

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

Dear Ladies and Gentlemen:

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

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 Except to the extent supplemented or superseded by the terms set forth herein or in the Schedules hereto, the provisions contained in the Securities Purchase Agreement – Standard Terms attached hereto as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

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

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

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

* * *

UST SEQ. No. 1339

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

UNITED STATES DEPARTMENT OF THE
TREASURY

By: _____

Name:

Title:

COMPANY: Randolph Bank & Trust Company

By: 

Name: C. Michael Whitehead, Jr.

Title: President

Date: October 30, 2009

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

UNITED STATES DEPARTMENT OF THE
TREASURY

By: Herbert M. Allison
Name: Herbert M. Allison, Jr.
Title: Assistant Secretary for
Financial Stability

COMPANY: Randolph Bank & Trust Company

By: CMW
Name: C. Michael Whitehead, Jr.
Title: President

Date: October 30, 2009

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

SECURITIES PURCHASE AGREEMENT
STANDARD TERMS

TABLE OF CONTENTS

Page

Article I

Purchase; Closing

1.1	Purchase	3
1.2	Closing	3
1.3	Interpretation.....	8

Article II

Representations and Warranties

2.1	Disclosure	9
2.2	Representations and Warranties of the Company	11

Article III

Covenants

3.1	Commercially Reasonable Efforts	29
3.2	Expenses	30
3.3	Sufficiency of Authorized Warrant Preferred Stock; Exchange Listing	30
3.4	Certain Notifications Until Closing	30
3.5	Access, Information and Confidentiality	31

Article IV

Additional Agreements

4.1	Purchase for Investment.....	34
4.2	Legends	35
4.3	Certain Transactions	39
4.4	Transfer of Purchased Securities and Warrant Shares; Restrictions on Exercise of the Warrant	39
4.5	Registration Rights.....	40
4.6	Depository Shares	68
4.7	Restriction on Dividends and Repurchases.....	68
4.8	Executive Compensation	73
4.9	Related Party Transactions	74
4.10	Bank and Thrift Holding Company Status.....	74
4.11	Predominantly Financial	75

Article V

Miscellaneous

5.1	Termination.....	75
5.2	Survival of Representations and Warranties.....	77
5.3	Amendment.....	77
5.4	Waiver of Conditions.....	77
5.5	Governing Law: Submission to Jurisdiction, Etc.	78
5.6	Notices	78
5.7	Definitions.....	79
5.8	Assignment	80
5.9	Severability	81
5.10	No Third Party Beneficiaries	81

LIST OF ANNEXES

- ANNEX A: FORM OF CERTIFICATE OF DESIGNATIONS FOR PREFERRED STOCK
- ANNEX B: FORM OF CERTIFICATE OF DESIGNATIONS FOR WARRANT
PREFERRED STOCK
- ANNEX C: FORM OF WAIVER
- ANNEX D: FORM OF OPINION
- ANNEX E: FORM OF WARRANT

INDEX OF DEFINED TERMS

Term	Location of Definition
Affiliate	5.7(b)
Agreement	Recitals
Appropriate Federal Banking Agency	2.2(s)
Bank Holding Company	4.10
Bankruptcy Exceptions	2.2(d)
Benefit Plans	1.2(d)(iv)
Board of Directors	2.2(f)
Business Combination	5.8
business day	1.3
Capitalization Date	2.2(b)
Certificates of Designations	1.2(d)(iii)
Charter	1.2(d)(iii)
Closing	1.2(a)
Closing Date	1.2(a)
Code	2.2(n)
Common Stock	2.2(b)
Company	Recitals
Company Financial Statements	2.2(h)
Company Material Adverse Effect	2.1(b)
Company Reports	2.2(i)(i)
Company Subsidiary; Company Subsidiaries	2.2(e)(ii)
control; controlled by; under common control with	5.7(b)
Controlled Group	2.2(n)
CPP	Recitals
Disclosure Schedule	2.1(a)
EESA	1.2(d)(iv)
ERISA	2.2(n)
Exchange Act	4.4
Federal Reserve	4.10
GAAP	2.1(b)
Governmental Entities	1.2(c)
Holder	4.5(l)(i)
Holder's Counsel	4.5(l)(ii)
Indemnitee	4.5(h)(i)
Information	3.5(c)
Investor	Recitals
Junior Stock	4.7(f)
knowledge of the Company; Company's knowledge	5.7(c)
Letter Agreement	Recitals
officers	5.7(c)
Parity Stock	4.7(f)

