generally accepted in the United States of America. This FSP was effective for the Company on January 1, 2009 and had no material impact on the Company's **financial position, results of operations or cash flows.**

In May 2008, the FASB issued SFAS No. 162, **The Hierarchy of Generally Accepted Accounting Principles.** SFAS No. 162 **identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities** that are presented in conformity with generally accepted accounting principles (GAAP) in the United States of America (the GAAP hierarchy) SFAS No. 162 is effective November 15, 2008. The FASB has stated that it does not

<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

expect SFAS No. 162 will result in a change in **current practice**. The application of SFAS No. 162 had no effect on the Company's financial **position, results of operations or cash flows**.

The SEC's Office of the Chief Accountant and the staff of the FASB issued press release 2008-234 on September 30, 2008 ("Press Release") to provide **clarifications on fair value accounting**. The Press Release includes guidance on the use of managements internal assumptions and the use of "market" quotes. It also reiterates the factors in SEC Staff Accounting Bulletin ("SAB") Topic 5M which should be considered when determining other-than-temporary impairment: the length of time and extent to which the market value has been less than cost; financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value.

On October 10, 2008, the FASB issued FSP No. SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP SFAS 157-3"). This FSP clarifies the application of SFAS No. 157 (see Note 19) 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 asset is not active. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. For the Company, this FSP was effective for the quarter ended September 30, 2008.

The Company considered the guidance in the Press Release and in FSP SFAS 157-3 when conducting its review for other-than-temporary impairment as of December 31, 2008.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

The Banks are required to maintain average reserve balances with the Federal Reserve Bank ("FRB") based upon a percentage of deposits. The average amounts of reserve balances maintained by the Banks at December 31, 2008 and 2007 were approximately \$820,000 and \$1,542,000, respectively.

NOTE 3 - SECURITIES

Securities are summarized as follows as of December 31 (tabular amounts in thousands)

<TABLE>  
<CAPTION>

	Amortized Cost	2008		Fair Value
		Unrealized Gains	Holding Losses	
TRADING ASSETS				
OTHER SECURITIES				
<S> Equity security with no maturity	\$ 47	\$	<C>	\$ 47
SECURITIES AVAILABLE FOR SALE:				
GOVERNMENT SPONSORED ENTERPRISE SECURITIES				
<b>Maturing within one year</b>	.	1,000	28	1,028
<b>Maturing after one but within five years</b>	.	7,990	384	8,374
<b>Maturing after five years but within ten years</b>	.	1,970	1	1,971
		10,960	413	11,373

</TABLE>

<PAGE>

NOTE 3 SECURITIES, Continued

<TABLE>  
<CAPTION>

	2008			Fair Value
	Amortized Cost	Unrealized Gains	Holding Losses	
OTHER SECURITIES				
<S>	<c>	<c>	<c>	<c>
Maturing after one year but within five years	\$ 764	\$ 6	\$	\$ 770
Maturing after five years but within ten years	10,380	241		10,621
Maturing after ten years ..	44,464	1,685	99	46,050
	55,608	1,932	99	57,441
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Maturing after one year but within five years	457	28		485
Maturing after five years but within ten years	3,221	107		3,328
Maturing after ten years ..	23,521	130	275	23,376
	27,199	265	275	27,189
<b>Total securities available for sale</b>	<b>\$93,767</b>	<b>\$ 2,610</b>	<b>374</b>	<b>\$96,003</b>
SECURITIES HELD TO MATURITY,				
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Maturing within one year ..	\$ 1,951	\$ 9		\$ 1,958
Maturing after one but within five years	4,623	76		4,699
Maturing after five years but within ten years	4,100	46	8	4,138
Maturing after ten years	1,977	6	112	1,871
<b>Total securities held to maturity</b>	<b>\$12,651</b>	<b>137</b>	<b>122</b>	<b>\$12,666</b>

</TABLE>

<TABLE>  
<CAPTION>

	2007			Fair Value
	Amortized Cost	Unrealized Gains	Holding Losses	
SECURITIES AVAILABLE FOR SALE:				
GOVERNMENT SPONSORED ENTERPRISE SECURITIES				
<S>	<C>	<c>	<C>	<C>
Maturing within one year ..	\$ 2,000	\$	\$ 9	\$ 1,991
Maturing after one year but within five years	750	15		765
Maturing after five years but within ten years	6,000	218		6,218
	8,750	233		8,974
OTHER SECURITIES				
Maturing within one year ..	152		1	151
Maturing after one year but within five years	897		5	892
Maturing after five years but within ten years	8,932	63	54	8,941
Maturing after ten years ..	39,038	927	41	39,924
	49,019	990	101	49,908
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Maturing after five years but within ten years	1,966	31	1	1,996
Maturing after ten years ..	23,873	88	43	23,918
	25,839	119	44	25,914
<b>Total securities available for sale</b>	<b>\$83,608</b>	<b>\$ 1,342</b>	<b>\$ 154</b>	<b>\$81,796</b>

</TABLE>

<PAGE>  
NOTE 3 - SECURITIES, Continued  
<TABLE:>  
<CAPTION>

	Amortized Cost	2007 Unrealized Holding		Fair Value
		Gains	Losses	
SECURITIES HELD TO MATURITY, OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
<S>	<C>	<C>	<C>	<C>
Maturing within one year .....	866	\$ 2	1	867
Maturing after one year but within five years ..	5,638	19	14	5,643
Maturing after five years but within ten years .....	4,139	24	29	4,134
Maturing after ten years ...	2,459	11	1	2,469
Total securities held to maturity .....	\$13,102	\$ 56	45	\$13,113

</TABLE>  
Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the 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 value.

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2008.

Securities Available for Sale (tabular amounts in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>					<C>	<C>
Government sponsored enterprise securities		\$		\$	\$	
Other securities	517	99			517	99
State and political subdivisions	7,625	275			7,625	275
Total ..	\$8,142	\$ 374		\$	\$8,142	374

</TABLE>  
No individual securities were in a continuous loss position for twelve months or more.

Securities Held to Maturity (tabular amounts in thousands)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>	<C>	<C>				<C>
States and political subdivisions	\$2,295	122		\$	\$2,295	122

</TABLE>  
No individual securities were in a continuous loss position for twelve months or more.

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007.

Securities Available for Sale (tabular amounts in thousands)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Government sponsored enterprise securities	\$	\$	2,000	\$ 9	\$ 2,000	\$ 9
Other securities			7,379	101	7,379	101
State and political subdivisions	1,395	10	7,475	34	8,870	44
Total	\$ 1,395	\$ 10	\$16,854	\$ 144	\$18,249	154

</TABLE>

**Thirty-five individual securities were in a continuous loss position for twelve months or more.**

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NOTE 3 - SECURITIES, Continued

Securities Held to Maturity (tabular amounts in thousands)

<TABLE>  
<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>			<C>	<C>	<C>	<C>
States and political subdivisions	335	\$ 2	\$3,785	\$ 43	\$4,120	\$ 45

</TABLE>

Seventeen individual securities were in a continuous loss position for twelve months or more.

The Company has the ability and intent to hold these securities until such time as the value recovers or the securities mature. The Company believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary. The category "Other securities" above is comprised of mortgage-backed securities, corporate debt securities, equity securities and investments in Silverton Bank stock.

During the second half of 2008, the Company determined that our Federal Home Loan Mortgage Corporation ("FHLMC") preferred stock suffered an other-than-temporary impairment as a result of the Government's decision on September 7, 2008 to place the FHLMC and Federal National Mortgage Association ("FNMA") under conservatorship. Consequently, the Company recorded a pretax charge to earnings of \$2,890,000 to write down to fair value. As a result of the passage of the Emergency Economic Stabilization Act of 2008, the Company's ability to utilize the loss on the FHLMC preferred stock against ordinary income was considered in determining that the Company did not need to establish a valuation allowance for the deferred tax asset that was recorded related to the \$2,890,000 impairment charge.

Other Investments, at Cost (tabular amounts in thousands) :

The Banks, as member institutions, are required to own certain stock investments in the Federal Home Loan Bank of Atlanta ("FHLB") and the FRB. These investments are carried at cost and are generally pledged against any borrowings from these institutions (see Note 9). No ready market exists for these stocks and they have no quoted market values. The Company's investments in these stocks are summarized below:

	December 31,	
	2008	2007
FRB	\$ 483	\$ 453
FHLB	2,585	3,895
Interest-bearing deposits in other banks (maturing after three months)	478	447
	\$3,546	\$4,795

Securities with carrying amounts of \$43,459,000 and \$45,438,000 December 31, 2008 and 2007, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are summarized as follows (tabular amounts in thousands)

	December 31,	
	2008	2007
Commercial and industrial - not secured by real estate	43,451	\$ 47,885
Commercial and industrial secured by real estate	111,844	107,531
Residential real estate - mortgage	124,445	108,161
Residential real estate - construction	104,390	138,926
Loans to individuals for household, family and other personal expenditures	14,581	16,495
	398,711	418,998
Less allowance for loan losses	(9,217)	(4,310)
	\$ 389,494	\$ 414,688

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NOTE - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

The composition of gross loans by rate type is as follows (tabular amounts in thousands) :

	December 31,	
	2008	2007
Variable rate loans ...	\$145,998	\$197,344
<b>Fixed rate loans</b>	252,713	221,654
	\$398,711	\$418,998

Changes in the allowance for loan losses were as follows (tabular amounts in thousands) :

	For the years ended December 31,	
	2008	2007
BALANCE, BEGINNING OF YEAR	\$ 4,310	\$ 4,070
<b>Provision for loan losses</b>	13,820	900
Loans charged off	(9,037)	(706)
<b>Loans recovered</b>	124	46
BALANCE, END OF YEAR	9,217	4,310

The following is a summary of information pertaining to impaired loans and non-accrual loans (tabular amounts in thousands) :

<TABLE>

<CAPTION>

	December 31,	
	2008	2007
<S>	<C>	<C>
<b>Impaired loans without valuation allowance</b>	\$13,592	\$ 2,024
<b>Impaired loans with a valuation allowance</b>	3,079	
Total impaired loans	\$16,671	\$ 2,024
Valuation allowance related to impaired loans	\$ 1,608	
<b>Total non-accrual loans</b>	\$16,950	7,505
Total loans past-due ninety days or more and still accruing		
<b>Foregone interest income on non-accrual loans</b>	753	137
<b>Average investment in impaired loans</b>	10,802	1,546
<b>Interest income recognized on impaired loans</b>		
<b>Interest income recognized on a cash basis on impaired loans</b>		

</TABLE>

NOTE 5 - PREMISES AND EQUIPMENT

The principal categories and estimated useful lives of premises and equipment are summarized in the table below (dollar amounts in thousands) :

<TABLE>

<CAPTION>

	Estimated useful lives	December 31,	
		2008	2007
<S>		<C>	<C>
Land		\$ 3,873	\$ 3,873
<b>Building and improvements</b>	15 40 years	9,951	9,759
Furniture, fixtures and equipment	3 10 years	8,879	8,561
		22,703	22,193
Less accumulated depreciation		9,503	8,436
		\$ 13,200	13,757

</TABLE>

Depreciation expense of approximately \$1,142,000 and \$1,110,000 for 2008 and 2007, respectively, is included in occupancy and equipment expenses in the accompanying consolidated statements of income.

NOTE 6 DEPOSITS

The composition of deposits is as follows (tabular amounts in thousands):

	December 31,	
	2008	2007
Demand deposits, noninterest bearing	\$ 51,091	\$ 53,950
NOW and money market accounts	96,160	83,870
Savings deposits	9,771	8,172
Time certificates, \$100,000 or more	97,769	109,457
Other time certificates	190,578	162,172
<b>Total</b>	<b>\$445,369</b>	<b>\$417,621</b>

	December 31,	
	2008	2007
<b>Time certificates maturing</b>		
Within one year	\$265,342	\$253,342
After one but within two years	15,651	12,093
After two but within three years	6,864	5,421
After three but within four years	259	757
After four years	231	16
	-----	-----
	288,347	271,629
<b>Transaction and savings accounts</b>	157,022	145,992
	-----	-----
	<b>\$445,369</b>	<b>\$417,621</b>
	=====	=====

Certificates of deposit in excess of \$100,000 totaled approximately \$86,380,000 and \$99,060,000 at December 31, 2008 and 2007, respectively. Interest expense on certificates of deposit in excess of \$100,000 was approximately, \$3,907,000 in 2008 and \$4,636,000 in 2007. The Banks had brokered time certificates of approximately \$77,411,000 at December 31, 2008 and \$28,087,000 at December 31, 2007.

NOTE 7 - SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements are summarized as follows (tabular amounts in thousands):

<TABLE>  
<CAPTION>

	December 31,	
	2008	2007
<S>		
Government sponsored enterprise securities with an amortized cost of \$28,686,000 (\$29,673,000 fair value) and \$27,855,000 (\$28,044,000 fair value) at December 31, 2008 and 2007, respectively, collateralize the agreements.	\$22,181	\$19,824

The Banks enter into sales of securities under agreements to repurchase. These obligations to repurchase securities sold are reflected as liabilities in the consolidated balance sheets. The dollar amount of securities underlying the agreements remains in the asset accounts. The securities underlying the agreements are book entry securities maintained by a safekeeping agent. The weighted average interest rate of these agreements was 1.56 percent and 1.92 percent for 2008 and 2007, respectively. The agreements mature daily. Securities sold under agreements to repurchase averaged \$20,832,000 and \$20,648,000 during 2008 and 2007, respectively. The maximum amounts outstanding at any month-end were \$25,557,000 and \$23,229,000 during 2008 and 2007, respectively.



<PAGE>

NOTE 8 FEDERAL FUNDS PURCHASED

At December 31, 2008, the Banks had the ability to purchase federal funds from unrelated banks under short-term lines of credit totaling \$37,000,000. These lines of credit are available on a one to seven day basis for general corporate purposes. At December 31, 2008 there was \$1,028,000 outstanding under these lines of credit and \$429,000 outstanding at December 31, 2007.

NOTE 9 - ADVANCES FROM FEDERAL HOME LOAN BANK AND NOTES PAYABLE-OTHER

The Banks have the ability to borrow up to 20 percent of their total assets from the FHLB subject to available qualifying collateral. Borrowings may be obtained under various FHLB lending programs with various terms. Borrowings from the FHLB require qualifying collateral (which includes certain mortgage loans, investment securities and FHLB stock) and may require purchasing additional stock in the FHLB.

The Banks had advances aggregating \$34,600,000 and \$65,100,000 at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007 respectively, the Banks had \$34,600,000 and \$23,100,000 of advances at interest rates of 0.46 percent and 4.40 percent and which matured daily. At December 31, 2007 \$21,000,000 of advances had an interest rate of 4.52 percent that matured in February 2008 and \$21,000,000 of advances at an interest rate of 4.68 percent that matured in November 2008. At December 31, 2008 and 2007, the advances were collateralized by qualifying mortgage loans aggregating approximately \$67,201,000 and \$66,963,000, respectively, and by FHLB stock owned by all three Banks. The Banks also had advances collateralized by investment securities owned by the Banks in the amount of \$13,149,000 and \$9,620,000 at December 31, 2008 and 2007, respectively. As of December 31, 2008, the Banks had the ability to borrow an additional \$45,751,000 in the aggregate from the FHLB.

In 2008, the Company obtained a \$15,000,000 line of credit from a correspondent bank to enable it to inject additional capital into the banks. The Company subsequently drew on this line of credit and injected a total of \$11,500,000 into its three Banks. At December 31, 2008 the line of credit, which matures September 28, 2010, had an outstanding balance of \$11,000,000. The line of credit agreement contains certain covenants to which the Company is obligated in order to retain the line of credit. At December 31, 2008, the Company's non-performing assets to total assets ratio of 4.08% exceeded the required non-performing assets to total assets ratio of 3.50%, for which a waiver was obtained through March 31, 2009. Management believes the Company will be back in compliance with the covenant requirements at March 31, 2009.

NOTE 10 - INCOME TAXES

Provision for income taxes consists of the following (tabular amounts in thousands)

	For the years ended December 31,	
	2008	2007
<b>Current tax provision</b>		
Federal ..	\$ (2,153)	1,452
State		201
Total current taxes	(2,153)	1,653
Deferred tax benefit	(3,031)	(96)
	\$ (5,184)	\$ 1,557

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NOTE 10 - INCOME TAXES, Continued

Income taxes differ from the tax expense computed by applying the **statutory federal income tax rate of 34 percent to income (loss) before income taxes**. The reasons for these **differences are as follows (tabular amounts in thousands)**:

	For the years ended December 31,	
	2008	2007
Tax (benefit) expense at statutory rate	\$ (4,610)	\$ 2,006
Increase (decrease) in taxes resulting from:		
State income taxes, net of federal benefit		133
<b>Tax-exempt interest income</b> ...	(511)	(483)
<b>Investment in life insurance</b> ...	(150)	(62)
Other .....	87	(37)
<b>Provision for income taxes (benefit)</b>	<b>\$ (5,184)</b>	<b>\$ 1,557</b>

Deferred tax assets (liabilities) result from temporary differences in **the recognition of revenue and expenses for tax and financial statement** purposes. Management believes realization of the deferred tax assets is more likely than not and accordingly has not recorded a valuation allowance. The sources and the cumulative tax effect of temporary differences are as follows (tabular amounts in thousands):

	December 31, -----	
	2008	2007
<b>Deferred tax assets</b>		
<b>Allowance for loan losses</b> ..	\$ 3,134	\$ 1,471
<b>Deferred compensation</b> .	254	156
Other than temporary impairment	1,033	
Other	417	97
	4,838	1,724
<b>Deferred tax liabilities</b>		
Depreciation	(104)	(108)
<b>Prepaid expenses</b>	(180)	(93)
Unrealized holding gains on securities available for sale	(758)	(404)
	(1,042)	(605)
Net deferred tax assets included in other assets	\$ 3,796	\$ 1,119

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no **liability** related to **uncertain tax positions in accordance with FIN No. 48**.

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Banks are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their customers. **These financial instruments include commitments to extend credit and standby letters of credit**. They involve, to varying degrees, elements of credit and **interest rate risk in excess of the amounts recognized in the balance sheets**.

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

<PAGE>

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK, Continued

**Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2008, unfunded commitments to extend credit were \$77,530,000, of which \$72,359,000 were at variable rates and \$5,171,000 were at fixed rates. These commitments included \$11,405,000 of unfunded amounts of construction loans, \$44,531,000 of undisbursed amounts of home equity lines of credit, \$13,602,000 of unfunded amounts under commercial lines of credit, and \$7,992,000 other commitments to extend credit. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate.**

At December 31, 2008, there was \$2,845,000 committed under letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral varies but may include accounts receivable, inventory, equipment, marketable securities and property. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements. The Company has not recorded a liability for the current carrying amount of the obligation to perform as a guarantor, and no contingent liability was considered necessary, as such amounts were not considered material.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

**The Company is, from time to time, a party to various lawsuits and claims arising from the ordinary conduct of its business. Management does not expect such matters to have any material adverse effect on the financial position or results of operations of the Company.**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in the upstate region of South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or to a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions. However, a substantial portion of the Company's loans are secured by real estate.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk that could arise from potential concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc), and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans) These loans are underwritten and monitored to manage the associated risks. Management has determined that there is no concentration of credit risk associated with its lending policies or practices.

The Company's investment portfolio consists principally of obligations of the United States of America, its agencies or its corporations and general obligation municipal securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

<PAGE>

NOTE 13 - RELATED PARTY TRANSACTIONS

At December 31, 2008 and 2007, certain officers, directors, employees, related parties and companies in which they have 10 percent or more beneficial ownership, were indebted to the Banks in the aggregate amount of \$21,691,000 and \$14,886,000, respectively. During 2008, \$9,900,000 of new loans were made to this group and repayments of \$3,095,000 were received. This same group had deposits in the Banks of \$5,839,000 and \$7,033,000 at December 31, 2008 and 2007, respectively.