Term	Location of Definition
Pending Underwritten Offering	4.5(m)
Permitted Repurchases	4.7(c)
Piggyback Registration Plan	4.5(b)(iv)
Preferred Shares	2.2(n)
Preferred Stock	Recitals
Previously Disclosed	Recitals
Proprietary Rights	2.1(c)
Purchase	2.2(u)
Purchase Price	Recitals
Purchased Securities	1.1
register; registered; registration	Recitals
Registrable Securities	4.5(l)(iii)
Registration Expenses	4.5(l)(iv)
Regulatory Agreement	4.5(l)(v)
Rule 144; Rule 144A; Rule 159A; Rule 405; Rule 415	2.2(s)
Savings and Loan Holding Company	4.5(l)(vi)
Schedules	4.10
SEC	Recitals
Securities Act	2.2(k)
Selling Expenses	2.2(a)
Senior Executive Officers	4.5(l)(vii)
Shelf Registration Statement	4.8
Signing Date	4.5(b)(ii)
Special Registration	2.1(b)
subsidiary	4.5(j)
Tax; Taxes	5.7(a)
Transfer	2.2(o)
Warrant	4.4
Warrant Preferred Stock	Recitals
Warrant Shares	Recitals
	2.2(d)

SECURITIES PURCHASE AGREEMENT – STANDARD TERMS

Recitals:

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

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

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

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

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

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

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

Article I Purchase; Closing

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

1.2 Closing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Article II Representations and Warranties

2.1 Disclosure.

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

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

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

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

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

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

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

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

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

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

(e) Authorization, Enforceability.

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

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

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

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

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

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

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

(i) Reports.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Article III Covenants

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

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

3.3 Sufficiency of Authorized Warrant Preferred Stock; Exchange Listing.

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

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

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

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

3.5 Access, Information and Confidentiality.

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

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

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

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

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

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

Article IV Additional Agreements

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

4.2 Legends.

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

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

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

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

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

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

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

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

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

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

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

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

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

4.5 Registration Rights.

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

(b) Registration.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(vi) Give written notice to the Holders:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(g) Furnishing Information.

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

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

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

(h) Indemnification.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.7 Restriction on Dividends and Repurchases.

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

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

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

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

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

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

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

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

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

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

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

Article V **Miscellaneous**

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

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

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

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

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

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

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

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

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

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

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

If to the Investor:

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

5.7 Definitions

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

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

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

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

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

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

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

* * *

ANNEX A

FORM OF CERTIFICATE OF DESIGNATIONS FOR PREFERRED STOCK

[SEE ATTACHED]

FORM OF [CERTIFICATE OF DESIGNATIONS]

OF

FIXED RATE NON-CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]

OF

[●]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Remainder of Page Intentionally Left Blank]

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

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

[Insert name of Issuer]

By: _____
Name:
Title:

STANDARD PROVISIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(t) “Savings and Loan Holding Company” means a company registered as such with the Office of Thrift Supervision pursuant to 12 U.S.C. §1467(a) and the regulations of the Office of Thrift Supervision promulgated thereunder.

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

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

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

Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, non-cumulative cash dividends with respect to each Dividend Period (as defined below) at a rate per annum equal to the Applicable Dividend Rate on the Liquidation Amount per share of Designated Preferred Stock, and no more, payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

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

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

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

(b) Non-Cumulative. Dividends on shares of Designated Preferred Stock shall be non-cumulative. If the Board of Directors or any duly authorized committee of the Board of Directors does not declare a dividend on the Designated Preferred Stock in respect of any Dividend Period, the holders of Designated Preferred Stock shall have no right to receive any dividend for such Dividend Period, and the Issuer shall have no obligation to pay a dividend for such Dividend Period, whether or not dividends are declared for any subsequent Dividend Period with respect to the Designated Preferred Stock.

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

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

duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Issuer will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date.

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

Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any declared and unpaid dividends on each such share (such amounts collectively, the “Liquidation Preference”).

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

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

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

Section 5. Redemption.

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

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

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

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

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

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

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

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

may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

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

Section 7. Voting Rights.

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

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the “Preferred Directors” and each a “Preferred Director”) to fill such newly created directorships at the Issuer’s next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until full dividends have been paid on the Designated Preferred Stock for at least four consecutive Dividend Periods, at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

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

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

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

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Subject to Section 7(c)(iv) below, any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole; or

(iv) Holding Company Transactions. Any consummation of a Holding Company Transaction, unless as a result of the Holding Company Transaction each share of Designated Preferred Stock shall be converted into or exchanged for one share with an equal liquidation preference of preference securities of the Issuer or the Acquiror (the "Holding Company Preferred Stock"). Any such Holding Company Preferred Stock shall entitle holders thereof to cumulative dividends from the date of issuance of such Holding Company Preferred Stock at a rate per annum equal to the Applicable Dividend Rate on the amount of liquidation preference of such stock, and shall have such other rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such conversion or exchange, taken as a whole;

provided, however, that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or

issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

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

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

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

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

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

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the

Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

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

ANNEX B

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

[SEE ATTACHED]

FORM OF [CERTIFICATE OF DESIGNATIONS]

OF

FIXED RATE NON-CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]

OF

[●]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Remainder of Page Intentionally Left Blank]

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

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

[Insert name of Issuer]

By: _____
Name:
Title:

STANDARD PROVISIONS

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

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

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

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

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

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

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

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

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

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

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

- (j) “Dividend Record Date” has the meaning set forth in Section 3(a).
- (k) “Holding Company Preferred Stock” has the meaning set forth in Section 7(c)(iv).
- (l) “Holding Company Transaction” means the occurrence of (a) any transaction (including, without limitation, any acquisition, merger or consolidation) the result of which is that a “person” or “group” within the meaning of Section 13(d) of the Securities Exchange Act of 1934, as amended, (i) becomes the direct or indirect ultimate “beneficial owner,” as defined in Rule 13d-3 under that Act, of common equity of the Issuer representing more than 50% of the voting power of the outstanding Common Stock or (ii) is otherwise required to consolidate the Issuer for purposes of generally accepted accounting principles in the United States, or (b) any consolidation or merger of the Issuer or similar transaction or any sale, lease or other transfer in one transaction or a series of related transactions of all or substantially all of the consolidated assets of the Issuer and its subsidiaries, taken as a whole, to any Person other than one of the Issuer’s subsidiaries; *provided* that, in the case of either clause (a) or (b), the Issuer or the Acquiror is or becomes a Bank Holding Company or Savings and Loan Holding Company.
- (m) “Liquidation Preference” has the meaning set forth in Section 4(a).
- (n) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.
- (o) “Person” means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint-stock company, limited liability company or trust.
- (p) “Preferred Director” has the meaning set forth in Section 7(b).
- (q) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.
- (r) “Qualified Equity Offering” means the sale and issuance for cash by the Issuer to persons other than the Issuer or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Issuer at the time of issuance under the applicable risk-based capital guidelines of the Issuer’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).
- (s) “Savings and Loan Holding Company” means a company registered as such with the Office of Thrift Supervision pursuant to 12 U.S.C. §1467(a) and the regulations of the Office of Thrift Supervision promulgated thereunder.
- (t) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.
- (u) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

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

Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, non-cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 9.0% on the Liquidation Amount per share of Designated Preferred Stock, and no more, payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

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

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

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

(b) Non-Cumulative. Dividends on shares of Designated Preferred Stock shall be non-cumulative. If the Board of Directors or any duly authorized committee of the Board of Directors does not declare a dividend on the Designated Preferred Stock in respect of any Dividend Period, the holders of Designated Preferred Stock shall have no right to receive any dividend for such Dividend Period, and the Issuer shall have no obligation to pay a dividend for

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

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

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

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

Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any declared and unpaid dividends on each such share (such amounts collectively, the "Liquidation Preference").