NOTE 14 - COMMON STOCK AND EARNINGS PER SHARE

SFAS No. 128, Earnings per Share, requires that the Company present basic and diluted net income (loss) per common share. The assumed conversion of stock options creates the difference between basic and diluted net income (loss) per common share. Income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for each period presented. The weighted average number of common shares outstanding for basic net income (loss) per common share was 7,062,218 and 7,401,032 in 2008 and 2007, respectively. The weighted average number of common shares outstanding for diluted net income (loss) per common share was 7,062,218 and 7,403,021 in 2008 and 2007, respectively. Due to the net loss in 2008, basic and diluted loss per share were the same.

The Company declared a five percent common stock dividend in 2007, payable in 2008. Net income (loss) and dividends per common share and the weighted average number of common shares outstanding for basic and diluted net income (loss) per common share have been restated for 2007 to reflect this transaction.

NOTE 15 - RESTRICTIONS ON DIVIDENDS

The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from the Banks. Federal banking regulations restrict the amount of dividends that can be paid and such dividends are payable only from the retained earnings of the Banks. At December 31, 2008 the Banks had aggregate retained earnings of \$23,135,000. A loan agreement also prohibits the Company from paying cash dividends without the prior consent of the lender if the payment would cause the Company to fail to be well capitalized.

NOTE 16 - STOCK OPTION COMPENSATION PLANS

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 in 2008 and 2007, dividend yields of \$0.20 per share, expected volatility from 22 to 23 percent, risk-free interest rates from 3.49 to 3.87 percent and expected life of 10 years. The weighted average fair market value of options granted approximated \$1.82 in 2008 and \$3.49 in 2007.

A summary of the status of the plans as of December 31, 2008 and 2007, and changes during the years ending on those dates is presented below (all shares and exercise prices have been adjusted for stock dividends and the stock split):

<TABLE>

<CAPTION>

	Number of shares	Options outstanding		Aggregate intrinsic value
		Weighted average exercise price	Weighted average contractual term (years)	
<S>	<C>	<C>		
Outstanding at December 31, 2006	208,989	\$ 8.46		
Granted	25,323	10.46		
Exercised	(61,566)	4.04		\$ 243,511
<b>Forfeited or expired</b>	<b>(3,997)</b>	<b>11.68</b>		
Outstanding at December 31, 2007	168,749	10.29		

</TABLE>

<PAGE>

NOTE 16 - STOCK OPTION COMPENSATION PLANS, Continued

<TABLE>  
<CAPTION>

	Number of shares	Options outstanding Weighted average exercise price	Options outstanding Weighted average contractual term (years)	Aggregate intrinsic value
<S>	<C>	<C>	<C>	<C>
Granted	16,000	7.62		
Exercised	(14,615)	5.34		\$ 13,624
Forfeited or expired	(23,871)	9.89		
Outstanding at December 31, 2008	146,263	10.56	6.62	\$
Options exercisable at year-end	116,966	10.56	6.45	\$
Shares available for grant	376,650			

</TABLE>  
<TABLE>  
<CAPTION>

	Number of shares	Weighted average grant date fair value
<S>	<C>	<C>
Non-vested options at December 31, 2007	38,615	\$11.56
Granted	16,000	7.62
Vested	(8,124)	8.35
Forfeited or expired	(17,194)	9.72
Non-vested options at December 31, 2008	29,297	\$11.38

</TABLE>

AS of December 31, 2008, we have unrecognized compensation cost of \$127,085 related to unvested stock options.

<TABLE>  
<CAPTION>

Options outstanding			Options exercisable	
Number of shares outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of shares exercisable	Weighted average exercise price
<C>	<C>	<C>	<C>	<C>
3,480	0.2	6.47	3,480	6.47
7,721	1.2	8.16	7,721	8.16
5,826	2.0	8.53	5,826	8.53
6,318	2.3	7.60	6,318	7.60
8,016	3.3	8.86	8,016	8.86
10,461	3.5	9.34	10,461	9.34
5,730	4.3	10.47	5,730	10.47
24,831	5.3	12.89	21,927	12.89
1,823	5.6	13.71	1,550	13.71
4,046	6.3	15.66	4,046	15.66
1,158	6.5	14.77	811	14.77
2,316	6.6	14.90	1,622	14.90
5,788	6.7	14.90	4,052	14.90
1,736	6.8	14.08	1,215	14.08
1,102	7.1	12.02	606	12.02

</TABLE>

<PAGE>

NOTE 16 - STOCK OPTION COMPENSATION PLANS, Continued

<TABLE>  
<CAPTION>

Options outstanding			Options exercisable		
Number of shares outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of shares exercisable	Weighted average exercise price	
<S>	<C>	<C>			<C>
1,102	7.2	11.89	606	11.89	
6,063	7.3	10.25	3,335	10.25	
6,613	7.3	11.42	5,373	11.42	
1,102	7.5	10.44	606	10.44	
4,280	7.7	10.43	2,354	10.43	
2,204	7.8	10.21	1,212	10.21	
6,422	8.0	10.48	2,569	10.48	
1,050	8.2	9.95	420	9.95	
3,675	8.3	9.52	1,470	9.52	
6,300	8.3	11.19	6,300	11.19	
1,050	8.5	11.42	420	11.42	
1,050	8.9	9.57	420	9.57	
1,500	9.0	8.05	375	8.05	
3,500	9.3	7.75	875	7.75	
1,000	9.3	7.50	250	7.50	
7,000	9.4	7.60	7,000	7.60	
500	9.5	5.35			
1,500	9.7	7.50			
146,263			116,966		

</TABLE>

The plans are administered by the Board of Directors or by a committee designated by the Board. The plans provide that if the shares of common stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of common stock as a stock dividend on its outstanding common stock, the number of shares of common stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend.

NOTE 17 - EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) retirement plan for all eligible employees. Upon ongoing approval of the Board of Directors, the Company matches employee contributions equal to one-hundred percent of the first three percent of such contributions, plus fifty percent of the next two percent of such contributions, subject to certain adjustments and limitations. Contributions to the plan of \$240,441 and \$206,971, were charged to operations during 2008 and 2007, respectively.

Supplemental benefits have been approved by the Board of Directors for certain executive officers of the Company. These benefits are not qualified under the Internal Revenue Code and they are not funded. However, certain funding is provided informally and indirectly by life insurance policies. The Company recorded expense related to these benefits of \$260,746 and \$201,356 in 2008 and 2007, respectively.

<PAGE,

NOTE 18 - REGULATORY MATTERS

The Banks 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 Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks must meet specific capital guidelines that involve quantitative measures of the Banks' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Banks' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Banks to maintain 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, 2008, that the Banks meet all capital adequacy requirements to which they are subject.

On October 15, 2008, Bank of Anderson, N.A., the assets of which represent approximately 25% of the Company's total consolidated assets, entered into a formal agreement with the Office of the Comptroller of the Currency (the "OCC") for the bank to take various actions with respect to the operation of the bank. The actions include,

- a. creation of a committee of the bank's board of directors to monitor compliance with the agreement and make monthly reports to the board of directors and the OCC;
- b. development, implementation and adherence to a program to improve the bank's loan portfolio management;
- c. adoption, implantation and adherence to written policies and procedures for maintaining an adequate allowance for loan and lease losses in accordance with generally accepted accounting principles and regulatory guidance;
- d. protection of its interest in its criticized assets (those assets classified as "loss," "doubtful," "substandard," or "special mention" by internal or external loan review or examination), and adoption, implementation and adherence to a written program designed to eliminate the basis of the criticism, as well as restricting further extensions of credit to borrowers whose loans are subject to criticism;
- e. development, implementation and adherence to a written program to improve its construction loans underwriting standards;
- f. adoption, implantation and adherence to a written asset diversification program that appropriately identifies and manages concentration of credit risk;
- g. adoption, implementation and adherence to a strategic plan, a capital program and a profit plan;
- h. ensuring that the level of liquidity at the bank is sufficient to sustain the bank's current operations and meet anticipated or extraordinary demand; and
- i. obtaining a determination of no supervisory objection from the OCC before accepting brokered deposits.

Additionally, the bank is required by the agreement to submit numerous periodic reports to the OCC regarding various aspects of the foregoing actions.

The agreement resulted from the OCC's examination of the bank that commenced in the second quarter of 2008. Since the later part of 2006 the bank has experienced an increase in criticized assets as the economy in the bank's primary lending areas has come under increasing downward pressure. The substantive actions called for by the agreement should strengthen the bank and make it more efficient in the long-term. Implementation of the agreement will increase the bank's administrative costs somewhat in the near-term, but the amount of such increase is not expected to be material to the Company.

<PAGE>

NOTE 18 - REGULATORY MATTERS, Continued

As of December 31, 2008, the most recent notification from the Office of the Comptroller of the Currency categorized the Banks 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 the Banks' categories. The Banks' actual capital amounts and ratios and minimum regulatory amounts and ratios are presented as follows:

<TABLE>  
<CAPTION>

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Minimum		Minimum	
			Amount	Ratio	Amount	Ratio
(dollar amounts in thousands)						
<b>Peoples BancorporatioD, Inc.</b>						
<S>						
As of December 31, 2008	<C>	<C>	<C>	<C>	<C>	<C>
Total Capital (to risk-weighted assets)	\$45,435	10.77%	\$33,749	8.00%	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	40,040	9.49	16,877	4.00	N/A	N/A
Tier 1 Capital (to average assets)	40,040	7.33	21,850	4.00	N/A	N/A
As of December 31, 2007						
Total Capital (to risk-weighted assets)	53,766	12.02	35,784	8.00	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	49,456	11.06	17,886	4.00	N/A	N/A
Tier 1 Capital (to average assets)	49,446	8.80	22,480	4.00	N/A	N/A
<b>The Peoples National Bank:</b>						
As of December 31, 2008						
Total Capital (to risk-weighted assets)	34,922	12.44	22,458	8.00	\$28,072	10.00%
Tier 1 Capital (to risk-weighted assets)	31,297	11.15	11,228	4.00	16,841	6.00
Tier 1 Capital (to average assets)	31,297	9.06	13,818	4.00	17,272	5.00
As of December 31, 2007						
Total Capital (to risk-weighted assets)	31,146	10.64	23,418	8.00	29,273	10.00
Tier 1 Capital (to risk-weighted assets)	28,371	9.69	11,711	4.00	17,567	6.00
Tier 1 Capital (to average assets)	28,371	8.52	13,320	4.00	16,650	5.00
<b>Bank of Anderson, N.A. :</b>						
As of December 31, 2008 (1)						
Total Capital (to risk-weighted assets)	13,922	15.27	10,941	12.00	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	12,777	14.02	9,113	10.00	N/A	N/A
Tier 1 Capital (to average assets)	12,777	9.58	10,670	8.00	N/A	N/A
As of December 31, 2007						
Total Capital (to risk-weighted assets)	14,013	13.25	8,461	8.00	10,576	10.00
Tier 1 Capital (to risk-weighted assets)	12,808	12.11	4,231	4.00	6,346	6.00
Tier 1 Capital (to average assets)	12,808	8.34	6,143	4.00	7,679	5.00
<b>Seneca National Bank:</b>						
As of December 31, 2008						
Total Capital (to risk-weighted assets)	7,198	14.44	3,988	8.00	4,985	10.00
Tier 1 Capital (to risk-weighted assets)	6,574	13.19	1,994	4.00	2,990	6.00
Tier 1 Capital (to average assets)	6,574	9.76	2,695	4.00	3,368	5.00
As of December 31, 2007						
Total Capital (to risk-weighted assets)	5,840	11.47	4,073	8.00	5,092	10.00
Tier 1 Capital (to risk-weighted assets)	5,373	10.55	2,037	4.00	3,056	6.00
Tier 1 Capital (to average assets)	5,373	7.82	2,748	4.00	3,435	5.00

</TABLE>

(1) Minimum ratios have been revised to reflect minimum required regulatory ratios for this bank as required by the Comptroller.



<PAGE>

NOTE 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 sheets, when it is practical to estimate the fair value. SFAS No. 107 defines a financial instrument as cash, evidence of an ownership interest in an entity or contractual obligations which require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including the Company's common stock, premises and equipment and other assets and liabilities.

Fair value approximates carrying value for the following financial instruments due to the short-term nature of the instrument: cash and due from banks, interest-bearing deposits in other banks and federal funds sold and purchased.

Securities are valued using quoted fair market prices. Other investments are valued at par value.

Fair value for variable rate loans that reprice frequently, loans held for sale, and for loans that mature in less than three months is based on the carrying value. Fair value for fixed rate mortgage loans, personal loans, and all other loans (primarily commercial) maturing after three months 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.

Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying value. Certificate of deposit accounts and securities sold under repurchase agreements maturing within one year are valued at their carrying value. The fair value of certificate of deposit accounts and securities sold under repurchase agreements maturing after one year are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

Fair value for long-term FHLB advances is based on discounted cash flows using the Company's current incremental borrowing rate. Discount rates used in these computations approximate rates currently offered for similar borrowings of comparable terms and credit quality.

Fair value of off-balance sheet instruments is based on fees currently charged to enter into similar arrangements, taking into account the remaining terms of the agreement and the counterparties' credit standing.

The Company has used management's best estimate of fair value based on the above assumptions. Thus, the fair values presented may not be the amounts which could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses which would be incurred in an actual sale or settlement are not taken into consideration in the fair value presented.

The estimated fair values of the Company's financial instruments are as follows (amounts in thousands):

<TABLE>  
<CAPTION>

	December 31,			
	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
<S>	<C>	<C>	<C>	<C>
Cash and due from banks	\$ 7,874	7,874	\$ 8,618	8,618
Interest-bearing deposits in other banks	765	765	643	643
Federal funds sold	9,185	9,185	1,263	1,263
Trading assets	47	47		
Securities available for sale ..	96,003	96,003	84,796	84,796
Securities held to maturity	12,651	12,666	13,102	13,113
Other investments	3,546	3,546	4,795	4,795
Loans (gross)	398,711	395,447	418,998	412,240

</TABLE>

<PAGE>

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

<TABLE>  
<CAPTION>

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
<S> Cash surrender value life insurance	<C> 11,815	<C> 11,815	<C> 11,350	<C> 11,350
Financial liabilities:				
Deposits	445,369	442,221	417,621	418,273
Securities sold under repurchase agreements	22,181	22,181	19,824	19,824
Federal funds purchased	1,028	1,028	429	429
Advances from Federal Home Loan Bank	34,600	34,600	65,100	65,055
Notes Payable - Other ..	11,000	11,000		

</TABLE>

As noted in Note 1, effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, which provides a framework for measuring and disclosing fair value under accounting principles generally accepted in the United States of America. SFAS No. 157 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, impaired loans)

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 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 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 derivative contracts and impaired loans.
- 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. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

<PAGE>

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

Assets and liabilities measured at fair value on a recurring basis are as follows as of December 31, 2008:

<TABLE>  
<CAPTION>

	Quoted market price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant, unobservable inputs (Level 3)
<S>			<C>
Available for sale securities	95,585,000	418,000	\$
Trading Assets	47,000		
Impaired loans		16,671,000	
	95,632,000	\$ 17,089,000	

</TABLE>

The Company has no liabilities carried at fair value or measured at fair value on a nonrecurring basis.

The Company is predominantly an asset based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be level 2 inputs. The aggregate carrying amount of impaired loans at December 31, 2008 was \$16,671,000.

FSP FAS 157-2 delays the implementation of SFAS No. 157 until the first quarter of 2009 with respect to goodwill, other intangible assets, real estate and other assets acquired through foreclosure and other non-financial assets measured at fair value on a nonrecurring basis.

<PAGE>

NOTE 20 - CONDENSED FINANCIAL INFORMATION

**Following is condensed financial information of Peoples Bancorporation, Inc.** (parent company only) (tabular amounts in thousands)

CONDENSED BALANCE SHEETS

<TABLE>  
<CAPTION>

	December 31,	
	2008	2007
ASSETS		
<S>	<C>	<C>
Cash	\$ 373	\$ 2,173
<b>Investment in bank subsidiaries</b>	52,123	47,347
Other assets	287	1,306
	\$ 52,783	\$ 50,826
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable	\$ 11,000	\$
<b>Other liabilities</b>	271	585
Shareholders' equity	41,512	50,241
	\$ 52,783	\$ 50,826

</TABLE>

CONDENSED STATEMENTS OF INCOME

<TABLE>  
<CAPTION>

	For the years ended December 31,	
	2008	2007
INCOME		
<S>	<C>	<C>
<b>Fees and dividends from subsidiaries</b>	\$ 6,724	\$ 6,582
EXPENSES		
<b>Interest expense</b>	104	
Salaries and benefits	3,751	3,814
Occupancy	9	8
Equipment	457	436
Other operating	1,394	1,129
	5,715	5,387
EQUITY IN UNDISTRIBUTED NET INCOME (LOSS) OF BANK SUBSIDIARIES	(9,481)	3,121
<b>Income (loss) before income taxes</b>	(8,472)	4,316
INCOME TAX BENEFIT	(96)	(27)
Net income (loss)	\$ (8,376)	\$ 4,343

</TABLE>

<PAGE>

NOTE 20 - CONDENSED FINANCIAL INFORMATION, Continued

CONDENSED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	For the years ended December 31,	
	2008	2007
OPERATING ACTIVITIES		
<S> Net income (loss)	<C> \$ (8,376)	<C> \$ 4,343
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities</b>		
Equity in undistributed net (income) loss of bank subsidiaries	9,481	(3,121)
<b>Cumulative effect of post retirement cost of life insurance</b>	72	93
<b>(Increase) decrease in other assets</b>	1,026	(172)
<b>Decrease in other liabilities</b>	(314)	(295)
Net cash provided by operating activities	1,889	848
FINANCING ACTIVITIES		
<b>Payments for investments in bank subsidiaries</b>	(12,500)	
<b>Net change in borrowings</b>	11,000	
Proceeds from the exercise of stock options	71	204
Cash dividends	(1,060)	(1,343)
Cash in lieu of fractional share on stock dividends and splits		(5)
Proceeds (repayment) of advances from subsidiaries	(1,200)	321
Net cash used for financing activities	(3,689)	(823)
Net increase (decrease) in cash	(1,800)	25
CASH, BEGINNING OF YEAR	2,173	2,148
CASH, END OF YEAR	\$ 373	\$ 2,173

</TABLE>

<PAGE,

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The section "MARKET RISK - INTEREST RATE SENSITIVITY" included in **ItBusiness"** under **Item 1 of this Annual Report on Form IO-K is incorporated** herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are filed with this report:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2007 and 2006.

Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005.

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2007, 2006 and 2005.

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005.

Notes to Consolidated Financial Statements.