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

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

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

Section 5. Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the later of (i) first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date; and (ii) the date on which all outstanding shares of

UST Preferred Stock have been redeemed, repurchased or otherwise acquired by the Issuer. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, the amount equal to any declared and unpaid dividends plus any dividends accrued but unpaid for the then current Dividend Period at the rate set forth in Section 3(a) to, but excluding, the date fixed for redemption (regardless of whether any dividends are actually declared for that Dividend Period).

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

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

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

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

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

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

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

may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

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

Section 7. Voting Rights.

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

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until full dividends have been paid on the Designated Preferred Stock for at least four consecutive Dividend Periods, at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to 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;

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Subject to Section 7(c)(iv) below, any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole; or

(iv) Holding Company Transactions. Any consummation of a Holding Company Transaction, unless as a result of the Holding Company Transaction each share of Designated Preferred Stock shall be converted into or exchanged for one share with an equal liquidation preference of preference securities of the Issuer or the Acquiror (the "Holding Company Preferred Stock"). Any such Holding Company Preferred Stock shall entitle holders thereof to cumulative dividends from the date of issuance of such Holding Company Preferred Stock at a per annum rate of 9.0% on the amount of liquidation preference of such stock, and shall have such other rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such conversion or exchange, taken as a whole;

provided, however, that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series

of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

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

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

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

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

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

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the

Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

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

FORM OF WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or 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 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:¹ _____

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

Holder: _____
By: _____
Name: _____
Title: _____

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

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

Dated: _____

COMPANY: _____

By: _____

Name:

Title:

Attest:

By: _____

Name:

Title:

[Signature Page to Warrant]

SCHEDULE A

ADDITIONAL TERMS AND CONDITIONS

Company Information:

Name of the Company: Randolph Bank & Trust Company
Corporate or other organizational form: Corporation
Jurisdiction of Organization: North Carolina
Appropriate Federal Banking Agency: FDIC
Notice Information: Mr. C. Michael Whitehead, Jr.
President, Randolph Bank & Trust Company
175 N. Fayetteville St.
Asheboro, NC 27203-5515

Terms of the Purchase:

Series of Preferred Stock Purchased: Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B
Per Share Liquidation Preference of Preferred Stock: \$1,000
Number of Shares of Preferred Stock Purchased: 6,229
Dividend Payment Dates on Preferred Stock: Feb. 15, May 15, Aug. 15, Nov. 15 of each year
Series of Warrant Preferred Stock: Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C
Number of Warrant Shares: 312.56281
Number of Net Warrant Shares (after net settlement): 311
Exercise Price of the Warrant: \$5.00 per share
Purchase Price: \$6,229,000

Closing:

Location of Closing: Squire, Sanders & Dempsey L.L.P.
2000 Huntington Center
41 South High Street
Columbus, Ohio 43215
Time of Closing: 9 am EST
Date of Closing: October 30, 2009

Wire Information for Closing:

ABA Number: [REDACTED]
Bank: Compass Bank
Account Name: Randolph Bank & Trust Company
Account Number: [REDACTED]
Beneficiary: Randolph Bank & Trust Company

Contact for Confirmation of Wire Information:

Mr. Michael A. Rice
Staff Accountant and Banking Officer
175 N. Fayetteville St.
Asheboro, NC 27203-5515
Office: (336) 625-1000
[REDACTED]
Fax: (336) 625-3850
[REDACTED]

SCHEDULE B

CAPITALIZATION

Capitalization Date: September 30, 2009

Common Stock

Par Value:	\$5.00 per share
Total Authorized:	2,500,000 shares
Outstanding:	1,044,748
Subject to warrants, options, convertible securities, etc.:	14,378
Reserved for benefit plans and other issuances:	- 0 -
Remaining authorized but unissued:	1,440,874
Shares issued after Capitalization Date (other than pursuant to warrants, options, convertible securities, etc. as set forth above):	- 0 -

Preferred Stock

Par Value:	\$5.00 per share par value
Total Authorized:	1,000,000 shares
Outstanding (by series):	2,300 Series A Preferred
Reserved for issuance:	7,700 Series A Preferred
Remaining authorized but unissued:	997,700 shares

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

Primary Address

Wallace W. Garner (Director) Common Stock – 5.00% of outstanding Series A Preferred – 15.2% of outstanding	6300 Old NC Hwy 49 Denton, NC 27239
Bank of Stanley Series A Preferred – 10.9% of outstanding	132 N. First Street Albemarle, NC 28002
Crescent State Bank Series A Preferred – 13.0% of outstanding	PO Box 5809 Cary, NC 27512-5809
Four Oaks Fincorp, Inc. Series A Preferred – 15.2% of outstanding	6114 US 301 South Four Oaks, NC 27524

SCHEDULE B

Christy B. McKenzie (Director)
Series A Preferred – 15.2% of outstanding

Rocky Mountain Bank and Trust
Series A Preferred – 15.2% of outstanding

The Bank of Currituck
Series A Preferred – 10.9% of outstanding

1087 Bunting Road
Asheboro, NC 27205

755 Cheyenne Meadows
Colorado Springs, CO 80906

PO Box 6
Moyock, NC 27958

SCHEDULE C

LITIGATION

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

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

SCHEDULE D

COMPLIANCE WITH LAWS

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

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

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

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

SCHEDULE E

REGULATORY AGREEMENTS

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

In September, 2008, at the request of the Federal Deposit Insurance Corporation (the “FDIC”), the Bank’s Board of Directors adopted a Board Resolution that outlined an action plan to address specific concerns cited by the FDIC upon completion of their normal examination. The Bank provides monthly updates to the FDIC.

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

SCHEDULE F

DISCLOSURE SCHEDULES

List any information required pursuant to Section 2.2(h) of the Securities Purchase Agreement – Standard Terms.

[SEE ATTACHED]

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from _____ to _____.

FDIC CERTIFICATE NUMBER 22746

RANDOLPH BANK & TRUST COMPANY

(Exact name of registrant as specified in its charter)

NORTH CAROLINA

(State or Other Jurisdiction of incorporation or organization)

56-1194124

(I.R.S. Employer Identification No.)

175 North Fayetteville Street, Asheboro, North Carolina

(Address of principal executive offices)

27203

(Zip Code)

Registrant's Telephone number, including area code: (336) 625-1000

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE \$5.00 PER SHARE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$22,033,735.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: 1,044,748 shares of common stock outstanding as of March 31, 2009.

Documents Incorporated by Reference.

Portions of the registrant's definitive proxy statement as filed with the Federal Deposit Insurance Corporation in connection with its 2009 annual meeting are incorporated into Part III of this report.

FORM 10-K Table of Contents

Index		Page
PART I		
Item 1 -	Description of Business	4
Item 2 -	Description of Property	8
Item 3 -	Legal Proceedings	9
Item 4 -	Submission of Matters to a Vote of Security Holders	9
PART II		
Item 5 -	Market for Common Equity and Related Stockholder Matters	9
Item 7 -	Management's Discussion & Analysis	9
Item 8 -	Financial Statements	27
Item 9 -	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	60
Item 9A(T) -	Controls and Procedures	60
Item 9B -	Other Information	61
PART III		
Item 10 -	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	62
Item 11 -	Executive Compensation	62
Item 12 -	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	62
Item 13 -	Certain Relationships and Related Transactions	63
Item 14 -	Principal Accountant Fees and Services	63
PART IV		
Item 15 -	Exhibits and Financial Statement Schedules	63

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

General

Registrant is a North Carolina chartered bank that was organized in 1978. Its deposits are insured by the Deposit Insurance Fund of the FDIC to the maximum amount permitted by law. Registrant is focused on community-oriented banking through localized lending, core deposit funding, conservative balance sheet management, and stable growth.

Registrant's operations are primarily retail-oriented and directed toward individuals and small and medium-sized businesses located in its banking market. While its deposits and loans are derived primarily from customers in its banking market, it makes loans and has deposit relationships with individual and business customers in areas surrounding its immediate banking market. Registrant provides most traditional commercial and consumer banking services, but its primary source of revenue is interest income it derives from its lending activities.