<PAGE>

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Shareholders and Board of Directors**  
**Peoples Bancorporation, Inc.**  
Easley, South Carolina

We have audited the accompanying consolidated balance sheets of Peoples Bancorporation, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the **related consolidated statements of income, shareholders' equity and comprehensive income, 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit **includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Peoples Bancorporation, Inc. and Subsidiaries 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.**

We were not engaged to examine management's assertion about the **effectiveness of the Company's internal control over financial reporting as of December 31, 2007** included in the Management's Annual Report on Internal Control Over Financial Reporting included in the Company's Form 10oK filed with the Securities and Exchange Commission and, **accordingly, we do not express an opinion thereon.**

*Isi* Elliott Davis, LLC  
Greenville, South Carolina  
March 25, 2008

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PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Amounts in thousands except share information)

<TABLE>

<CAPTION>

	DECEMBER 31,	
	2007	2006
ASSETS		
<S>	<C>	<C>
CASH AND DUE FROM BANKS	8,618	\$ 10,819
INTEREST - BEARING DEPOSITS IN OTHER BANKS	643	108
FEDERAL FUNDS SOLD	1,263	12,514
SECURITIES	10,524	23,441
<b>Available for sale</b>	84,796	81,686
<b>Held to maturity (fair value of \$13,113 (2007) and \$13,382 (2006))</b>	13,102	13,500
<b>Other investments, at cost</b>	4,795	4,283
LOANS, net of allowance for loan losses of \$4,310 (2007) and \$4,070 (2006)	414,688	354,011
PREMISES AND EQUIPMENT, net of accumulated depreciation ...	13,757	11,117
ACCRUED INTEREST RECEIVABLE	3,321	3,043
CASH SURRENDER VALUE OF LIFE INSURANCE	11,350	10,934
OTHER ASSETS	2,110	1,799
TOTAL ASSETS	\$558,443	\$503,814
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS		
<b>Noninterest-bearing</b>	\$ 53,950	\$ 54,993
<b>Interest-bearing</b>	363,671	330,052
Total deposits	417,621	385,045
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	19,824	18,368
FEDERAL FUNDS PURCHASED	429	
ADVANCES FROM FEDERAL HOME LOAN BANK .....	65,100	50,000
ACCRUED INTEREST PAYABLE	4,465	2,926
OTHER LIABILITIES	763	1,411
Total liabilities	508,202	457,750
COMMITMENTS AND CONTINGENCIES Notes 11 and 12		
SHAREHOLDERS' EQUITY		
Common stock - 15,000,000 shares authorized; \$1.11 par value per share; 7,056,337 (2007) shares and 6,666,568 (2006) shares issued and outstanding	7,833	7,400
Additional paid-in capital	41,624	38,614
Retained earnings		32
Accumulated other comprehensive income	784	18
Total shareholders' equity	50,241	46,064
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$558,443	\$503,814

<TABLE>

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



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PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Amounts in thousands except per share information)

<TABLE,  
<CAPTION,

	For the years ended December 31,		
	2007	2006	2005
INTEREST INCOME			
<S,	<C,	<C,	<C,
Interest and fees on loans	\$ 30,959	\$ 28,576	\$ 23,915
Interest on securities			
Taxable ..	3,037	2,460	1,921
Tax-exempt	1,422	700	260
Interest on federal funds sold ..	128	242	194
	-----	-----	-----
Total interest income	35,546	31,978	26,290
	-----	-----	-----
INTEREST EXPENSE			
Interest on deposits	14,308	10,712	7,924
Interest on federal funds purchased and securities sold under repurchase agreements	455	773	642
Interest on advances from Federal Home Loan Bank	1,859	1,156	367
	-----	-----	-----
Total interest expense	16,622	12,641	8,933
	-----	-----	-----
Net interest income	18,924	19,337	17,357
	-----	-----	-----
PROVISION FOR LOAN LOSSES ..	900	943	848
	-----	-----	-----
Net interest income after provision for loan losses	18,024	18,394	16,509
	-----	-----	-----
NONINTEREST INCOME			
Service charges on deposit accounts	1,844	1,829	2,017
Customer service fees	124	159	168
Mortgage banking	468	444	494
Brokerage services	205	223	195
Bank owned life insurance ..	476	389	417
Other noninterest income	725	666	311
Gain (loss) on sale of securities available for sale	(62)	(62)	7
	-----	-----	-----
Total noninterest income	3,842	3,648	3,609
	-----	-----	-----
NONINTEREST EXPENSES			
Salaries and benefits .. "	9,385	8,966	8,565
Occupancy	866	821	747
Equipment	1,364	1,365	1,362
Marketing and advertising	508	414	415
Communications	253	258	222
Printing and supplies ..	198	176	139
Bank paid loan costs .. "	200	226	318
Directors fees ..	450	362	349
Other post employment benefits	261	109	137
Legal and professional fees	442	580	371
Other operating .. ".....	2,039	2,344	1,713
	-----	-----	-----
Total noninterest expenses	15,966	15,621	14,338
	-----	-----	-----
Income before income taxes	5,900	6,421	5,780
	-----	-----	-----
PROVISION FOR INCOME TAXES	1,557	1,935	1,652
	-----	-----	-----
Net income	\$ 4,343	\$ 4,486	\$ 4,128
	=====	=====	=====
BASIC NET INCOME PER COMMON SHARE (1)	\$ 0.59	\$ 0.65	\$ 0.60
	=====	=====	=====
DILUTED NET INCOME PER COMMON SHARE (1)	\$ 0.59	\$ 0.64	\$ 0.59
	=====	=====	=====

</TABLE>

(1) Per share data has been restated to reflect 5 percent stock dividends.

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

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PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
For the years ended December 31, 2007, 2006 and 2005  
(Amounts in thousands except share information)

<TABLE>  
<CAPTION>

	Common stock		Additional	Retained	Accumulated other comprehensive income (loss)	Total share-holders' equity
	Shares	Amount	paid-in capital	earnings		
BALANCE, DECEMBER 31, 2004	5,822,608	6,463	\$ 32,237	\$	(460)	\$ 38,240
<b>Net income</b>				4,128		4,128
<b>Other comprehensive income, net of tax:</b>						
<b>Unrealized holding losses on securities available for sale, net of income taxes of \$202 ....</b>					(388)	(388)
<b>Less reclassification adjustment for gains included in net income, net of income taxes of \$2</b>					(5)	(5)
<b>Comprehensive income</b>						3,735
Stock dividend (5%)	296,844	330	2,194	(2,524)		
Cash in lieu of fractional shares on stock dividend				(9)		(9)
Cash dividends (\$.20 per share)				(1,187)		(1,187)
<b>Proceeds from stock options exercised</b>	125,904	139	253			392
BALANCE, DECEMBER 31, 2005	6,245,356	6,932	34,684	408	(853)	41,171
<b>Net income</b>				4,486		4,486
<b>Other comprehensive income, net of tax:</b>						
<b>Unrealized holding gains on securities available for sale, net of income taxes of \$(470)</b>					831	831
<b>Less reclassification adjustment for gains included in net income, net of income taxes of \$20...</b>					40	40
<b>Comprehensive income</b>						5,357
Stock dividend (5%)	316,873	352	3,245	(3,597)		(7)
Cash in lieu of fractional shares on stock dividend				(7)		(7)
Cash dividends (\$.20 per share)				(1,258)		(1,258)
<b>Proceeds from stock options exercised</b>	104,339	116	421			537
Tax benefit of stock options exercised ..			172			172
Stock-based compensation			92			92
BALANCE, DECEMBER 31, 2006 ..	6,666,568	7,400	38,614	32	18	46,064
<b>Net income</b>				4,343		4,343
<b>Other comprehensive income, net of tax:</b>						
<b>Unrealized holding gains on securities available for sale, net of income taxes of \$(396)</b>					766	766
<b>Comprehensive income</b>						5,109
Stock Dividend (5%)	335,462	373	2,654	(3,027)		(5)
Cash in lieu of fractional shares on stock dividend				(5)		(5)
Cash dividends (\$.20 per share)				(1,343)		(1,343)
<b>Proceeds from stock options exercised</b>	54,307	60	144			204
Tax benefit of stock options exercised			119			119
Stock-based compensation			93			93
BALANCE, DECEMBER 31, 2007	7,056,337	\$ 7,833	\$ 41,624	\$	\$ 784	\$ 50,241

</TABLE>

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

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PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Amounts in thousands)

<TABLE>  
<CAPTION>

	For the years ended December 31,		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
<S> Net income	\$ 4,343	\$ 4,486	\$ 4,128
Adjustments to reconcile net income to net cash provided by operating activities			
(Gain) loss on sale of premises and equipment	(177)	(3)	25
(Gain) loss on sale of securities available for sale	(16)	62	(7)
Gain on sale of assets acquired in settlement of loans	(16)	(181)	(60)
Provision for loan losses	900	943	848
Provision (benefit) from deferred income taxes	(96)	422	(10)
Depreciation	1,110	1,091	1,127
Amortization and accretion (net) of premiums and discounts on securities	51	97	132
Stock-based compensation	93	92	
Increase in accrued interest receivable	(278)	(602)	(611)
(Increase) decrease in other assets	157	(809)	(1,639)
Increase in accrued interest payable	1,539	645	1,127
Increase (decrease) in other liabilities	(648)	510	(321)
	-----	-----	-----
Net cash provided by operating activities	6,978	6,753	4,739
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities held to maturity		(2,893)	(4,737)
Purchases of securities available for sale	(14,091)	(62,172)	(8,035)
Purchases of other investments	(512)	(2,238)	(388)
Proceeds from principal pay downs on securities available for sale	7,575	5,207	3,543
Proceeds from the maturities and calls of securities available for sale	4,600	37,950	500
Proceeds from the sale of securities available for sale		3,740	362
Proceeds from maturity of securities held to maturity	315	160	1,218
Investment in bank owned life insurance	(416)	(1,531)	(354)
Proceeds from sale of other real estate owned	112	2,164	413
Net (increase) decrease in loans	(62,441)	18,427	(52,277)
Proceeds from the sale of premises and equipment	523	30	82
Purchases of premises and equipment	(4,096)	(1,600)	(794)
	-----	-----	-----
Net cash used for investing activities	(68,431)	(2,756)	(60,467)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	32,576	(5,304)	44,204
Net increase (decrease) in federal funds purchased	429	(4,039)	3,467
Net increase (decrease) in securities sold under repurchase agreements	1,456	(13,368)	(2,217)
Net increase in advances from Federal Home Loan Bank	15,100	32,500	9,000
Proceeds from the exercise of stock options	204	537	392
Tax benefit of stock options exercised	119	172	
Cash dividends paid	(1,343)	(1,258)	(1,187)
Cash in lieu of fractional shares on stock dividends and splits	(5)	(7)	(9)
	-----	-----	-----
Net cash provided by financing activities	48,536	9,233	53,650
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(12,917)	13,230	(2,078)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,441	10,211	12,289
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	10,524	\$ 23,441	\$ 10,211
	=====	=====	=====
CASH PAID FOR			
Interest	\$ 15,083	\$ 11,996	\$ 7,806
	=====	=====	=====
Income taxes	\$ 1,504	\$ 2,286	2,200
	=====	=====	=====
NON-CASH TRANSACTIONS			
Change in unrealized gain (loss) on available for sale securities	\$ 1,162	\$ 1,321	(597)
	=====	=====	=====
Loans transferred to other real estate	\$ 864	\$ 260	\$ 1,757
	=====	=====	=====

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

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PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

**Principles of consolidation and nature of operations**

The consolidated financial statements include the accounts of Peoples Bancorporation, Inc. (the "Company") and its wholly-owned subsidiaries, The Peoples National Bank, Bank of Anderson, N.A., and Seneca National Bank (collectively referred to as the "Banks"). All significant intercompany balances and transactions have been eliminated. The Banks operate under individual national bank charters and provide full banking services to customers. The Banks are subject to regulation by the Office of the Comptroller of the Currency. The Company is subject to regulation by the Federal Reserve Board (the "FRB").

**Estimates**

The preparation of consolidated 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 interest and noninterest income and expenses during the reporting period. Actual results could differ from those estimates.

**Segments**

The Company, through its subsidiaries, provides a broad range of financial services to individuals and companies. These services include demand, time and savings deposits; lending and ATM processing and are substantially the same across subsidiaries. While the Company's decision-makers monitor the revenue streams of the various financial products and services by product line and by subsidiary, the operations and the allocation of resources are managed, and financial performance is evaluated, on an organization-wide basis. Accordingly, the Company's banking operation is considered by management to be one reportable operating segment.

**Securities**

The Company accounts for securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities. Debt securities are classified upon purchase as available for sale, held to maturity, or trading. Such assets classified as available for sale are carried at fair value. Unrealized holding gains or losses are reported as a component of shareholders' equity (accumulated other comprehensive income (loss)) net of deferred income taxes. Securities classified as held to maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts into interest income using a methodology which approximates a level yield of interest over the estimated remaining period until maturity. To qualify as held to maturity, the Company must have the ability and intent to hold the securities to maturity. Trading securities are carried at market value. The Company has no trading securities. Gains or losses on dispositions of securities are based on the difference between the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

**Loans and interest on loans**

Loans are stated at the principal balance outstanding reduced by the allowance for loan losses. Interest income is recognized over the term of the loan based on the contractual interest rate and the principal balance outstanding.

Loans generally are placed on non-accrual status when principal or interest becomes ninety days past due, or when payment in full is not anticipated. Interest payments received after a loan is placed on non-accrual status are applied as principal reductions until such time the loan is returned to accrual status. Generally, a loan is returned to accrual status when the loan is brought current and the collectibility of principal and interest no longer is in doubt.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

**Allowance for loan losses**

The allowance for loan losses is established through a provision for loan losses charged to earnings. It is the Company's policy to charge loan losses against the allowance when management believes a loss is probable. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experiences, the nature and volume of the loan portfolio, trends in delinquent, non-accruing and potential problem loans, 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.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. 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. Interest payments received on an impaired loan are applied as principal reductions.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

**Premises and equipment**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Additions to premises and equipment and major replacements or betterments are added at cost. Maintenance, repairs, and minor replacements are charged to expense when incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in income.

**Other real estate owned**

Other real estate owned represents properties acquired through foreclosure and is carried at the lower of cost or fair value, adjusted for estimated selling costs. Fair values of real estate owned are reviewed regularly and writedowns are recorded when it is determined that the carrying value of real estate exceeds the fair value less estimated costs to sell. Costs

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NOTE SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

**relating to the development and improvement of such properties are capitalized,** whereas those costs relating to holding the properties are charged to expense. At December 31, 2007 and 2006 real estate owned by the Company totaled \$1,023,000 and \$271,000, respectively, and is included in other assets. During 2007 and 2006, the Company transferred loans of \$864,000 and \$260,000, respectively to real estate acquired in foreclosure.

Advertising and public relations expense

Advertising, promotional and other business development costs are generally **expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.**

Income taxes

**The provision for income taxes includes deferred taxes on temporary differences between the recognition of certain income and expense items for tax and financial statement purposes. Income taxes are computed on the liability method as described in SFAS No. 109, Accounting for Income Taxes.**

Statements of cash flows

For the purposes of reporting cash flows, the Company considers cash and **cash equivalents to be those amounts included in the balance sheet captions "Cash and Due From Banks," "Interest-bearing Deposits in Other Banks" and "Federal Funds Sold."** Cash and cash equivalents have an original maturity of three months or less.

Reclassifications

**Certain prior year amounts have been reclassified to conform to the current presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.**

Risk and uncertainties

**In the normal course of its business the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of real estate held by the Company, and the valuation of loans held for sale and mortgage-backed securities available for sale.**

**The Company is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances, and operating restrictions, resulting from the regulators' judgments based on information available to them at the time of their examination.**

Stock option compensation plans

The Company has an employee stock option compensation plan through which the Board of Directors may grant stock options to officers and employees to purchase common stock of the Company at prices not less than 100 percent of the fair value of the stock on the date of grant. The Company also has another employee stock option plan under which options may no longer be granted, but under which exercisable options remain outstanding. **The outstanding options under both plans become exercisable in various increments beginning on the date of grant and expiring ten years from the date of grant. The Company also has a directors' stock option plan through which non-employee directors of the Company are granted options to purchase 500 shares of common stock for each year served on the board to a maximum of 5,000 options per director in the aggregate under that plan and the plan referred to in the next sentence. The Company also has another director stock option plan under which options may no longer be granted, but under which exercisable options remain outstanding. The option price shall not be less than 100 percent of the fair value of the stock on the grant date. The outstanding options become exercisable on the grant date and expire at the earlier of the end of the director's term or ten years from the grant date.**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

The Company has historically accounted for the plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. For the year ended December 31, 2005, no stock-based employee compensation cost is reflected in net income, as all stock options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123 (R), Share-Based Payment, which changed the accounting methodology for its stock option plans - see Note 16. In conjunction with this change, the Company recorded approximately \$93,000 and \$92,000 of compensation expense in 2007 and 2006, respectively.

Recently issued accounting standards

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 ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard eliminates inconsistencies found in various prior pronouncements but does not require any new fair value measurements. SFAS 157 is effective for the Company on January 1, 2008 and will not impact the Company's accounting measurements but it is expected to result in additional disclosures.

In September 2006, The FASB ratified the consensus reached by the FASB's Emerging Issues Task Force ("EITF") relating to EITF 06-4, Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements ("EITF 06-4"). Entities purchase life insurance for various reasons including protection against loss of key employees and to fund postretirement benefits. The two most common types of life insurance arrangements are endorsement split dollar life and collateral assignment split dollar life. EITF 06-4 covers the former and EITF 06-10 (discussed below) covers the latter. EITF 06-4 states that entities with endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods should recognize a liability for future benefits in accordance with SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board ("APB") Opinion No. 12, Omnibus Opinion--1967 (if the arrangement is, in substance, an individual deferred compensation contract). Entities should recognize the effects of applying this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. EITF 06-4 is effective for the

Company on January 1, 2008. The Company does not believe the adoption of EITF 06-4 will have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB ratified the consensus reached on EITF 06-5, Accounting for Purchases of Life Insurance--Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance ("EITF 06-5"). EITF 06-5 states that a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. EITF 06-5 also states that a policyholder should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). EITF 06-5 is effective for the Company on January 1, 2008. The Company does not believe the adoption of EITF 06-5 will have a material impact on its financial position, results of operations or cash flows.

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NOTE - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

In March 2007, the FASB ratified the consensus reached on EITF 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements (EITF 06-10). The postretirement aspect of this EITF is substantially similar to EITF 06-4 discussed above and requires that an employer recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106 or APB Opinion No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive agreement with the employee. In addition, a consensus was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. EITF 06-10 is effective for the Company on January 1, 2008. The Company does not believe the adoption of EITF 06-10 will have a material impact on its financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 ("SFAS 159"). This statement permits, but does not require, entities to measure many financial instruments at fair value. The objective is to provide entities with an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities electing this option will apply it when the entity first recognizes an eligible instrument and will report unrealized gains and losses on such instruments in current earnings. This statement 1) applies to all entities, 2) specifies certain election dates, 3) can be applied on an instrument-by-instrument basis with some exceptions, 4) is irrevocable and 5) applies only to entire instruments. One exception is demand deposit liabilities which are explicitly excluded as qualifying for fair value. With respect to SFAS 115, available-for-sale and held-to-maturity securities at the effective date are eligible for the fair value option at that date. If the fair value option is elected for those securities at the effective date, cumulative unrealized gains and losses at that date shall be included in the cumulative-effect adjustment and thereafter, such securities will be accounted for as trading securities. SFAS 159 is effective for the Company on January 1, 2008. The Company is currently analyzing the fair value option that is permitted, but not required, under SFAS 159. In November 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings ("SAB 109"). SAB 109 expresses the current view of the SEC staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply this guidance on a prospective basis to derivative loan commitments issued or modified in the first quarter of 2008 and thereafter. The Company is currently analyzing the impact of this guidance, which relates to the Company's mortgage loans held for sale. In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, ("SFAS 141(R)") which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is effective for acquisitions by the Company taking place on or after January 1, 2009. Early adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing accounting guidance until January 1, 2009. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Before this statement, limited guidance existed for reporting noncontrolling interests (minority interest). As a result, diversity in practice exists. In some cases minority interest is reported as a liability and in others it is reported in the mezzanine section between liabilities and equity. Specifically, SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from



<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

the parent's equity. The amount of net income attributable to the **noncontrolling interest will be included in consolidated net income on the face of the income statement.** SFAS 160 clarifies that changes in a parent's **ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest.** In addition, this statement requires that a parent recognize gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests. SFAS 160 is effective for the Company on January 1, 2009. Earlier adoption is prohibited. The Company is currently evaluating the impact, if any, the adoption of SFAS 160 will have on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

The Banks are required to maintain average reserve balances with the Federal Reserve Bank ("FRB") based upon a percentage of deposits. The average amounts of reserve balances maintained by the Banks at December 31, 2007 and 2006 were approximately \$1,542,000 and \$1,036,000, respectively.