Registrant's principal executive office and main branch is located at 175 North Fayetteville Street, Asheboro, North Carolina 27203 and it operates four additional full-service banking offices in Randolph County, North Carolina and two offices in Alamance County, North Carolina.

Banking Market

Registrant's current banking market consists of the city of Asheboro and surrounding areas of Randolph County, North Carolina and the city of Burlington and surrounding areas of Alamance County, North Carolina. The Bank also has a lending presence in the Greenville, North Carolina area. Asheboro lies near the "Triad" section of North Carolina approximately 30 miles south of Greensboro, North Carolina. Burlington is located on Interstate 40/85 approximately 20 miles east of Greensboro, North Carolina. Greenville is 90 miles east of Raleigh in the Coastal Plain region.

Competition

Registrant competes for deposits in its banking market with other commercial banks, savings banks and other thrift institutions, credit unions, agencies issuing United States government securities and all other organizations and institutions engaged in money market transactions. In its lending activities, Registrant competes with all other financial institutions as well as consumer finance companies, mortgage companies and other lenders. Commercial banking in Randolph and Alamance Counties and in North Carolina as a whole is extremely competitive. Twenty-three commercial banks, thrift institutions and credit unions, including branches of two of the largest commercial banks in the United States, are represented in its banking market.

Interest rates, both on loans and deposits, and prices of fee-based services are significant competitive factors among financial institutions generally. Other important competitive factors include office location, office hours, the quality of customer service, community reputation, continuity of personnel and services, and, in the case of larger commercial customers, relative lending limits and the ability to offer sophisticated cash management and other commercial banking services. Many of Registrant's competitors have greater resources, broader geographic markets and higher lending limits than Registrant, and they can offer more products and services and can better afford and make more effective use of media advertising, support services and electronic technology than can Registrant. To counter these competitive disadvantages, Registrant depends on its reputation as a community bank in its local market, its direct customer contact, its ability to make credit and other business decisions locally, and its personalized service.

In recent years, federal and state legislation has heightened the competitive environment in which all financial institutions conduct their business, and the potential for competition among financial institutions of all types has increased significantly. Additionally, with the elimination of restrictions on interstate banking, a North Carolina commercial bank may be required to compete not only with other North Carolina-based financial institutions, but also with out-of-state financial institutions which may acquire North Carolina institutions, establish or acquire branch offices in North Carolina, or otherwise offer financial services across state lines, thereby adding to the competitive atmosphere of the industry in general. In terms of assets, Registrant is one of the smaller commercial banks in North Carolina.

To counter its competitive disadvantages, Registrant attempts to differentiate itself from its larger competitors with its focus on relationship banking, personalized service, direct customer contact, and its ability to make credit and other business decisions locally. Registrant also depends on its reputation as a community bank in its banking markets and its involvement in the community it serves.

Subsidiaries

Registrant has one wholly-owned subsidiary, Randolph Investment Services Company, which provides brokerage services.

Employees

The Registrant currently employs 82 full-time and 19 part-time employees. None of the Registrant's employees are covered by a collective bargaining agreement. The Registrant believes its relations with its employees to be good.

Regulation

The Registrant is extensively regulated under both federal and state law. Generally, these laws and regulations are intended to protect depositors and borrowers, not shareholders. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable law or regulation may have a material effect on the business of the Registrant.

State Law. The Registrant is subject to extensive supervision and regulation by the North Carolina Commissioner of Banks (the "Commissioner"). The Commissioner oversees state laws that set specific requirements for bank capital and regulate deposits in, and loans and investments by, banks, including the amounts, types, and in some cases, rates. The Commissioner supervises and performs periodic examinations of North Carolina-chartered banks to assure compliance with state banking statutes and regulations, and the Registrant is required to make regular reports to the Commissioner describing in detail the resources, assets, liabilities and financial condition of the Registrant. Among other things, the Commissioner regulates mergers and consolidations of state-chartered banks, the payment of dividends, loans to officers and directors, record keeping, types and amounts of loans and investments, and the establishment of branches.

Deposit Insurance. In prior years, the Bank's deposits were generally insured up to \$100,000 per insured non-IRA non-transaction account and up to \$250,000 per IRA account by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. The emergency Economic Stabilization Act signed October 3, 2008 temporarily raised the basic limit of FDIC deposit insurance from \$100,000 to \$250,000 with an expected return to the \$100,000 limit on December 31, 2009. The Bank is required to pay deposit insurance assessments set by the FDIC. The FDIC determines the Bank's deposit insurance assessment on the basis of four risk categories. An institution's assessment rate depends upon the category to which it is assigned based upon supervisory evaluations, regulatory capital levels and certain other factors. Risk Category I contains the least risky depository institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). In December, 2008, the FDIC amended its assessment rate structure to allow for an increase uniformly of 7 basis points in rates effective with the quarter ending March 31, 2009 and payable at June 30, 2009. In February, 2009, the FDIC adopted another rule modifying the risk-based assessment system that set the initial base assessment rates beginning April 1, 2009 at 12 to 45 basis points. In addition, they imposed a one-time emergency 20% special assessment on June 30, 2009 to be collected on September 30, 2009 and authorized the Board to collect additional special assessments of up to 10 basis points thereafter to maintain public confidence in the Deposit Insurance Fund. This special assessment, if implemented as proposed, will have a significant impact on the results of operations of the Bank for the quarter ending June 30, 2009 and the full year 2009.

On October 14, of 2008, the FDIC announced the creation of the Temporary Liquidity Guarantee Program (TLGP), which seeks to strengthen confidence and encourage liquidity in the banking system. The TLGP has two primary components that are available to financial institutions on a voluntary basis. The first component, the Debt Guarantee Program, is a guarantee of newly issued senior unsecured debt issued on or before June 30, 2009 and would provide protection until the earlier of the maturity date or June 30, 2012. Issuers electing to participate in this program would pay an annual cost of guarantee tiered from 50 basis points for terms of 180 days or less to 100 basis points for terms over one year. The second component, the Transaction Account Guarantee Program, provides unlimited deposit insurance above the existing deposit insurance limit for certain non-interest bearing transaction accounts through December 31, 2009. Beginning November 13, 2008, if an insured depository institution did not opt-out of the Transaction Account Guarantee Program, it would be assessed on a quarterly basis an annualized 10 basis point assessment on balances in noninterest-bearing transaction accounts that exceed the \$250,000 deposit insurance limit. The Company elected to participate in the TLGP's enhanced deposit insurance program and the guarantee of unsecured debt. The enhancement to the deposit insurance protection and the demands on the insurance fund due to current weakness in the banking system will result in significantly increased deposit insurance cost for all banks during 2009.

Capital Requirements. The federal banking regulators have adopted certain risk-based capital guidelines to assist in the assessment of the capital adequacy of a banking organization's operations for both transactions reported on the balance sheet as assets and transactions, such as letters of credit, and recourse arrangements, which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance sheet items are multiplied by one of several risk adjustment percentages which range from 0% for assets with low credit risk, such as certain U.S. Treasury securities, to 100% for assets with relatively high credit risk, such as business loans. Certain securities deemed to be particularly risky are subject to risk weighting rates as high as 200% and 300%.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk adjusted assets. The regulators measure risk-adjusted assets, which include off balance sheet items, against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. "Tier 1," or core capital, includes common equity, qualifying noncumulative perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangibles, subject to certain exceptions. "Tier 2," or supplementary capital, includes among other things, limited-life preferred stock, hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt, and the allowance for loan and lease losses, subject to certain limitations and less required deductions. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies. Banks and bank holding companies subject to the risk-based capital guidelines are required to maintain a ratio of Tier 1 capital to risk-weighted assets of at least 4% and a ratio of total capital to risk-weighted assets of at least 8%. The appropriate regulatory authority may set higher capital requirements when particular circumstances warrant. As of December 31, 2008, the Registrant was classified as "well-capitalized" with Tier 1 and Total Risk - Based Capital of 10.17% and 11.59% respectively.