NOTE 3 - SECURITIES

Securities are summarized as follows as of December 31 (tabular amounts in thousands)

<TABLE>

<CAPTION>

	Amortized Cost	2007 Unrealized holding		Fair value
		Gains	Losses	
SECURITIES AVAILABLE FOR SALE:				
GOVERNMENT SPONSORED ENTERPRISE SECURITIES				
<S> Maturing within one year	<C> \$ 2,000	<C> \$	<C> \$ 9	<C> 1,991
Maturing after one year but within five years	750	15		765
Maturing after five years but within ten years	6,000	218		6,218
	8,750	233		8,974
OTHER SECURITIES				
Maturing within one year	152		1	151
Maturing after one year but within five years	897		5	892
Maturing after five years but within ten years	8,932	63	54	8,941
Maturing after ten years	39,038	927	41	39,924
	49,019	990	101	49,908
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Maturing after five years but within ten years	1,966	31	1	1,996
Maturing after ten years	23,873	88	43	23,918
	25,839	119	44	25,914
Total securities available for sale	\$83,608	\$ 1,342	\$ 154	\$84,796

</TABLE>

<PAGE>

Note 3 Securities (Continued)

<TABLE,  
<CAPTION,

	2007			Fair value
	Amortized Cost	Unrealized holding Gains	Losses	
SECURITIES HELD TO MATURITY:				
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Maturing within one year	<C> \$ 866	<C> \$ 2	<C> \$ 1	<C> \$ 867
Maturing after one year but within five years	5,638	19	14	5,643
Maturing after five years but within ten years	4,139	24	29	4,134
Maturing after ten years	2,459	11	1	2,469
Total securities held to maturity	\$13,102	56	45	\$13,113

</TABLE,

<TABLE,  
<CAPTION,

	2006			Fair value
	Amortized Cost	Unrealized holding Gains	Losses	
SECURITIES AVAILABLE FOR SALE:				
GOVERNMENT SPONSORED ENTERPRISE SECURITIES				
Maturing within one year	<C> \$ 4,600	<C> \$	<C> \$ 23	<C> \$ 4,577
Maturing after one year but within five years	2,250		43	2,207
Maturing after five years but within ten years	5,500	53		5,553
	12,350	53	66	12,337
OTHER SECURITIES				
Maturing within one year	312	240	2	550
Maturing after one year but within five years	1,178		25	1,153
Maturing after five years but within ten years	10,732	19	260	10,491
Maturing after ten years	32,520	268	102	32,686
	44,742	527	389	44,880
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Maturing after five years but within ten years	860	14		874
Maturing after ten years	23,706	19	130	23,595
	24,566	33	130	24,469
Total securities available for sale	\$81,658	\$ 613	\$ 585	\$81,686

SECURITIES HELD TO MATURITY:

OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Maturing within one year	\$ 315	\$		\$ 315
Maturing after one year but within five years	5,631	3	65	5,569
Maturing after five years but within ten years	3,818	11	63	3,766
Maturing after ten years	3,736	7	11	3,732
Total securities held to maturity	\$13,500	\$ 21	\$ 139	\$13,382

</TABLE>

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007.

<PAGE>

Note 3 - Securities (Continued)

Securities Available for Sale (tabular amounts in thousands):

<TABLE>

<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>	<C>	<C>	<C>		<C>	
Government sponsored enterprise securities	\$	\$	\$ 2,000	\$ (9)	2,000	\$ (9)
Other securities			7,379	(101)	7,379	(101)
State and political subdivisions	1,395	(10)	7,475	(34)	8,870	(44)
Total	\$ 1,395	(10)	\$16,854	\$ (144)	\$18,249	\$ (154)

</TABLE>

Thirty-five individual securities were in a continuous loss position for twelve months or more.

Securities Held to Maturity (tabular amounts in thousands)

<TABLE>

<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>			<C>			
States and political subdivisions	335	(2)	\$3,785	\$ (43)	\$4,120	\$ (45)

</TABLE>

Seventeen individual securities were in a continuous loss position for twelve months or more.

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2006.

Securities Available for Sale (tabular amounts in thousands):

<TABLE>

<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>	<C>		<C>	<C>	<C>	<C>
Government sponsored enterprise securities	\$	\$	\$ 6,784	\$ 66	\$ 6,784	66
Other securities	435		13,750	389	14,185	389
State and political subdivisions	18,441	130			18,441	130
Total	\$18,876	\$ 130	\$20,534	\$ 455	\$39,410	\$ 585

</TABLE>

Forty individual securities were in a continuous loss position for twelve months or more.

Securities Held to Maturity (tabular amounts in thousands):

<TABLE>

<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>			<C>		<C>	
States and political subdivisions	\$1,665	\$	\$6,654	\$ 133	\$8,319	139

</TABLE>

Thirty individual securities were in a continuous loss position for twelve months or more.

<PAGE>

Note 3 - Securities (Continued)

The Company has the ability and intent to hold the securities in a continuous loss position until such time as the value recovers or the securities mature. The Company believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and not in the credit quality of the issuers and therefore, these losses are not considered other-than-temporary. The category "other securities" above is comprised of mortgage-backed securities and investments in Silverton Bank stock.

Other Investments, at Cost (tabular amounts in thousands) :

The Banks, as member institutions, are required to own certain stock investments in the Federal Home Loan Bank of Atlanta ("FHLB") and the FRB. These investments are carried at cost and are generally pledged against any borrowings from these institutions (see Note 9) No ready market exists for these stocks and they have no quoted market values. The Company's investments in these stocks are summarized below:

<TABLE>  
<CAPTION>

	December 31/	
	2007	2006
<S>	<C>	<C>
FRB	\$3,895	\$ 453
FHLB	453	3,271
Interest-bearing deposits in other banks (maturing after three months)	447	559
	\$4,795	\$4,283

</TABLE>

Securities with carrying amounts of \$45,438,000 and \$43,494,000 December 31, 2007 and 2006, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

NOTE 4 LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are summarized as follows (tabular amounts in thousands) :

<TABLE>  
<CAPTION>

	December 31,	
	2007	2006
<S>	<C>	<C>
Commercial and industrial - not secured by real estate	\$ 47,885	38,505
Commercial and industrial - secured by real estate	107,531	90,298
Residential real estate - mortgage	108,161	97,835
Residential real estate - construction	138,926	117,465
Loans to individuals for household, family and other personal expenditures	16,495	13,978
	418,998	358,081
Less allowance for loan losses	4,310	4,070
	\$414,688	\$354,011

</TABLE>

The composition of gross loans by rate type is as follows (tabular amounts in thousands) :

	December 31,	
	2007	2006
Variable rate loans	\$197,344	\$180,545
Fixed rate loans	221,654	177,536
	\$418,998	\$358,081

<PAGE>

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Changes in the allowance for loan losses were as follows (tabular amounts in thousands):

	For the years ended December 31,		
	2007	2006	2005
BALANCE, BEGINNING OF YEAR	4,070	3,854	\$ 3,691
<b>Provision for loan losses</b>	900	943	848
Loans charged off	(706)	(995)	(704)
<b>Loans recovered</b>	46	268	19
 BALANCE, END OF YEAR	 \$ 4,310	 \$ 4,070	 \$ 3,854

At December 31, 2007 and 2006 nonaccrual loans amounted to \$7,505,000 and \$993,000, respectively. Foregone interest income was approximately \$137,000, \$95,000 and \$89,000 on nonaccrual loans for 2007, 2006 and 2005, respectively. Impaired loans totaled approximately \$2,024,000 at December 31, 2007 and there were no impaired loans at December 31, 2006.

NOTE 5 - PREMISES AND EQUIPMENT

The principal categories and estimated useful lives of premises and equipment are summarized below (tabular amounts in thousands):

	Estimated useful lives	December 31,	
		2007	2006
Land		3,873	\$ 2,869
<b>Building and improvements</b>	15 - 40 years	9,759	8,040
<b>Furniture, fixtures and equipment</b>	3 - 10 years	8,561	7,602
		22,193	18,511
<b>Less accumulated depreciation</b>		8,436	7,394
		\$13,757	\$11,117

Depreciation expense of approximately \$1,110,000, \$1,091,000 and \$1,127,000 for 2007, 2006 and 2005, respectively, is included in occupancy and equipment expenses in the accompanying consolidated statements of income.

NOTE 6 - DEPOSITS

The composition of deposits is as follows (tabular amounts in thousands):

	December 31,	
	2007	2006
<b>Demand deposits, noninterest bearing NOW and money market accounts</b>	\$ 53,950	\$ 54,993
Savings deposits	83,870	86,165
Time certificates, \$100,000 or more.	8,172	8,987
Other time certificates	109,457	87,365
	162,172	147,535
<b>Total</b>	<b>\$417,621</b>	<b>\$385,045</b>

<PAGE>

NOTE 6 - DEPOSITS (Continued)

	December 31,	
	2007	2006
<b>Time certificates maturing</b>		
<b>Within one year</b> . . . . .	\$253,342	\$201,669
After one but within two years . . . . .	12,093	29,789
<b>After two but within three years</b> .. . . .	5,421	2,938
After three but within four years . . . . .	757	486
After four years . . . . .	16	18
	-----	-----
	271,629	234,900
 <b>Transaction and savings accounts</b>	 145,992	 150,145
	-----	-----
	\$417,621	\$385,045
	=====	=====

Certificates of deposit in excess of \$100,000 totaled approximately \$99,060,000 and \$76,758,000 at December 31, 2007 and 2006, respectively. Interest expense on certificates of deposit in excess of \$100,000 was approximately, \$4,636,000 and \$3,567,000 in 2006. The Banks had brokered time certificates of approximately \$28,087,000 at December 31, 2007 and \$28,999,000 at December 31, 2006.

NOTE 7 - SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements are summarized as follows (tabular amounts in thousands):

<TABLE>  
<CAPTION,

	December 31,	
	2007	2006
<S>		
Government sponsored enterprise securities with an amortized cost of \$27,855,000 (\$28,044,000 fair value) and \$35,235,000 (\$35,828,000 fair value) at December 31, 2007 and 2006, respectively, collateralize the agreements.	\$19,824	\$18,368

</TABLE,

The Banks enter into sales of securities under agreements to repurchase. These obligations to repurchase securities sold are reflected as liabilities in the consolidated balance sheets. The dollar amount of securities underlying the agreements remains in the asset accounts. The securities underlying the agreements are book entry securities maintained by a safekeeping agent. The weighted average interest rate of these agreements was 1.92 percent and 2.50 percent for 2007 and 2006, respectively. The agreements mature daily. Securities sold under agreements to repurchase averaged \$20,648,000 and \$28,443,000 during 2007 and 2006, respectively. The maximum amounts outstanding at any month-end were \$23,229,000 and \$30,962,000 during 2007 and 2006, respectively.

NOTE 8 - FEDERAL FUNDS PURCHASED

At December 31, 2007, the Banks had the ability to purchase federal funds from unrelated banks under short-term lines of credit totaling \$42,000,000. These lines of credit are available on a one to seven day basis for general corporate purposes. At December 31, 2007 there was \$429,000 outstanding under these lines of credit and no federal funds purchased at December 31, 2006 under these lines of credit.

NOTE 9 - ADVANCES FROM FEDERAL HOME LOAN BANK

The Banks have the ability to borrow up to 20 percent of their total assets from the FHLB subject to available qualifying collateral. Borrowings may be obtained under various FHLB lending programs with various terms. Borrowings from the FHLB require qualifying collateral (which includes certain mortgage loans, investment securities and FHLB stock) and may require purchasing additional stock in the FHLB.

<PAGE>

NOTE 9 ADVANCES FROM FEDERAL HOME LOAN BANK (Continued)

The Banks had advances aggregating \$65,100,000 and \$50,000,000 at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006 respectively, the Banks had \$23,100,000 and \$45,000,000 of advances at interest rates of 4.40 percent and 5.50 percent and which matured daily. At December 31, 2007 \$21,000,000 of advances bear interest at 4.52 percent that mature in February 2008 and \$21,000,000 of advances bear interest at 4.68 percent that mature in November 2008. At December 31, 2006, \$5,000,000 of the advances bear interest at 4.82 percent and mature in December 2010. At December 31, 2007 and 2006, the advances were collateralized by qualifying mortgage loans aggregating approximately \$66,963,000 and \$55,679,000, respectively, and by FHLB stock owned by all three Banks. At December 31, 2007 the advances were also collateralized by \$9,620,000 in investment securities owned by the banks. As of December 31, 2007, the Banks had the ability to borrow an additional \$11,523,000 in the aggregate from the FHLB.

NOTE 10 - INCOME TAXES

Provision for income taxes consists of the following (tabular amounts in thousands) :

	For the years ended December 31,		
	2007	2006	2005
<b>Current tax provision</b>			
Federal	1,452	\$ 1,302	\$ 1,474
State	201	211	188
<b>Total current taxes</b>	1,653	1,513	1,662
Deferred tax benefit ..	(96)	422	(10)
	\$ 1,557	\$ 1,935	\$ 1,652

Income taxes differ from the tax expense computed by applying the **statutory federal income tax rate of 34 percent to income before income taxes**. The reasons for these differences are as follows (tabular amounts in thousands) :

	For the years ended December 31,		
	2007	2006	2005
<b>Tax expense at statutory rate</b>	\$ 2,006	2,183	\$ 1,965
<b>Increase (decrease) in taxes resulting from:</b>			
<b>State income taxes, net of federal benefit</b>	133	140	124
<b>Tax-exempt interest income ...</b>	(483)	(238)	(77)
<b>Investment in life insurance</b>	(62)	(99)	(120)
Other	(37)	(51)	(240)
<b>Provision for income taxes</b>	\$ 1,557	\$ 1,935	\$ 1,652

Deferred tax assets (liabilities) result from temporary differences in the **recognition of revenue and expenses for tax and financial statement** purposes. Management believes realization of the deferred tax assets is more likely than not and accordingly has not recorded a valuation allowance. The sources and the cumulative tax effect of temporary differences are as follows (tabular amounts in thousands) :

<PAGE>

NOTE 10 - INCOME TAXES (Continued)

<TABLE>  
<CAPTION>

	December 31,	
	2007	2006
<b>Deferred tax assets</b>		
<5>	<C>	<C>
Allowance for loan losses	\$ 1,471	1,388
Deferred compensation	156	366
Other	97	83
	1,724	1,837
<b>Depreciation</b>	(108)	(209)
Prepaid expenses	(93)	(201)
Unrealized holding gains on securities available for sale	(404)	(9)
	(605)	(419)
Net deferred tax assets included in other assets	1,119	\$ 1,418

</TABLE>

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with FIN No. 48.

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Banks are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets.

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2007, unfunded commitments to extend credit were \$113,020,000, of which \$108,032,000 were at variable rates and \$4,988,000 were at fixed rates. These commitments included \$41,790,000 of unfunded amounts of construction loans, \$40,572,000 of undisbursed amounts of home equity lines of credit, \$18,975,000 of unfunded amounts under commercial lines of credit, and \$11,683,000 other commitments to extend credit. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate.

At December 31, 2007, there was \$2,800,000 committed under letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral varies but may include accounts receivable, inventory, equipment, marketable securities and property. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements. The Company has not recorded a liability for the current carrying amount of the obligation to perform as a guarantor, and no contingent liability was considered necessary, as such amounts were not considered material.



<PAGE>

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Company has, from time to time, various lawsuits and claims arising from the conduct of its business. Management does not expect such items to have any material adverse effect on the financial position or results of operations of the Company.

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in the upstate region of South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or in a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk that could arise from potential concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc), and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Management has determined that there is no concentration of credit risk associated with its lending policies or practices.

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations and general obligation municipal securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

NOTE 13 - RELATED PARTY TRANSACTIONS

At December 31, 2007 and 2006, certain officers, directors, employees, related parties and companies in which they have 10 percent or more beneficial ownership, were indebted to the Banks in the aggregate amount of \$11,043,000 and \$9,352,000, respectively. During 2007, \$3,469,000 of new loans were made to this group and repayments of \$1,087,000 were received. This same group had deposits in the Banks of \$7,033,000 at December 31, 2007.

NOTE 14 - COMMON STOCK AND EARNINGS PER SHARE

SFAS No. 128, Earnings Per Share, requires that the Company present basic and diluted net income per common share. The assumed conversion of stock options creates the difference between basic and diluted net income per common share. Income per share is calculated by dividing net income by the weighted average number of common shares outstanding for each period presented. The weighted average number of common shares outstanding for basic net income per common share was 7,401,032 in 2007, 6,933,929 in 2006 and 6,860,112 in 2005. The weighted average number of common shares outstanding for diluted net income per common share was 7,403,021 in 2007, 6,986,233 in 2006 and 7,020,811 in 2005.

The Company declared or issued five percent common stock dividends in 2007, 2006 and 2005. Net income and dividends per common share and the weighted average number of common shares outstanding for basic and diluted net income per common share in prior years have been restated to reflect these transactions.

<PAGE>

NOTE 15 - RESTRICTION OF DIVIDENDS

The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from the Banks. Federal banking regulations restrict the amount of dividends that can be paid and such dividends are payable only from the retained earnings of the Banks. At December 31, 2007 the Banks had aggregate retained earnings of \$31,444,000.

NOTE 16 STOCK OPTION COMPENSATION PLANS

Prior to 2006, the Company accounted for stock options in accordance with APB Opinion No. 25. The following table illustrates the effect on net income and earnings per share had the Company accounted for share-based compensation in accordance with SFAS No. 123 (R) for the periods indicated:

<TABLE>

<CAPTION>

(tabular amounts in thousands, except per share information)

	For the years ended December 31,		
	2007	2006	2005
<b>Net income, as reported</b>	\$4,343	\$4,486	\$ 4,128
Add: Stock-based employee compensation expense included in reported net income net of related tax effects	93	92	
<b>Deduct: total stock-based employee compensation expense</b> Determined under fair value based method for all awards, Net of related tax effects	(93)	(92)	(131)
<b>Pro forma net income</b>	\$4,343	\$4,486	\$ 3,997
<b>Net income per common share</b>			
<b>Basic-as reported</b>	\$ 0.59	\$ 0.65	0.60
<b>Basic-pro forma</b>			0.58
Diluted-as reported	\$ 0.59	\$ 0.64	0.59
Diluted-pro forma			\$ 0.57

</TABLE>

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 in 2007, 2006 and 2005: dividend yields of \$.20 per share, expected volatility from 22 to 27 percent, risk-free interest rates from 4.06 to 5.06 percent and expected life of 10 years. The weighted average fair market value of options granted approximated \$3.49 in 2007, \$3.98 in 2006 and \$6.66 in 2005. For purposes of the proforma calculations, compensation expense is recognized on a straight-line basis over the vesting period.

A summary of the status of the plans as of December 31, 2007, 2006 and 2005, and changes during the years ending on those dates is presented below (all shares and exercise prices have been adjusted for stock dividends and the stock split):

<TABLE>

<CAPTION>

	Shares	Options Outstanding		
		Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
<b>Outstanding at December 31, 2004</b>	452,830	\$5.61		
Granted	22,574	15.56		
<b>Exercised</b>	(154,142)	3.49		\$1,256,625
Forfeited or expired	(3,509)	14.03		
<b>Outstanding at December 31, 2005</b>	317,753	7.24		
Granted	26,882	10.86		
<b>Exercised</b>	(119,572)	4.95		314,640
<b>Forfeited or expired</b>	(16,074)	13.46		
<b>Outstanding at December 31, 2006</b>	208,989	8.46		
Granted	25,323	10.46		
<b>Exercised</b>	(61,566)	4.04		\$ 243,511
<b>Forfeited or expired</b>	(3,997)	11.68		
<b>Outstanding at December 31, 2007</b>	168,749	10.29	6.59	\$ 59,917
Options exercisable at year-end	130,134	\$9.08	6.39	\$ 59,917
Shares available for grant	392,650			

</TABLE>

<PAGE>

NOTE 16 - STOCK OPTION COMPENSATION PLANS, Continued

<TABLE>  
<CAPTION>

	Number of shares	Weighted average grant date fair value
<S>	<C>	
Non-vested options at December 31, 2006	37,229	5.06
Granted	25,323	10.46
Vested	(19,940)	10.55
Forfeited or expired	(3,997)	11.68
Non-vested options at December 31, 2007	38,615	11.56

</TABLE>

Options Outstanding			Options Exercisable	
Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
3,642	0.3 years	\$ 5.35	3,642	\$ 5.35
5,734	0.5 years	5.33	5,734	5.33
10,973	0.8 years	5.33	10,973	5.33
3,480	1.3 years	6.47	3,480	6.47
8,824	2.3 years	8.16	8,824	8.16
5,826	3.0 years	8.53	5,826	8.53
7,371	3.3 years	7.60	7,371	7.60
9,018	4.3 years	8.86	9,018	8.86
10,461	4.5 years	9.34	10,461	9.34
6,685	5.3 years	10.47	6,685	10.47
25,741	6.3 years	12.89	19,932	12.89
1,823	6.6 years	13.71	1,276	13.71
1,823	6.8 years	14.73	1,276	14.73
1,736	7.0 years	17.93	955	17.93
4,624	7.3 years	15.66	4,624	15.66
1,158	7.5 years	14.77	637	14.77
2,316	7.6 years	14.90	1,274	14.90
5,788	7.7 years	14.90	3,183	14.90
1,736	7.8 years	14.08	955	14.08
1,102	8.1 years	12.02	441	12.02
1,102	8.2 years	11.89	441	11.89
6,063	8.3 years	10.25	2,425	10.25
7,164	8.3 years	11.45	5,510	11.45
1,102	8.5 years	10.44	441	10.44
4,280	8.7 years	10.43	1,712	10.43
3,855	8.8 years	10.21	1,542	10.21
6,422	9.0 years	10.48	2,569	10.48
2,625	9.1 years	10.18	656	10.18
1,050	9.2 years	9.95	263	9.95
3,675	9.3 years	9.52	920	9.52
6,825	9.3 years	11.19	6,825	11.19
1,050	9.5 years	11.42	263	11.42
2,625	9.6 years	10.24		
1,050	9.9 years	9.57		
168,749			130,134	

<PAGE>

NOTE 16 - STOCK OPTION COMPENSATION PLANS, Continued

The plans are administered by the Board of Directors or by a committee designated by the Board. The plans provide that if the shares of common stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of common stock as a stock dividend on its outstanding common stock, the number of shares of common stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend.

NOTE 17 - EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) retirement plan for all eligible employees. Upon ongoing approval of the Board of Directors, the Company matches employee contributions equal to fifty percent of the first six percent of such contributions, subject to certain adjustments and limitations. Contributions to the plan of \$206,971, \$159,824 and \$142,255, were charged to operations during 2007, 2006 and 2005, respectively.

Supplemental benefits have been approved by the Board of Directors for certain executive officers of the Company. These benefits are not qualified under the Internal Revenue Code and they are not funded. However, certain funding is provided informally and indirectly by life insurance policies. The Company recorded expense related to these benefits of \$201,356, \$51,585 and \$74,383, in 2007, 2006 and 2005, respectively.

NOTE 18 - REGULATORY MATTERS

The Company and the Banks 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 Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks must meet specific capital guidelines that involve quantitative measures of the Banks' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Banks' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain 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 the Company and the Banks meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from the Office of the Comptroller of the Currency categorized the Banks 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 the Banks' categories. The Company's and the Banks' actual capital amounts and ratios and minimum regulatory amounts and ratios are presented as follows:

<PAGE,

NOTE 18 - REGULATORY MATTERS. Continued

<TABLE,  
<CAPTION,

	Actual		For capital adequacy purposes Minimum		TO be "Jell capitalized under prompt corrective action provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollar amounts in thousands)						
Peoples Bancorporation, Inc.						
As of December 31, 2007	<C,	<C,	<C,	<C,	<C,	<C>
Total Capital (to risk-weighted assets)	\$53,766	12.02%	\$35,784	8.00%	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	49,456	11.06	17,886	4.00	N/A	N/A
Tier 1 Capital (to average assets)	49,456	8.80	22,480	4.00	N/A	N/A
AS of December 31, 2006						
Total Capital (to risk-weighted assets)	\$50,116	13.07%	\$30,675	8.00%	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	46,046	12.00	15,349	4.00	N/A	N/A
Tier 1 Capital (to average assets)	46,046	9.06	20,329	4.00	N/A	N/A
The Peoples National Bank:						
As of December 31, 2007						
Total Capital (to risk-weighted assets)	\$31,146	10.64%	\$23,418	8.00%	\$29,273	10.00%
Tier 1 Capital (to risk-weighted assets)	28,371	9.69	11,711	4.00	17,567	6.00
Tier 1 Capital (to average assets)	28,371	8.52	13,320	4.00	16,650	5.00
AS of December 31, 2006						
Total Capital (to risk-weighted assets)	\$28,925	12.05%	\$19,203	8.00%	\$24,004	10.00%
Tier 1 Capital (to risk-weighted assets)	26,470	11.03	9,599	4.00	14,399	6.00
Tier 1 Capital (to average assets)	26,470	8.90	11,897	4.00	14,871	5.00
Bank of Anderson, N.A.:						
As of December 31, 2007						
Total Capital (to risk-weighted assets)	\$14,013	13.25%	\$ 8,461	8.00%	\$10,576	10.00%
Tier 1 Capital (to risk-weighted assets)	12,808	12.11	4,231	4.00	6,346	6.00
Tier 1 Capital (to average assets)	12,808	8.34	6,143	4.00	7,679	5.00
As of December 31, 2006						
Total Capital (to risk-weighted assets)	\$13,176	12.65%	\$ 8,333	8.00%	\$10,416	10.00%
Tier 1 Capital (to risk-weighted assets)	11,926	11.45	4,166	4.00	6,249	6.00
Tier 1 Capital (to average assets)	11,926	7.80	6,116	4.00	7,645	5.00
Seneca National Bank:						
AS of December 31, 2007						
Total Capital (to risk-weighted assets)	5,840	11.47%	\$ 4,073	8.00%	5,092	10.00%
Tier 1 Capital (to risk-weighted assets)	5,373	10.55	2,037	4.00	3,056	6.00
Tier 1 Capital (to average assets)	5,373	7.82	2,748	4.00	3,435	5.00
AS of December 31, 2006						
Total Capital (to risk-weighted assets)	\$ 5,508	13.31%	\$ 3,311	8.00%	\$ 4,138	10.00%
Tier 1 Capital (to risk-weighted assets)	5,035	12.17	1,655	4.00	2,482	6.00
Tier 1 Capital (to average assets)	5,035	9.10	2,213	4.00	2,766	5.00

</ TABLE,

<PAGE>

NOTE 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 sheets, when it is practical to estimate the fair value. SFAS No. 107 defines a financial instrument as cash, evidence of an ownership interest in an entity or contractual obligations which require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including the Company's common stock, premises and equipment and other assets and liabilities.

Fair value approximates carrying value for the following financial instruments due to the short-term nature of the instrument: cash and due from banks, interest-bearing deposits in other banks and federal funds sold and purchased.

Securities are valued using quoted fair market prices. Other investments are valued at par value.

Fair value for variable rate loans that reprice frequently, loans held for sale, and for loans that mature in less than three months is based on the carrying value. Fair value for fixed rate mortgage loans, personal loans, and all other loans (primarily commercial) maturing after three months 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.

Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying value. Certificate of deposit accounts and securities sold under repurchase agreements maturing within one year are valued at their carrying value. The fair value of certificate of deposit accounts and securities sold under repurchase agreements maturing after one year are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

Fair value for long-term FHLB advances is based on discounted cash flows using the Company's current incremental borrowing rate. Discount rates used in these computations approximate rates currently offered for similar borrowings of comparable terms and credit quality.

Fair value of off-balance sheet instruments is based on fees currently charged to enter into similar arrangements, taking into account the remaining terms of the agreement and the counterparties' credit standing.

The Company has used management's best estimate of fair value based on the above assumptions. Thus, the fair values presented may not be the amounts which could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses which would be incurred in an actual sale or settlement are not taken into consideration in the fair value presented.

The estimated fair values of the Company's financial instruments are as follows (amounts in thousands):

<TABLE>

<CAPTION>

	2007		December 31,		2006	
	Carrying Amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
<S> Cash and due from banks	\$ 8,618	\$ 8,618	\$ 10,819	10,819		
Interest-bearing deposits in other banks	643	643	108	108		
Federal funds sold	1,263	1,263	12,514	12,514		
Securities available for sale	83,608	84,796	81,658	81,686		
Securities held to maturity	13,102	13,113	13,500	13,382		
Other investments ....	4,795	4,795	4,283	4,283		
Loans (gross)	418,998	412,240	358,081	351,533		
Cash surrender value of life insurance	-	11,350	10,934	10,934		

<TABLE>

<PAGE>

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

<TABLE,  
<CAPTION,

	December 31,		December 31,	
	2007	2006	2007	2006
	Carrying Amount	Fair value	Carrying amount	Fair value
<b>Financial liabilities:</b>				
<S>	<C>	<C>	<C>	<C>
Deposits	\$417,621	\$418,273	\$385,045	\$385,672
Securities sold under repurchase agreements	19,824	19,824	18,368	18,368
Federal funds purchased	429	429		
Advances from Federal Home Loan Bank	65,100	65,055	50,000	49,968

</TABLE,

NOTE 20 - CONDENSED FINANCIAL INFORMATION

Following is condensed financial information of Peoples Bancorporation, Inc. (parent company only) (tabular amounts in thousands) :

CONDENSED BALANCE SHEETS

	December 31,	
	2007	2006
<b>ASSETS</b>		
Cash	\$ 2,173	\$ 2,148
Investment in bank subsidiaries	47,347	43,568
Other assets	1,306	1,228
	\$50,826	\$46,944
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Other liabilities	\$ 585	\$ 880
Shareholders' equity	50,241	46,064
	\$50,826	\$46,944

<PAGE,

NOTE 20 - CONDENSED FINANCIAL INFORMATION, Continued

CONDENSED STATEMENTS OF INCOME

<TABLE>  
<CAPTION,

	For the years ended December 31,		
	2007	2006	2005
<b>INCOME</b>			
<S, Fees and dividends from subsidiaries	<C> \$ 6,582	<C> \$ 5,989	<C> \$ 4,945
<b>EXPENSES</b>			
Salaries and benefits . . . . .	3,814	3,620	2,970
Occupancy	8	24	25
Equipment	436	379	330
Other operating . . . . .	1,129	1,002	844
	5,387	5,025	4,169
<b>EQUITY IN UNDISTRIBUTED NET INCOME OF BANK SUBSIDIARIES</b>	3,121	3,441	2,974
<b>Income before income taxes</b>	4,316	4,405	3,750
<b>INCOME TAX BENEFIT</b>	(26)	(81)	(378)
<b>Net income</b>	\$ 4,342	\$ 4,486	\$ 4,128

</TABLE,

CONDENSED STATEMENTS OF CASH FLOWS

<TABLE,  
<CAPTION,

	For the years ended December 31,		
	2007	2006	2005
<b>OPERATING ACTIVITIES</b>			
<S, <b>Net income</b>	<C> \$ 4,342	<C> \$ 4,486	<C> \$ 4,128
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed net income of bank subsidiaries	(3,121)	(3,441)	(2,974)
<b>Increase in other assets</b>	(78)	(669)	(369)
Increase (decrease) in other liabilities	(295)	541	(1)
<b>Net cash provided by operating activities</b>	848	917	784
<b>FINANCING ACTIVITIES</b>			
Proceeds from the exercise of stock options	204	537	392
Cash dividends	(1,343)	(1,258)	(1,187)
Cash in lieu of fractional share on stock dividends and splits	(5)	(7)	(9)
Proceeds (repayment) of advances from subsidiaries	321	315	(37)
<b>Net cash used for financing activities</b>	(823)	(413)	(841)
<b>Net increase (decrease) in cash</b>	25	504	(57)
<b>CASH, BEGINNING OF YEAR</b>	2,148	1,644	1,701
<b>CASH, END OF YEAR</b>	\$ 2,173	\$ 2,148	\$ 1,644

</ TABLE,



<PAGE>

NOTE 21 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited condensed financial data by quarter for 2007 and 2006 is as follows (amounts, except share data, in thousands)

<TABLE>  
<CAPTION>

2007	Quarter ended			
	March 31	June 30	September 30	December 31
<S>	<C>	<C>	<C>	<C>
Interest income	\$ 8,383	\$ 8,793	\$ 9,193	\$ 9,177
Interest expense	3,692	3,999	4,410	4,521
Net interest income	4,691	4,794	4,783	4,656
Provision for loan losses	150	150	150	450
Net interest income after provision for loan losses	4,541	4,644	4,633	4,206
Noninterest income	1,026	917	925	974
Noninterest expenses	3,815	3,915	3,953	4,283
Income before income taxes	1,752	1,646	1,605	897
Provision for income taxes	480	449	424	204
Net income	\$ 1,272	\$ 1,197	1,181	693
Basic net income per common share (1)	\$ 0.18	\$ 0.16	\$ 0.16	0.09
Diluted net income per common share (1)	\$ 0.18	\$ 0.16	\$ 0.16	0.09
Basic weighted average shares outstanding (1)	7,030,102	7,052,599	7,055,759	7,412,304
Diluted weighted average shares outstanding (1)	7,043,962	7,059,092	7,058,568	7,386,091

</TABLE>

<TABLE>  
<CAPTION>

2006	Quarter ended			
	March 31	June 30	September 30	December 31
<S>		<C>	<C>	
Interest income	7,537	\$ 7,863	\$ 8,210	8,368
Interest expense	2,761	3,015	3,269	3,596
Net interest income	4,776	4,848	4,941	4,772
Provision for loan losses	237	256	225	225
Net interest income after provision for loan losses	4,539	4,592	4,716	4,547
Noninterest income	1,028	933	895	792
Noninterest expenses	3,880	3,786	3,682	4,273
Income before income taxes	1,687	1,739	1,929	1,066
Provision for income taxes	506	593	608	228
Net income	1,181	\$ 1,146	\$ 1,321	838
Basic net income per common share (1)	\$ 0.17	\$ 0.17	\$ 0.19	\$0.12
Diluted net income per common share (1)	0.17	\$ 0.16	\$ 0.19	\$0.12
Basic weighted average shares outstanding (1)	6,895,382	6,916,146	6,940,751	6,983,440
Diluted weighted average shares outstanding (1)	6,979,886	7,002,957	7,025,386	7,031,717

</TABLE>

(1) Per share data has been restated to reflect 5 percent stock dividends.

<PAGE>

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**The section "Market Risk - Interest Rate Sensitivity" included in "Business" under Item 1 of this Annual Report on Form 10-K is incorporated herein by reference.**

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**The following financial statements are filed with this report:**

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2006 and 2005.

Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004.

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2006, 2005 and 2004.

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004.

Notes to Consolidated Financial Statements.

Haynsworth Sinkler Boyd, P. A.  
4/13/2009

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PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
REPORT ON CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Shareholders and Board of Directors**  
**Peoples Bancorporation, Inc.**  
Easley, South Carolina

**We have audited the accompanying consolidated balance sheets of Peoples Bancorporation, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and comprehensive income, 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 audits to obtain reasonable assurance about **whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Peoples Bancorporation, Inc. and Subsidiaries 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.**

/s/ Elliott Davis, LLC  
**Greenville, South Carolina**  
March 28, 2007

<PAGE>

PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(Amounts in thousands except share information)

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	2006	2005
ASSETS		
CASH AND DUE FROM BANKS	10,819	\$ 9,311
INTEREST BEARING DEPOSITS IN OTHER BANKS	108	900
FEDERAL FUNDS SOLD	12,514	-----
<b>Total cash and cash equivalents</b>	<b>23,441</b>	<b>10,211</b>
SECURITIES		
Available for sale	81,686	65,161
Held to maturity (fair value of \$13,382 (2006) and \$10,674 (2005))	13,500	10,855
Other investments, at cost	4,283	2,045
LOANS, net of allowance for loan losses of \$4,070 (2006) and \$3,854 (2005)	354,011	373,641
PREMISES AND EQUIPMENT, net of accumulated depreciation	11,117	10,635
ACCRUED INTEREST RECEIVABLE	3,043	2,441
CASH SURRENDER VALUE OF LIFE INSURANCE	10,934	9,403
OTHER ASSETS	1,799	3,585
<b>TOTAL ASSETS</b>	<b>\$ 503,814</b>	<b>\$ 487,977</b>
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS		
Noninterest-bearing	54,993	\$ 52,467
Interest-bearing	330,052	337,882
<b>Total deposits</b>	<b>385,045</b>	<b>390,349</b>
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	18,368	31,736
FEDERAL FUNDS PURCHASED		4,039
ADVANCES FROM FEDERAL HOME LOAN BANK	50,000	17,500
ACCRUED INTEREST PAYABLE	2,926	2,281
OTHER LIABILITIES	1,411	901
<b>Total liabilities</b>	<b>457,750</b>	<b>416,806</b>
COMMITMENTS AND CONTINGENCIES - Notes 11 and 12		
SHAREHOLDERS' EQUITY		
Common stock 15,000,000 shares authorized; \$1.11 par value per share; 6,666,568 (2006) shares and 6,245,356 (2005) shares issued and outstanding	7,400	6,932
Additional paid-in capital	38,614	34,684
Retained earnings	32	408
Accumulated other comprehensive income (loss)	18	(853)
<b>Total shareholders' equity</b>	<b>46,064</b>	<b>41,171</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 503,814</b>	<b>\$ 487,977</b>

</TABLE>

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

<PAGE,

PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Amounts in thousands except per share information)

<TABLE,  
<CAPTION,

	For the years ended December 31,		
	2006	2005	2004
INTEREST INCOME			
<S,	<C,	<C,	<C,
Interest and fees on loans	\$ 28,576	\$ 23,915	\$ 18,867
Interest on securities			
Taxable	2,460	1,921	1,875
Tax-exempt ..	700	260	233
Interest on federal funds sold	242	194	88
	-----	-----	-----
Total interest income	31,978	26,290	21,063
	-----	-----	-----
INTEREST EXPENSE			
Interest on deposits	10,712	7,924	5,828
Interest on federal funds purchased and securities sold under repurchase agreements .....	773	642	368
Interest on advances from Federal Home Loan Bank	1,156	367	245
	-----	-----	-----
Total interest expense ..	12,641	8,933	6,441
	-----	-----	-----
Net interest income	19,337	17,357	14,622
PROVISION FOR LOAN LOSSES ..	943	848	589
	-----	-----	-----
Net interest income after provision for loan losses	18,394	16,509	14,033
	-----	-----	-----
NONINTEREST INCOME			
Service charges on deposit accounts	1,829	2,017	2,002
Customer service fees	159	168	161
Mortgage banking	444	494	
Brokerage services	223	195	143
Bank owned life insurance	389	417	330
Other noninterest income	666	311	525
Gain on sale of mortgage loans held for sale			1,707
Gain (loss) on sale of securities available for sale	(62)	7	128
	-----	-----	-----
Total noninterest income	3,648	3,609	4,996
	-----	-----	-----
NONINTEREST EXPENSES			
Salaries and benefits	8,966	8,565	8,167
Occupancy ..	821	747	668
Equipment	1,365	1,362	1,290
Marketing and advertising	414	415	297
Communications	258	222	206
Printing and supplies	176	139	208
Bank paid loan costs	226	318	310
Directors fees .....	362	349	276
Other post employment benefits	109	137	495
Legal and professional fees	580	371	260
Other operating ..	2,344	1,713	1,670
	-----	-----	-----
Total noninterest expenses	15,621	14,338	13,847
	-----	-----	-----
Income before income taxes	6,421	5,780	5,182
	-----	-----	-----
PROVISION FOR INCOME TAXES	1,935	1,652	1,654
	-----	-----	-----
Net income	\$ 4,486	\$ 4,128	\$ 3,528
	=====	=====	=====
BASIC NET INCOME PER COMMON SHARE (1)	\$ 0.68	\$ 0.63	\$ 0.55
	=====	=====	=====
DILUTED NET INCOME PER COMMON SHARE (1)	\$ 0.67	\$ 0.62	\$ 0.53
	=====	=====	=====

</TABLE>

(1) Per share data has been restated to reflect 5 percent stock dividends.

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

<PAGE>

PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
For the years ended December 31, 2006, 2005  
and 2004 (Amounts in thousands except share information)

<TABLE>  
<CAPTION>

	Common stock		Additional paid-in capital	Retained earnings	Accumu- lated other compre- hensive income (loss)	Total share- holders' equity
	Shares	Amount				
<s> BALANCE, DECEMBER 31, 2003	<c> 5,523,842	<c> \$ 6,131	<c> \$ 29,524	<c> 444	<c> \$ 62	<c> 36,161
Net income				3,528		3,528
Other comprehensive income, net of tax:						
Unrealized holding losses on securities available for sale, net of income taxes of \$224 ...					(438)	(438)
Less reclassification adjustment for gains included in net income, net of income taxes of \$44					(84)	(84)
Comprehensive income ..						3,006
Stock dividend (5%)	276,423	307	2,594	(2,901)		
Cash in lieu of fractional shares on 3-for-2 stock split				(7)		(7)
Cash in lieu of fractional shares on stock dividend				(13)		(13)
Cash dividends (\$.26 per share)				(1,051)		(1,051)
Proceeds from stock options exercised	22,343	25	119			144
BALANCE, DECEMBER 31, 2004	5,822,608	6,463	32,237		(460)	38,240
Net income				4,128		4,128
Other comprehensive income, net of tax:						
Unrealized holding losses on securities available for sale, net of income taxes of \$202					(388)	(388)
Less reclassification adjustment for gains included in net income, net of income taxes of \$2					(5)	(5)
Comprehensive income						3,735
Stock dividend (5%)	296,844	330	2,194	(2,524)		
Cash in lieu of fractional shares on stock dividend				(9)		(9)
Cash dividends (\$.20 per share)				(1,187)		(1,187)
Proceeds from stock options exercised	125,904	139	253			392
BALANCE, DECEMBER 31, 2005	6,245,356	6,932	34,684	408	(853)	41,171
Net income				4,486		4,486
Other comprehensive income, net of tax:						
Unrealized holding gains on securities available for sale, net of income taxes of \$470					831	831
Less reclassification adjustment for losses included in net income, net of income taxes of \$(20)					40	40
Comprehensive income						5,357
Stock dividend (5%)	316,873	352	3,245	13,597)		
Cash in lieu of fractional shares on stock dividend				(7)		(7)
Cash dividends (\$.20 per share)				(1,258)		(1,258)
Proceeds from stock options exercised	104,339	116	421			537
Tax benefit of stock options exercised			172			172
Stock-based compensation			92			92
BALANCE, DECEMBER 31, 2006	6,666,568	7,400	\$ 38,614	32	\$ 18	46,064

</TABLE>

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

<PAGE>

PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Amounts in thousands)

<TABLE>  
<CAPTION>

	For the years ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
<S>	<C>		<C>
<b>Net income</b>	\$ 4,486	4,128	\$ 3,528
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
(Gain) loss on sale of premises and equipment	(3)	25	(20)
Gain on sale of mortgage loans held for sale			n,707)
(Gain) loss on sale of securities available for sale	62	(7)	(128)
<b>Gain on sale of assets acquired in settlement of loans</b>	(181)	(60)	(6)
<b>Provision for loan losses</b>	943	848	589
<b>Provision (benefit) from deferred income taxes</b>	422	(10)	(209)
<b>Depreciation</b>	1,091	1,127	1,075
<b>Amortization and accretion (net) of premiums and discounts on securities</b>	97	132	168
Origination of mortgage loans held for sale			(149,881)
Sale of mortgage loans held for sale			156,689
Stock-based compensation	92		
<b>Increase in accrued interest receivable</b>	(602)	(611)	(9)
<b>Increase in other assets</b>	(809)	(1,639)	(814)
Increase (decrease) in accrued interest payable	645	1,127	(450)
<b>Increase (decrease) in other liabilities</b>	510	(321)	57
<b>Net cash provided by operating activities</b>	<b>6,753</b>	<b>4,739</b>	<b>8,882</b>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities held to maturity	(2,893)	(4,737)	(2,302)
<b>Purchases of securities available for sale</b>	(62,172)	(8,035)	(25,375)
Sales (purchases) of other investments	(2,238)	(388)	338
Proceeds from principal pay downs on securities available for sale	5,207	<b>3,543</b>	4,879
<b>Proceeds from the maturities and calls of securities available for sale</b>	37,950	500	26,325
Proceeds from the sale of securities available for sale	3,740	362	10,028
Proceeds from maturity of securities held to maturity	160	1,218	510
<b>Investment in bank of life insurance</b>	(1,531)	(354)	(6,755)
Proceeds from sale of other real estate owned	2,164	413	262
Net (increase) decrease in loans	18,427	(52,277)	(29,371)
<b>Proceeds from the sale of premises and equipment</b>	30	82	53
<b>Purchase of premises and equipment</b>	(1,600)	(794)	(1,952)
<b>Net cash used for investing activities</b>	<b>(2,756)</b>	<b>(60,467)</b>	<b>(23,360)</b>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	(5,304)	44,204	(7,184)
<b>Net increase (decrease) in federal funds purchased</b>	(4,039)	3,467	572
<b>Net increase (decrease) in securities sold under repurchase agreements</b>	(13,368)	(2,217)	9,563
<b>Net increase in advances from Federal Home Loan Bank</b>	32,500	9,000	3,500
<b>Proceeds from the exercise of stock options</b>	537	392	144
<b>Tax benefit of stock options exercised</b>	172		
Cash dividends paid	(1,258)	(1,187)	(1,051)
<b>Cash in lieu of fractional shares on stock dividends and splits</b>	(7)	(9)	(20)
<b>Net cash provided by financing activities</b>	<b>9,233</b>	<b>53,650</b>	<b>5,524</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>13,230</b>	<b>(2,078)</b>	<b>(8,954)</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,211	12,289	21,243
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 23,441	\$ 10,211	\$ 12,289
CASH PAID FOR			
<b>Interest</b>	\$ 11,996	7,806	6,432
<b>Income taxes</b>	\$ 2,286	2,200	\$ 1,540
NON-CASH TRANSACTIONS			
Change in unrealized gain (loss) on available for sale securities	\$ 1,321	(597)	\$ (791)
Loans transferred to other real estate	\$ 260	\$ 1,757	\$ 616

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



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PEOPLES BANCORPORATION, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

Principles of consolidation and nature of operations

The consolidated financial statements include the accounts of Peoples Bancorporation, Inc. (the "Company"), and its wholly-owned subsidiaries, The Peoples National Bank, Bank of Anderson, N.A., and Seneca National Bank (collectively referred to as the "Banks"). All significant intercompany balances and transactions have been eliminated. The Banks operate under individual national bank charters and provide full banking services to customers. The Banks are subject to regulation by the Office of the Comptroller of the Currency. The Company is subject to regulation by the Federal Reserve Board.

Estimates

The preparation of consolidated 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 interest and noninterest income and expenses during the reporting period. Actual results could differ from those estimates.

Segments

The Company, through its subsidiaries, provides a broad range of financial services to individuals and companies. These services include demand, time and savings deposits; lending and ATM processing and are substantially the same across subsidiaries. While the Company's decision-makers monitor the revenue streams of the various financial products and services by product line and by subsidiary, the operations and the allocation of resources are managed, and financial performance is evaluated, on an organization-wide basis. Accordingly, the Company's banking operation is considered by management to be one reportable operating segment.

Securities

The Company accounts for securities in accordance with Statement of Financial Accounting Standards (SFAS) NO. 115, Accounting for Certain Investments in Debt and Equity Securities. Debt securities are classified upon purchase as available for sale, held to maturity, or trading. Such assets classified as available for sale are carried at fair value. Unrealized holding gains or losses are reported as a component of shareholders' equity (accumulated other comprehensive income (loss)) net of deferred income taxes. Securities classified as held to maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts into interest income using a methodology which approximates a level yield of interest over the estimated remaining period until maturity. To qualify as held to maturity, the Company must have the ability and intent to hold the securities to maturity. Trading securities are carried at market value. The Company has no trading securities. Gains or losses on dispositions of securities are based on the difference between the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

Loans and interest on loans

Loans are stated at the principal balance outstanding reduced by the allowance for loan losses. Interest income is recognized over the term of the loan based on the contractual interest rate and the principal balance outstanding.

Loans generally are placed on non-accrual status when principal or interest becomes ninety days past due, or when payment in full is not anticipated. Interest payments received after a loan is placed on non-accrual status are applied as principal reductions until such time the loan is returned to accrual status. Generally, a loan is returned to accrual status when the loan is brought current and the collectibility of principal and interest no longer is in doubt.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

**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 management believes 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 management and is based upon management's periodic review of the collectibility of the loans in light of historical experiences, 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.**

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, **substandard or special mention. For such loans that are also classified as** impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted **for qualitative factors. An unallocated component is maintained to cover** uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of **imprecision inherent in the underlying assumptions used in the** methodologies for estimating specific and general losses in the portfolio.

**A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, **taking into consideration all of the circumstances surrounding the** loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. 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, the Corporation does not separately **identify individual consumer and residential loans for impairment** disclosures, unless such loans are the subject of a restructuring agreement.

**Mortgage loans held for sale**

Mortgage loans **originated and intended for sale in the secondary market** are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges **to operations. Gains and losses on sales of loans are recognized when the** loans are sold to secondary market investors. During 2004, the Company ended its origination and sale of loans in the secondary market.

**Premises and equipment**

**Premises and equipment are stated at cost less accumulated depreciation.** Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Additions to premises and equipment and major replacements or betterments are added at cost. Maintenance, **repairs, and minor replacements are charged to expense when incurred.** When assets are retired or otherwise disposed of, the cost and accumulated **depreciation are removed from the accounts and any gain or loss is** reflected in income.

(Continued)

<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

Other real estate owned

Other real estate owned represents properties acquired through foreclosure and is carried at the lower of cost or fair value, adjusted for estimated selling costs. Fair values of real estate owned are reviewed regularly and writedowns are recorded when it is determined that the carrying value of real estate exceeds the fair value less estimated costs to sell. Costs relating to the development and improvement of such property are capitalized, whereas those costs relating to holding the property are charged to expense. At December 31, 2006 and 2005 real estate owned by the Company totaled \$271,000 and \$2,007,000 respectively, and is included in other assets. During 2006 and 2005, the Company transferred loans of \$260,000 and \$1,756,000, respectively to real estate acquired in foreclosure.

Advertising and public relations expense

Advertising, promotional and other business development costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Income taxes

The provision for income taxes includes deferred taxes on temporary differences between the recognition of certain income and expense items for tax and financial statement purposes. Income taxes are computed on the liability method as described in SPAS No. 109, Accounting for Income Taxes.

Statements of cash flows

For the purposes of reporting cash flows, the Company considers cash and cash equivalents to be those amounts included in the balance sheet captions "Cash and Due From Banks," "Interest-bearing Deposits in Other Banks" and "Federal Funds Sold." Cash and cash equivalents have an original maturity of three months or less.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.

Risk and uncertainties

In the normal course of its business the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of real estate held by the Company, and the valuation of loans held for sale and mortgage-backed securities available for sale.

The Company is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances, and operating restrictions, resulting from the regulators' judgments based on information available to them at the time of their examination.

Stock option compensation plans

The Company has an employee stock option compensation plan through which the Board of Directors may grant stock options to officers and employees to purchase common stock of the Company at prices not less than 100 percent of the fair value of the stock on the date of grant. The Company also has another employee stock option plan under which options may no longer be granted, but under which exercisable options remain outstanding. The outstanding options under both plans become exercisable in various increments beginning on the date of grant and expiring ten years from the date of grant. The Company also has a directors' stock option plan through which non-employee directors of the Company are granted options to purchase 500 shares of common stock for each year served on the board to a maximum of 5,000 options per director.

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NOTE SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

The option price shall not be less than 100 percent of the fair value of the stock on the grant date. The outstanding options become exercisable on the grant date and expire at the earlier of the end of the director's term or ten years from the grant date.

The Company has historically accounted for the plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. For the years ended December 31, 2004 and 2005, no stock-based employee compensation cost is reflected in net income, as all stock options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), which changed the accounting methodology for its stock option plans - see Note 16. In conjunction with this change, the Company recorded approximately \$92,000 of compensation expense in 2006.

Recently issued accounting standards

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

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN No. 48"), Accounting for Uncertainty in Income Taxes. **FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in enterprises' financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes.** FIN No. 48 prescribes a **recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected** to be taken in a tax return. FIN No. 48 also provides guidance on **derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions.** FIN No. 48 is effective for fiscal years beginning after December 15, 2006. FIN No. 48 is not expected to have any impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. **This standard does not require any new fair value measurements, but rather eliminates inconsistencies found in various prior pronouncements.** SFAS No. 157 is effective for the Company on January 1, 2008 and is not expected to have any impact on the Company's financial statements.

In September, 2006, The FASB ratified the consensuses reached by the FASB's Emerging Issues Task Force ("EITF") relating to EITF No. 06-4, Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF No. 06-4 addresses employer accounting for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods and required a company to recognize a liability for future benefits in accordance with SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board ("APB") Opinion No. 12, Omnibus Opinion--1967. EITF No. 06-4 is effective for fiscal years beginning after December 15, 2007. Entities should recognize the effects of applying this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Company is currently analyzing the effect of adoption of EITF No. 06-4 on its financial position, results of operations and cash flows.

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NOTE - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

In September 2006, the FASB ratified the consensus reached related to EITF No. 06-5, Accounting for Purchases of Life Insurance--Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance. EITF No. 06-5 states that a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. EITF No. 06-5 also states that a policyholder should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). EITF No. 06-5 is effective for fiscal years beginning after December 15, 2006. The adoption of EITF No. 06-5 is not expected to have a material impact on the Company's financial statements..

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108. SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB No. 108, Companies might evaluate the materiality of financial statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB No. 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company has analyzed SAB No. 108 and determined that upon adoption it will have no impact on the reported results of operations or financial conditions.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115. This statement permits, but does not require, entities to measure many financial instruments at fair value. The objective is to provide entities with an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities electing this option will apply it when the entity first recognizes an eligible instrument and will report unrealized gains and losses on such instruments in current earnings. This statement 1) applies to all entities, 2) specifies certain election dates, 3) can be applied on an instrument-by-instrument basis with some exceptions, 4) is irrevocable and 5) applies only to entire instruments. One exception is demand deposit liabilities which are explicitly excluded as qualifying for fair value. With respect to SFAS No. 115, available for sale and held to maturity securities at the effective date are eligible for the fair value option at that date. If the fair value option is elected for those securities at the effective date, cumulative unrealized gains and losses at that date shall be included in the cumulative-effect adjustment and thereafter, such securities will be accounted for as trading securities. SFAS No. 159 is effective for the Company on January 1, 2008. Earlier adoption is permitted in 2007 if the Company also elects to apply the provisions of SFAS No. 157, Fair Value Measurement. The Company is currently analyzing the fair value option provided under SFAS No. 159.

Other accounting standards that have been issued or proposed by the Public Company Accounting Oversight Board or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

The Banks are required to maintain average reserve balances with the Federal Reserve Bank ("FRB") based upon a percentage of deposits. The average amounts of reserve balances maintained by the Banks at December 31, 2006 and 2005 were approximately \$1,036,000 and \$3,070,000, respectively.

<PAGE>

NOTE 3 SECURITIES

Securities are summarized as follows as of December 31 (tabular amounts in thousands)

<TABLE,  
<CAPTION,

	Amortized cost	2006 Unrealized holding		Fair value
		Gains	Losses	
SECURITIES AVAILABLE FOR SALE:				
GOVERNMENT SPONSORED ENTERPRISE SECURITIES				
<S>	<C,	<C>	<C>	<C>
Maturing within one year	4,600	\$	\$ 23	\$ 4,577
Maturing after one but within five years	2,250		43	2,207
Maturing after 5 years but within ten years	5,500	53		5,553
	12,350	53	66	12,337
OTHER SECURITIES				
Maturing within one year	312	240	2	550
Maturing after one year but within five years	1,178		25	1,153
Maturing after five years but within ten years	10,732	19	260	10,491
Maturing after ten years	32,520	268	102	32,686
	44,742	527	389	44,880
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Maturing after five years but within ten years	860	14		874
Maturing after ten years	23,706	19	130	23,595
	24,566	33	130	24,469
Total securities available for sale	\$81,658	613	\$ 585	\$81,686
SECURITIES HELD TO MATURITY,				
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Maturing within one year	\$ 315	\$	\$	\$ 315
Maturing after one but within five years	5,631	3	65	5,569
Maturing after five but within ten years	3,818	11	63	3,766
Maturing after ten years	3,736	7	11	3,732
Total securities held to maturity	\$13,500	\$ 21	139	\$13,382

<CAPTION,

	Amortized cost	2005 Unrealized holding		Fair value
		Gains	Losses	
SECURITIES AVAILABLE FOR SALE:				
GOVERNMENT SPONSORED ENTERPRISE SECURITIES				
<S,	<C,	<C,	<C,	<C,
Maturing within one year	\$37,949	\$	\$ 556	\$37,393
Maturing after one but within five years	10,255		254	10,001
	48,204		810	47,394
OTHER SECURITIES				
Maturing after one but within five years	1,030	21	1,009	
Maturing after five but within ten years	12,124		356	11,768
Maturing after ten years	5,097		107	4,990
	18,251		484	17,767
Total securities available for sale	\$66,455	\$	\$ 1,294	\$65,161

</TABLE,

(Continued)

<PAGE>

NOTE 3 SECURITIES, Continued

<TABLE>

<CAPTION>

	Amortized cost	2006 Unrealized holding		Fair value
		Gains	Losses	
SECURITIES HELD TO MATURITY (continued),				
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
<S>	<C>	<C>	<C>	<C>
Maturing within one year	\$ 160	\$ 2		162
Maturing after one but within five years	3,800	6	40	3,766
Maturing after five but within ten years	4,546	2	113	4,435
Maturing after ten years	2,349		38	2,311
Total securities held to maturity	\$10,855	10	191	\$10,674

</TABLE>

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2006.

Securities Available for Sale (tabular amounts in thousands) :

<TABLE>

<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>		<C>		<C>	<C>	
Government sponsored enterprise securities	\$	\$	\$ 6,784	\$ 66	\$ 6,784	\$ 66
Other securities	435		13,750	389	14,185	389
State and political subdivisions	18,441	130			18,441	130
Total	\$18,876	\$ 130	\$20,534	\$ 455	\$39,410	\$ 585

</TABLE>

Forty individual securities were in a continuous loss position for twelve months or more.

Securities Held to Maturity (tabular amounts in thousands) :

<TABLE>

<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>	<C>	<C>	<C>	<C>	<C>	<C>
States and political subdivisions	\$1,665	\$ 6	\$6,654	\$ 133	\$8,319	\$ 139

</TABLE>

Thirty individual securities were in a continuous loss position for twelve months or more.

(Continued)

<PAGE>

NOTE 3 - SECURITIES, Continued

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005.

**Securities Available for Sale (tabular amounts in thousands) :**

<TABLE>  
<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Government sponsored enterprise securities	\$ 247	\$ 2	\$47,147	\$ 808	\$47,394	\$ 810
Other securities	10,075	194	7,540	290	17,615	484
Total	\$10,322	\$ 196	\$54,687	\$ 1,098	\$65,009	\$ 1,294

</TABLE>

Sixty-two individual securities were in a continuous loss position for twelve months or more.

**Securities Held to Maturity (tabular amounts in thousands) :**

<TABLE>  
<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<S>		<C>		<C>	<C>	<C>
States and political subdivisions	\$7,848	108	\$1,826	83	\$9,674	\$ 191

</TABLE>

Eight individual securities were in a continuous loss position for twelve months or more.

The Company has the ability and intent to hold these securities until such time as the value recovers or the securities mature. The Company believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary. The category "other securities" above is comprised of mortgage-backed securities and investments in Banker'S Bank stock.

**Other Investments, at Cost (tabular amounts in thousands) :**

The Banks, as member institutions, are required to own certain stock investments in the Federal Home Loan Bank of Atlanta ("FHLB") and the FRB. These investments are carried at cost and are generally pledged against any borrowings from these institutions (see Note 9). No ready market exists for these stocks and they have no quoted market values. The Company's investments in these stocks are summarized below:

	December 31,	
	2006	2005
FRB	\$ 453	\$ 396
FHLB	3,271	1,649
Interest-bearing deposits in other banks (maturing after three months)	559	
	\$4,283	\$2,045

Securities with carrying amounts of \$43,494,000 and \$54,936,000 December 31, 2006 and 2005, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.



<PAGE>

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are summarized as follows (tabular amounts in thousands) :

	December 31,	
	2006	2005
<b>Commercial and industrial - not secured by real estate</b>	38,505	39,669
<b>Commercial and industrial - secured by real estate</b>	90,298	90,186
<b>Residential real estate - mortgage</b>	97,835	107,398
<b>Residential real estate - construction</b>	117,465	121,048
Loans to individuals for household, family and other personal expenditures ...	13,978	19,194
	358,081	377,495
Less allowance for loan losses	4,070	3,854
	\$354,011	\$373,641

The composition of gross loans by rate type is as follows: (tabular amounts in thousands) :

	December 31,	
	2006	2005
<b>Variable rate loans ..</b>	\$180,545	\$194,904
<b>Fixed rate loans</b>	177,536	182,591
	\$358,081	\$377,495

Changes in the allowance for loan losses were as follows:

	For the years ended December 31,		
	2006	2005	2004
BALANCE, BEGINNING OF YEAR	\$ 3,854	\$ 3,691	3,438
<b>Provision for loan losses</b>	943	848	589
Loans charged off	(995)	(704)	(448)
<b>Loans recovered</b>	268	19	112
BALANCE, END OF YEAR	\$ 4,070	\$ 3,854	\$ 3,691

At December 31, 2006 and 2005 nonaccrual loans amounted to \$993,000 and \$1,206,000, respectively. Foregone interest income was approximately \$95,000, \$89,000, and \$46,000 on nonaccrual loans for 2006, 2005 and 2004, respectively. There were no impaired loans at December 31, 2006 and 2005.

<PAGE>

NOTE 5 - PREMISES AND EQUIPMENT

The principal categories and estimated useful lives of premises and equipment are summarized below (tabular amounts in thousands) :

<TABLE>  
<CAPTION>

	Estimated useful lives	December 31,	
		2006	2005
<S>		<C>	<C>
Land		\$ 2,869	2,195
Building and improvements	15 - 40 years	8,040	7,622
Furniture, fixtures and equipment	3 - 10 years	7,602	7,267
		18,511	17,084
Less accumulated depreciation		7,394	6,449
		\$11,117	\$10,635

</TABLE>

Depreciation expense of approximately \$1,091,000, \$1,127,000 and \$1,075,000 for 2006, 2005 and 2004, respectively, is included in occupancy and equipment expenses in the accompanying consolidated statements of income.

NOTE 6 - DEPOSITS

The composition of deposits is as follows (tabular amounts in thousands) :

<TABLE>  
<CAPTION>

	December 31,	
	2006	2005
<S>	<C>	<C>
Demand deposits, noninterest bearing	54,993	\$ 52,467
NOW and money market accounts	86,165	102,225
Savings deposits	8,987	11,294
Time certificates, \$100,000 or more	87,365	99,255
Other time certificates ....	147,535	125,108
Total	\$385,045	\$390,349

<CAPTION>

	December 31/	
	2006	2005
Time certificates maturing		
<S>	<C>	<C>
Within one year	\$201,669	\$127,271
After one but within two years	29,789	78,344
After two but within three years	2,938	17,844
After three but within four years	486	527
After four years	18	377
	234,900	224,363
Transaction and savings accounts ....	150,145	165,986
	\$385,045	\$390,349

</TABLE>

Certificates of deposit in excess of \$100,000 totaled approximately \$76,758,000 and \$89,607,000 at December 31, 2006 and 2005, respectively. Interest expense on certificates of deposit in excess of \$100,000 was approximately, \$3,567,000 in 2006 and \$2,893,000 in 2005. The Banks had brokered time certificates of approximately \$28,999,000 at December 31, 2006 and \$2,295,000 at December 31, 2005.

<PAGE>

NOTE 7 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements are summarized as follows  
(tabular amounts in thousands):

<TABLE>

<CAPTION>

	December 31,	
	2006	2005
<S>		
Government sponsored enterprise securities with an amortized cost of \$35,235,000 (\$35,828,000 fair value) and \$44,851,000 (\$44,000,000 fair value) at December 31, 2006 and 2005, respectively, collateralize the agreements	\$18,368	\$31,736

</TABLE>

The Banks enter into sales of securities under agreements to repurchase. These obligations to repurchase securities sold are reflected as liabilities in the consolidated balance sheets. The dollar amount of securities underlying the agreements remains in the asset accounts. The securities underlying the agreements are book entry securities maintained by a safekeeping agent. The weighted average interest rate of these agreements was 2.50 percent and 1.94 percent for 2006 and 2005, respectively. The agreements mature daily. Securities sold under agreements to repurchase averaged \$28,443,000 and \$31,594,000 during 2006 and 2005, respectively. The maximum amounts outstanding at any month-end were \$30,962,000 and \$34,757,000 during 2006 and 2005, respectively.

NOTE 8 FEDERAL FUNDS PURCHASED

At December 31, 2006, the Banks had the ability to purchase federal funds from unrelated banks under short-term lines of credit totaling \$42,000,000. These lines of credit are available on a one to seven day basis for general corporate purposes. There were no federal funds purchased under these lines of credit at December 31, 2006 and \$4,039,000 outstanding at December 31, 2005.

NOTE 9 - ADVANCES FROM FEDERAL HOME LOAN BANK

The Banks have the ability to borrow up to 20 percent of their total assets from the FHLB subject to available qualifying collateral. Borrowings may be obtained under various FHLB lending programs with various terms. Borrowings from the FHLB require qualifying collateral (which includes certain mortgage loans, investment securities and FHLB stock) and may require purchasing additional stock in the FHLB.

The Banks had advances aggregating \$50,000,000 and \$17,500,000 at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005 respectively, the Banks had \$45,000,000 and \$12,500,000 of advances at interest rates of 5.50 and 4.44 percent and which matured daily. At December 31, 2006 and 2005, \$5,000,000 of the advances bear interest at 4.82 percent and mature in December 2010. At December 31, 2006 and 2005, the advances were collateralized by qualifying mortgage loans aggregating approximately \$55,679,000 and \$68,112,000, respectively, and by FHLB stock owned by all three Banks. As of December 31, 2006, the Banks had the ability to borrow an additional \$46,240,000 in the aggregate from the FHLB.

<PAGE>

NOTE 10 - INCOME TAXES

Provision for income taxes consists of the following (tabular amounts in thousands) :

<TABLE>  
<CAPTION>

	For the years ended December 31,		
	2006	2005	2004
<b>Current tax provision</b>			
<S>	<C>	<C>	<C>
Federal	\$ 1,302	\$ 1,474	\$ 1,703
State	211	188	160
<b>Total current taxes</b>	<b>1,513</b>	<b>1,662</b>	<b>1,863</b>
Deferred tax benefit	422	(10)	(209)
	<b>\$ 1,935</b>	<b>\$ 1,652</b>	<b>\$ 1,654</b>

</TABLE>

Income taxes differ from the tax expense computed by applying the statutory federal income tax rate of 34 percent to income before income taxes. The reasons for these differences are as follows (tabular amounts in thousands) :

<TABLE>  
<CAPTION>

	For the years ended December 31,		
	2006	2005	2004
<S>	<C>	<C>	<C>
<b>Tax expense at statutory rate</b>	<b>2,183</b>	<b>\$ 1,965</b>	<b>\$ 1,762</b>
<b>Increase (decrease) in taxes resulting from:</b>			
<b>State income taxes, net of federal benefit</b>	140	124	104
<b>Tax-exempt interest income</b>	(238)	(77)	(79)
<b>Investment in life insurance</b>	(99)	(120)	(159)
<b>Other</b>	(51)	(240)	26
<b>Provision for income taxes</b>	<b>\$ 1,935</b>	<b>\$ 1,652</b>	<b>\$ 1,654</b>

</TABLE>

Deferred tax assets (liabilities) result from temporary differences in the recognition of revenue and expenses for tax and financial statement purposes. Management believes realization of the deferred tax assets is more likely than not and accordingly has not recorded a valuation allowance. The sources and the cumulative tax effect of temporary differences are as follows (tabular amounts in thousands) :

<TABLE>  
<CAPTION>

	December 31,	
	2006	2005
<b>Deferred tax assets</b>		
<S>	<C>	<C>
<b>Allowance for loan losses</b>	\$ 1,388	1,318
<b>Deferred compensation</b>	366	138
<b>Unrealized holding losses on securities available for sale</b>	439	439
<b>Other</b>	83	11
	<b>1,837</b>	<b>1,906</b>
<b>Deferred tax liabilities</b>		
<b>Depreciation</b>	(209)	(351)
<b>Prepaid expenses</b>	(201)	(111)
<b>Unrealized holding gains on securities available for sale</b>	(9)	
	<b>(419)</b>	<b>(462)</b>
<b>Net deferred tax assets included in other assets</b>	<b>\$ 1,418</b>	<b>\$ 1,444</b>

</TABLE>

<PAGE>

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Banks are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets.

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2006, unfunded commitments to extend credit were \$108,431,000, of which \$103,349,000 were at variable rates and \$5,082,000 were at fixed rates. These commitments included \$41,224,000 of unfunded amounts of construction loans, \$42,475,000 of undisbursed amounts of home equity lines of credit, \$17,175,000 of unfunded amounts under commercial lines of credit, and \$7,557,000 other commitments to extend credit. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate.

At December 31, 2006, there was \$6,922,000 committed under letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral varies but may include accounts receivable, inventory, equipment, marketable securities and property. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements. The Company has not recorded a liability for the current carrying amount of the obligation to perform as a guarantor, and no contingent liability was considered necessary, as such amounts were not considered material.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Company has, from time to time, various lawsuits and claims arising from the conduct of its business. Management does not expect such items to have any material adverse effect on the financial position or results of operations of the Company (see Note 20 for subsequent event disclosure).

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in the upstate region of South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or in a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

(Continued)

<PAGE>

NOTE 12 - COMMITMENTS AND CONTINGENCIES, Continued

**In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk that could arise from potential concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc), and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans) These loans are underwritten and monitored to manage the associated risks. Management has determined that there is no concentration of credit risk associated with its lending policies or practices.**

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations and general obligation **municipal securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio.** The Company places its deposits and correspondent accounts with and sells its federal funds to high quality **institutions. Management believes credit risk associated with correspondent accounts is not significant.**

NOTE 13 - RELATED PARTY TRANSACTIONS

At December 31, 2006 and 2005, certain officers, directors, employees, related parties and companies in which they have 10 percent or more beneficial ownership, were indebted to the Banks in the aggregate amount of \$9,352,000 and \$8,661,000, respectively. During 2006, \$2,130,000 of new loans were made to this group and repayments of \$1,439,000 were received. This same group had deposits in the Banks of \$6,713,000 at December 31, 2006.

NOTE 14 - COMMON STOCK AND EARNINGS PER SHARE

SFAS No. 128, Earnings per Share, requires that the Company present **basic and diluted net income per common share. The assumed conversion of stock options creates the difference between basic and diluted net income per common share. Income per share is calculated by dividing net income by the weighted average number of common shares outstanding for each period presented. The weighted average number of common shares outstanding for basic net income per common share was 6,603,742 in 2006, 6,533,440 in 2005 and 6,419,425 in 2004. The weighted average number of common shares outstanding for diluted net income per common share was 6,653,555 in 2006, 6,686,487 in 2005 and 6,652,960 in 2004.**

The Company declared or issued five percent common stock dividends in 2006, 2005 and 2004. Additionally, the Company effected a 3-for-2 stock split in October 2004. Upon issuance of the 3-for-2 stock split, the Company filed **articles of amendment to its Articles of Incorporation increasing its authorized shares from 10,000,000 to 15,000,000 and decreasing its par value from \$1.67 per share to \$1.11 per share. Net income and dividends per common share and the weighted average number of common shares outstanding for basic and diluted net income per common share in prior years have been restated to reflect these transactions.**

NOTE 15 - RESTRICTION OF DIVIDENDS

The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from the Banks. Federal banking **regulations restrict the amount of dividends that can be paid and such dividends** are payable only from the retained earnings of the Banks. At December 31, 2006 the Banks had aggregate retained earnings of \$28,618,000.

(Continued)

<PAGE>

NOTE 16 - STOCK OPTION COMPENSATION PLANS

Prior to 2006, the Company accounted for stock options in accordance with APB Opinion No. 25. The following table illustrates the effect on net income and earnings per share had the Company accounted for share-based compensation in accordance with SFAS No. 123(R) for the periods indicated..

<TABLE>

<CAPTION>

(tabular amounts in thousands, except per share information)

	For the years ended December 31,		
	2006	2005	2004
<b>Net income, as reported</b>	\$ 4,486	\$ 4,128	\$ 3,528
Add: Stock-based employee compensation expense included <b>in reported net income net of related tax effects</b>	92		
Deduct, total stock-based employee compensation expense <b>determined under fair value based method for all awards,</b> net of related tax effects	(92)	(131)	(120)
<b>Pro forma net income ..</b>	4,486	\$ 3,997	\$ 3,408
<b>Net income per common share</b>			
Basic as reported	\$ 0.68	\$ 0.63	0.55
<b>Basic pro forma ..</b>		\$ 0.61	0.53
Diluted - as reported	\$ 0.67	\$ 0.62	\$ 0.53
Diluted pro forma		0.60	0.51

</TABLE>

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 in 2006, 2005 and 2004: dividend yields from \$.17 to \$.20 per share, expected volatility from 22 to 27 percent, risk-free interest rates from 4.06 to 5.00 percent and expected life of 10 years. The weighted average fair market value of options granted approximated \$4.03 in 2006, \$6.66 in 2005, and \$5.25 in 2004. For purposes of the proforma calculations, compensation expense is recognized on a straight-line basis over the vesting period.

A summary of the status of the plans as of December 31, 2006, 2005 and 2004, and changes during the years ending on those dates is presented below (all shares and exercise prices have been adjusted for stock dividends and the stock split).

<TABLE>

<CAPTION>

	Shares	Weighted average exercise price	Options Outstanding	
			Weighted average contractual term (years)	Aggregate intrinsic value
<S>	<C>	<C>		
Outstanding at December 31, 2003	414,316	\$ 5.00		
Granted	42,538	13.65		
<b>Exercised</b>	(25,539)	5.62		\$ 661,631
<b>Forfeited or expired</b>				
Outstanding at December 31, 2004 ..	431,315	\$ 5.90		
Granted	21,498	16.34		
<b>Exercised</b>	(146,802)	3.85		\$1,256,625
Forfeited or expired	(3,342)			
Outstanding at December 31, 2005	302,669	\$ 7.54		
Granted	25,602	11.41		
<b>Exercised</b>	(113,878)	5.19		\$ 314,640
Forfeited or expired	(15,309)	14.14		
Outstanding at December 31, 2006	199,084	\$ 8.88	4.52	\$1,156,678
Options exercisable at year-end	163,628	\$ 8.03	4.52	\$ 950,679
Shares available for grant	380,262			

</TABLE>

(Continued)

<PAGE>

NOTE 16 . STOCK OPTION COMPENSATION PLANS, Continued

<TABLE>  
<CAPTION>

	Number of shares	Weighted average grant date fair value
<S>	<C>	<C>
Non-vested options at December 31, 2005	32,346	\$ 5.99
Granted	25,602	\$ 4.03
Vested	(20,917)	\$ 5.50
Forfeited or expired	(1,575)	\$ 4.63
Non-vested options at December 31, 2006	35,456	\$ 5.31

<TABLE>  
<CAPTION>

Options Outstanding			Options Exercisable	
Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
<S><C>	<C>	<C>	<C>	
48,841	0.3 years	\$ 3.69	48,841	3.69
3,471	1.3 years	5.60	3,471	5.60
9,131	1.5 years	5.60	9,131	5.60
10,451	1.8 years	5.60	10,451	5.60
4,420	2.3 years	6.79	4,420	6.79
9,459	3.3 years	8.56	9,459	8.56
5,549	4.0 years	8.96	5,549	8.96
8,024	4.3 years	7.98	8,024	7.98
2,009	4.6 years	7.52	2,009	7.52
9,550	5.3 years	9.24	9,550	9.24
10,923	5.5 years	9.90	9,286	9.90
7,280	6.3 years	10.99	7,280	10.99
25,386	7.3 years	13.55	17,085	13.55
1,737	7.6 years	14.39	955	14.39
1,737	7.8 years	15.46	955	15.46
1,654	8.0 years	18.82	662	18.82
4,959	8.3 years	16.43	4,959	16.43
1,103	8.5 years	15.50	441	15.50
2,206	8.6 years	15.64	882	15.64
5,513	8.7 years	15.64	2,205	15.64
1,654	8.8 years	14.78	662	14.78
1,050	9.1 years	12.62	263	12.62
1,050	9.2 years	12.48	263	12.48
13,125	9.4 years	11.48	6,825	11.48
1,050	9.5 years	10.95		10.95
4,077	9.7 years	10.95		10.95
3,675	9.6 years	10.71		10.71
199,084		8.88	163,628	8.03

<TABLE>

(Continued)



<PAGE>

NOTE 16 - STOCK OPTION COMPENSATION PLANS, Continued

The plans are administered by the Board of Directors or by a committee designated by the Board. The plans provide that if the shares of common stock **shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of common stock as a stock dividend on its outstanding common stock, the number of shares of common stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend.**

NOTE 17 - EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) retirement plan for all eligible employees. Upon ongoing approval of the Board of Directors, the Company matches **employee contributions equal to fifty percent of the first six percent of such contributions, subject to certain adjustments and limitations.** Contributions to the plan of \$159,824, \$142,255 and \$136,526, were charged to operations during 2006, 2005 and 2004, respectively.

Supplemental benefits have been approved by the Board of Directors for certain executive officers of the Company. These benefits are not qualified **under the Internal Revenue Code and they are not funded. However, certain funding is provided informally and indirectly by life insurance policies.** The Company recorded expense related to these benefits of \$51,585, \$74,383 and \$495,210, in 2006, 2005, and 2004, respectively.

NOTE 18 REGULATORY MATTERS

The Banks 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 Banks' financial statements.** Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks **must meet specific capital guidelines that involve quantitative measures of the Banks' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.** The Banks' **capital amounts and classifications** are also subject to qualitative judgments by the regulators **about components, risk weighting, and other factors.**

**Quantitative measures established by regulation to ensure capital adequacy require the Banks to maintain 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 the Banks meet all capital adequacy requirements to which they are subject.

As of December 31, 2006, the most recent notification from the Office of the Comptroller of the Currency categorized the Banks 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 the Banks' categories.** The Banks' actual capital amounts and ratios and **minimum regulatory amounts and ratios are presented as follows:**

<PAGE,

NOTE 18 REGULATORY MATTERS, Continued  
<TABLE,  
<CAPTION,

	Actual		For capital adequacy purposes Minimum		To be well capitalized under prompt corrective action provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollar amounts in thousands)						
<b>Peoples Bancorporation, Inc.:</b>						
As of December 31, 2006						
<S>	<C>	<C>	<C>	<C>		
Total Capital (to risk-weighted assets)	\$50,116	13.07%	\$30,675	8.00%	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	46,046	12.00	15,349	4.00	N/A	N/A
Tier 1 Capital (to average assets)	46,046	9.06	20,329	4.00	N/A	N/A
As of December 31, 2005						
Total Capital (to risk-weighted assets)	\$45,880	11.93%	\$30,766	8.00%	N/A	N/A
Tier 1 Capital (to risk-weighted assets)	42,025	10.93	15,380	4.00	N/A	N/A
Tier 1 Capital (to average assets)	42,025	8.67	19,389	4.00	N/A	N/A
<b>The Peoples National Bank:</b>						
As of December 31, 2006						
Total Capital (to risk-weighted assets)	\$28,925	12.05%	\$19,203	8.00%	\$24,004	10.00%
Tier 1 Capital (to risk-weighted assets)	26,470	11.03	9,599	4.00	14,399	6.00
Tier 1 Capital (to average assets)	26,470	8.90	11,897	4.00	14,871	5.00
As of December 31, 2005						
Total Capital (to risk-weighted assets)	\$26,129	11.58%	\$18,051	8.00%	\$22,564	10.00
Tier 1 Capital (to risk-weighted assets)	24,136	10.69	9,031	4.00	13,547	6.00
Tier 1 Capital (to average assets)	24,136	8.93	10,811	4.00	13,514	5.00
<b>Bank of Anderson, N.A.:</b>						
As of December 31, 2006						
Total Capital (to risk-weighted assets)	\$13,176	12.65%	\$ 8,333	8.00%	\$10,416	10.00%
Tier 1 Capital (to risk-weighted assets)	11,926	11.45	4,166	4.00	6,249	6.00
Tier 1 Capital (to average assets)	11,926	7.80	6,116	4.00	7,645	5.00
AS of December 31, 2005						
Total Capital (to risk-weighted assets)	\$12,539	10.68%	\$ 9,393	8.00%	\$11,741	10.00%
Tier 1 Capital (to risk-weighted assets)	11,185	9.53	4,695	4.00	7,042	6.00
Tier 1 Capital (to average assets)	11,185	7.08	6,319	4.00	7,899	5.00
<b>Seneca National Bank:</b>						
AS of December 31, 2006						
Total Capital (to risk-weighted assets)	\$ 5,508	13.31%	\$ 3,311	8.00%	\$ 4,138	10.00%
Tier 1 Capital (to risk-weighted assets)	5,035	12.17	1,655	4.00	2,482	6.00
Tier 1 Capital (to average assets)	5,035	9.10	2,213	4.00	2,766	5.00
As of December 31, 2005						
Total Capital (to risk-weighted assets)	\$ 5,177	12.53%	\$ 3,305	8.00%	\$ 4,132	10.00%
Tier 1 Capital (to risk-weighted assets)	4,669	11.30	1,653	4.00	2,479	6.00
Tier 1 Capital (to average assets)	4,669	8.52	2,192	4.00	2,740	5.00

</TABLE,

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NOTE 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 sheets, when it is practical to estimate the fair value. SFAS No. 107 defines a financial instrument as cash, evidence of an ownership interest in an entity or contractual obligations which require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including the Company's common stock, premises and equipment and other assets and liabilities.

Fair value approximates carrying value for the following financial instruments due to the short-term nature of the instrument, cash and due from banks, interest-bearing deposits in other banks and federal funds sold and purchased.

Securities are valued using quoted fair market prices. Other investments are valued at par value.

Fair value for variable rate loans that reprice frequently, loans held for sale, and for loans that mature in less than three months is based on the carrying value. Fair value for fixed rate mortgage loans, personal loans, and all other loans (primarily commercial) maturing after three months 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.

Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying value. Certificate of deposit accounts and securities sold under repurchase agreements maturing within one year are valued at their carrying value. The fair value of certificate of deposit accounts and securities sold under repurchase agreements maturing after one year are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

Fair value for long-term FHLB advances is based on discounted cash flows using the Company's current incremental borrowing rate. Discount rates used in these computations approximate rates currently offered for similar borrowings of comparable terms and credit quality.

Fair value of off-balance sheet instruments is based on fees currently charged to enter into similar arrangements, taking into account the remaining terms of the agreement and the counterparties' credit standing.

The Company has used management's best estimate of fair value based on the above assumptions. Thus, the fair values presented may not be the amounts which could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses which would be incurred in an actual sale or settlement are not taken into consideration in the fair value presented.

The estimated fair values of the Company's financial instruments are as follows (amounts in thousands)

<TABLE,  
<CAPTION,

	Carrying amount	December 31,		2005 Fair value
		2006 Fair value	Carrying amount	
Financial assets:				
<S> Cash and due from banks	\$ 10,819	\$ 10,819	9,311	9,311
Interest-bearing deposits in other banks	108	108	900	900
Federal funds sold	12,514	12,514		
Securities available for sale	81,294	81,294	65,009	65,009
Securities held to maturity	13,500	13,382	10,855	10,674
Other investments	4,675	4,675	2,197	2,197
Loans (gross)	358,081	351,533	377,495	372,750

</TABLE,

<PAGE>

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

<TABLE>

<CAPTION>

	December 31,			
	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
<S>	<C>	<C>	<C>	<C>
<b>Deposits</b>	\$385,049	\$385,672	\$390,349	\$392,023
<b>Securities sold under repurchase agreements</b>	18,368	18,368	31,736	31,736
Federal funds purchased			4,039	4,039
Advances from Federal Home Loan Bank ..	50,000	49,968	17,500	17,406

</TABLE>

NOTE 20 SUBSEQUENT EVENT

On February 15, 2007 the Company received the results of arbitration proceedings regarding an employment contract dispute. A former employee of a subsidiary of the Company was awarded \$712,280, pre-judgment interest at the rate of 8% from January 25, 2006, and \$150,000 in attorney's fees and costs. The award also provided that the administrative fees and expenses of the American Arbitration Association, as well as the compensation and expenses of the arbitrators, were to be borne by the Company. The impact of this settlement has been included in the accompanying consolidated financial statements.

NOTE 21 CONDENSED FINANCIAL INFORMATION

Following is condensed financial information of Peoples Bancorporation, Inc. (parent company only) (tabular amounts in thousands)

CONDENSED BALANCE SHEETS

	December 31,	
	2006	2005
ASSETS		
Cash	\$ 2,148	\$ 1,644
Investment in bank subsidiaries	43,568	39,307
Other assets ...	1,228	559
TOTAL ASSETS ..	\$46,944	\$41,510
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	\$ 880	\$ 339
Shareholders' equity	46,064	41,171
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$46,944	\$41,510

(Continued)

<PAGE>

NOTE 21 CONDENSED FINANCIAL INFORMATION, Continued

CONDENSED STATEMENTS OF INCOME

<TABLE>

<CAPTION>

	For the years ended December 31,		
	2006	2005	2004
INCOME			
<S> Fees and dividends from subsidiaries	\$ 5,989	\$ 4,945	\$ 4,271
EXPENSES			
Salaries and benefits	3,620	2,970	2,205
Occupancy	24	25	22
Equipment	379	330	298
Other operating	1,002	844	706
	5,025	4,169	3,231
EQUITY IN UNDISTRIBUTED NET INCOME OF BANK SUBSIDIARIES	3,441	2,974	2,478
Income before income taxes	4,405	3,750	3,518
INCOME TAX BENEFIT . . . .	(81)	(378)	(10)
Net income	\$ 4,486	\$ 4,128	\$ 3,528

</TABLE>

CONDENSED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	For the years ended December 31,		
	2006	2005	2004
OPERATING ACTIVITIES			
<S> Net income	\$ 4,486	\$ 4,128	\$ 3,528
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed net income of bank subsidiaries	(3,441)	(2,974)	(2,478)
(Increase) decrease in other assets	(669)	(369)	706
Increase (decrease) in other liabilities	541	(1)	124
Net cash provided by operating activities	917	784	1,880
FINANCING ACTIVITIES			
Proceeds from the exercise of stock options	537	392	144
Cash dividends	(1,258)	(1,187)	(1,051)
Cash in lieu of fractional share on stock dividends and splits	(7)	(9)	(20)
Proceeds (repayment) of advances from subsidiaries	315	(37)	192
Net cash used for financing activities	(413)	(841)	(735)
Net increase (decrease) in cash	504	(57)	1,145
CASH, BEGINNING OF YEAR	1,644	1,701	556
CASH, END OF YEAR	\$ 2,148	\$ 1,644	\$ 1,701

</TABLE>

<PAGE>

NOTE 22 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited condensed financial data by quarter for 2006 and 2005  
is as follows (amounts, except share data, in thousands)

<TABLE>

<CAPTION>

	2006	Quarter ended			
		March 31	June 30	September 30	December 31
<S>		<C>	<C>	<C>	<C>
Interest income		\$ 7,537	\$ 7,863	\$ 8,210	\$ 8,368
Interest expense		2,761	3,015	3,269	3,596
Net interest income		4,776	4,848	4,941	4,772
Provision for loan losses		237	256	225	225
Net interest income after provision for loan losses		4,539	4,592	4,716	4,547
Noninterest income		1,028	933	895	792
Noninterest expenses		3,880	3,786	3,682	4,273
Income before income taxes		1,687	1,739	1,929	1,066
Provision for income taxes		506	593	608	228
Net income		\$ 1,181	\$ 1,146	\$ 1,321	\$ 838
Basic net income per common share (1)		\$ 0.18	\$ 0.17	\$ 0.20	\$ 0.13
Diluted net income per common share (1)		\$ 0.18	\$ 0.17	\$ 0.20	\$ 0.12
Basic weighted average shares outstanding (1)		6,567,030	6,586,806	6,610,239	6,650,895
Diluted weighted average shares outstanding (1)		6,647,510	6,669,483	6,690,884	6,696,873

<CAPTION>

	2005	Quarter ended			
		March 31	June 30	September 30	December 31
<S>		<C>		<C>	<C>
Interest income		\$ 5,807	6,398	\$ 6,843	\$ 7,242
Interest expense		1,845	2,166	2,393	2,529
Net interest income		3,962	4,232	4,450	4,713
Provision for loan losses		173	183	165	327
Net interest income after provision for loan losses		3,789	4,049	4,285	4,386
Noninterest income		889	890	899	931
Noninterest expenses		3,333	3,451	3,583	3,971
Income before income taxes		1,345	1,488	1,601	1,346
Provision for income taxes		434	487	528	203
Net income		\$ 911	\$ 1,001	\$ 1,073	\$ 1,143
Basic net income per common share (1)		\$ 0.14	\$ 0.15	\$ 0.16	\$ 0.18
Diluted net income per common share (1)		\$ 0.14	\$ 0.15	\$ 0.16	\$ 0.17
Basic weighted average shares outstanding (1)		6,486,362	6,538,001	6,552,533	6,556,865
Diluted weighted average shares outstanding (1)		6,696,936	6,702,325	6,676,553	6,726,910

</TABLE>

(1) Per share data has been restated to reflect 5 percent stock dividends.

CONSOLIDATED BALANCE SHEETS  
PEOPLES BANCORPORATION, INC. AND SUBSIDIARY

		March 31, <u>2009</u>		<u>2008</u>		December 31, <u>2008</u>
		Unaudited				Audited
<i>ASSETS</i>						
CASH AND DUE FROM BANKS	\$		\$	8,980	\$	7,874
INTEREST-BEARING DEPOSITS IN OTHER BANKS				983		765
FEDERAL FUNDS SOLD				6,796		9,185
Total cash and cash equivalents				16,759		17,824
<i>SECURITIES</i>						
Trading assets				a		47
Available for sale				80,807		96,003
Held for investment (market value of \$12,110,000 \$ 12,878,000 and \$12,666,000)				12,878		12,651
Other investments, at cost				4,877		3,546
NET SECURITIES				98,562		112,247
GROSS LOANS				423,491		398,711
Less: allowance for loan losses				3,665		9,217
NET LOANS				419,826		389,494
PREMISES AND EQUIPMENT, net of accumulated depreciation and amortization				13,740		13,200
ACCRUED INTEREST RECEIVABLE				3,147		2,685
ASSETS ACQUIRED IN SETTLEMENT OF LOANS				930		5,428
CASH SURRENDER VALUE OF LIFE INSURANCE				11,456		11,815
OTHER ASSETS				998		7,182
TOTAL ASSETS	\$		\$	565,418	\$	559,875
 <i>LIABILITIES AND SHAREHOLDERS' EQUITY</i>						
<i>DEPOSITS:</i>						
Noninterest-bearing	\$	██████████	\$	47,070	\$	51,091
Interest-bearing		██████████		381,740		394,278
Total deposits				428,810		445,369
SECURITIES SOLD UNDER REPURCHASE AGREEMENT		●		18,840		22,181
FEDERAL FUNDS PURCHASED				0		1,028
ADVANCES FROM FEDERAL HOME LOAN BANK		●		63,000		34,600
NOTES PAYABLE-OTHER		██████████		0		11,000
ACCRUED INTEREST PAYABLE		██████████		3,668		2,636
OTHER LIABILITIES		██████████		488		1,549
Total Liabilities		██████████		514,806	\$	518,363
<i>SHAREHOLDERS' EQUITY</i>						
Common Stock - 15,000,000 shares authorized, \$1.11 par value per share, _____ es, 7,057,551 shares and 7,070,139 shares outstanding.		██████████		7,834		7,848
Additional paid-in capital		██████████		41,643		41,752
Retained earnings		██████████		132		(9,564)
Unrealized loss on securities available for sale		██████████		1,003		1,476
Total Shareholders' Equity		██████████		50,612		41,512
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$	██████████	\$	565,418	\$	559,875

CONSOLIDATED STATEMENTS OF INCOME  
PEOPLES BANCORPORATION, INC. AND SUBSIDIARY  
(Unaudited)

	Three Months Ended March 31,	
	2008	2008
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 0	\$ 7,504
Interest on securities		
Taxable	[REDACTED]	792
Tax-exempt	[REDACTED]	370
Interest on federal funds	[REDACTED]	20
Total interest income	[REDACTED]	<u>8,686</u>
<b>INTEREST EXPENSE</b>		
Interest on deposits	[REDACTED]	3,586
Interest on federal funds purchased and securities sold under repurchase agreements	[REDACTED]	107
Interest on advances from Federal Home Loan Bank	[REDACTED]	672
Interest on notes payable	[REDACTED]	0
Total interest expense	[REDACTED]	<u>4,365</u>
<b>Net interest income</b>		<b>4,321</b>
<b>PROVISIONS FOR LOAN LOSSES</b>		<b>235</b>
<b>Net interest income after provision for loan losses</b>		<u><b>4,086</b></u>
<b>NON-INTEREST INCOME</b>		
<b>Service fees and other income</b>		<b>460</b>
Customer service fees	[REDACTED]	48
Mortgage banking	[REDACTED]	131
Brokerage service	[REDACTED]	60
Bank owned life insurance	[REDACTED]	124
Gain on sale of available-for-sale securities	[REDACTED]	2
Gain (loss) on sale of assets acquired in settlement of loans	[REDACTED]	(9)
<b>Other noninterest income</b>	[REDACTED]	<u><b>145</b></u>
		<u>961</u>
<b>OTHER EXPENSES</b>		
Salaries and benefits	[REDACTED]	2,486
Occupancy	[REDACTED]	235
Equipment	[REDACTED]	329
Marketing and advertising	[REDACTED]	137
<b>Communications</b>	[REDACTED]	71
Printing and supplies	[REDACTED]	57
Bank paid loan costs	[REDACTED]	135
ATM and interchange expenses	[REDACTED]	51
Legal and professional	[REDACTED]	82
Director fees	[REDACTED]	111
Regulatory Assessments	[REDACTED]	84
Other post employment benefits	[REDACTED]	87
Other operating expenses	[REDACTED]	<u>362</u>
		<u>4,257</u>
<b>Income before income taxes</b>		<b>790</b>
<b>PROVISION FOR INCOME TAXES</b>		<b>177</b>
<b>Net income</b>	\$ [REDACTED]	<u>\$ 613</u>
<b>INCOME PER COMMON SHARE:</b>		
BASIC	\$ [REDACTED]	<u>\$ 0.08273</u>
DILUTED	\$ [REDACTED]	<u>\$ 0.08272</u>
<b>WEIGHTED AVERAGE COMMON SHARES:</b>		
BASIC		<u>7,409,579</u>
DILUTED		<u>7,410,586</u>
<b>DIVIDENDS PAID PER COMMON SHARE</b>	\$ [REDACTED]	<u>0.05</u>



PEOPLES BANCORPORATION, INC.  
 STOCKHOLDERS' EQUITY (UNAUDITED)  
 for the three months ended March 30, 2009 and 2003

	Common stock		Additional		Retained	Unrealized	Total
	Shares	Amount	paid-in	capital	earnings	holding gain	shareholders'
						(loss) on	equity
						securities	
						available	
						for sale	
Balance at December 31, 2007	7,056,337	\$ 7,333	\$ 41,624	\$	\$	784	\$ 50,241
Net Income					613		613
Other comprehensive income, net of tax:							
Unrealized holding gains on securities available for sale, net of income taxes \$ 16						217	217
Reclassification adjustments for gains included in net income net of income taxes \$ 0						2	2
Comprehensive income							832
Stock Dividend							0
Cash in lieu of fractional shares(stk div)							
Cash Dividends					(353)		(353)
Proceeds from stock options	1,214		5				6
Stock-based compensation			14				14
Cumulative effect of post retirement cost of life insurance					(128)		(128)
Balance as of March 31, 2008	7,057,551	7,834	41,643		132	1,003	50,612
	7,057,551	7,834	41,643		132	1,003	50,612
	0	0	0		0	0	0
Balance at December 31, 2008							
Net Income							
Other comprehensive income, net of tax:							
Unrealized holding gains on securities available for sale, net of income taxes \$ 115							
Less reclassification adjustments for gains included in net income, net of income taxes \$ 1							
Comprehensive income							
Stock Dividend							
Cash in lieu of fractional shares(stk div)							
Cash Dividends							
Proceeds from stock options							
Stock-based compensation							
Post retirement cost of insurance for split-dollar life insurance coverage							
Balance as of March 31, 2008							