The federal banking agencies have adopted regulations specifying that they will include, in their evaluations of a bank's capital adequacy, an assessment of a bank's interest rate risk ("IRR") exposure. The standards for measuring the adequacy and effectiveness of a banking organization's IRR management include a measurement of board of director and senior management oversight, and a determination of whether a banking organization's procedures for comprehensive risk management are appropriate for the circumstances of the specific banking organization.

Failure to meet applicable capital guidelines could subject a banking organization to a variety of enforcement actions, including limitations on its ability to pay dividends, the issuance by the applicable regulatory authority of a capital directive to increase capital and, in the case of depository institutions, the termination of deposit insurance by the FDIC, as well as the measures described under the "Federal Deposit Insurance Corporation Improvement Act of 1991" below, as applicable to undercapitalized institutions. In addition, future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect the ability of the Registrant to grow and could restrict the amount of profits, if any, available for the payment of dividends to the shareholders.

Federal Deposit Insurance Corporation Improvement Act of 1991. In December 1991, Congress enacted the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which substantially revised the bank regulatory and funding provisions of the FDIA and made significant revisions to several other federal banking statutes. FDICIA provides for, among other things:

- * publicly available annual financial condition and management reports for certain financial institutions, including audits by independent accountants,
- * the establishment of uniform accounting standards by federal banking agencies,
- * the establishment of a "prompt corrective action" system of regulatory supervision and intervention, based on capitalization levels, with greater scrutiny and restrictions placed on depository institutions with lower levels of capital,
- * additional grounds for the appointment of a conservator or receiver, and
- * restrictions or prohibitions on accepting brokered deposits, except for institutions which significantly exceed minimum capital requirements.

FDICIA also provides for increased funding of the FDIC insurance funds and the implementation of risk-based premiums.

A central feature of FDICIA is the requirement that the federal banking agencies take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. Pursuant to FDICIA, the federal bank regulatory authorities have adopted regulations setting forth a five-tiered system for measuring the capital adequacy of the depository institutions that they supervise. Under these regulations, a depository institution is classified in one of the following capital categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." An institution may be deemed by the regulators to be in a capitalization category that is lower than is indicated by its actual capital position if, among other things, it receives an unsatisfactory examination rating with respect to asset quality, management, earnings or liquidity.

FDICIA provides the federal banking agencies with significantly expanded powers to take enforcement action against institutions which fail to comply with capital or other standards. Such action may include the termination of deposit insurance by the FDIC or the appointment of a receiver or conservator for the institution. FDICIA also limits the circumstances under which the FDIC is permitted to provide financial assistance to an insured institution before appointment of a conservator or receiver.

International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001. On October 26, 2001, the USA Patriot Act of 2001 was enacted. This act contains the International Money Laundering Abatement and Financial Anti-

Terrorism Act of 2001, which sets forth anti-money laundering measures affecting insured depository institutions, broker-dealers and other financial institutions. The Act requires U.S. financial institutions to adopt new policies and procedures to combat money laundering and grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on the operations of financial institutions. The act has not had a material impact on our operations.

Our management cannot predict what other legislation might be enacted or what other regulations might be adopted or the effects thereof.

Miscellaneous. The dividends that may be paid by the Registrant are subject to legal limitations. In accordance with North Carolina banking law, dividends may not be paid unless the Registrant's capital surplus is at least 50% of its paid-in capital.

Shareholders of banks may be compelled by the Commissioner pursuant to North Carolina law to invest additional capital in the event their bank's capital shall have become impaired by losses or otherwise. Failure to pay such an assessment could result in a forced sale of a shareholder's bank stock.

The earnings of the Registrant will be affected significantly by the policies of the Federal Reserve Board, which is responsible for regulating the United States money supply in order to mitigate recessionary and inflationary pressures. Among the techniques used to implement these objectives are open market transactions in United States government securities, changes in the rate paid by banks on bank borrowings, and changes in reserve requirements against bank deposits. These techniques are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may also affect interest rates charged on loans or paid for deposits.

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. In view of changing conditions in the national economy and money markets, as well as the effect of actions by monetary and fiscal authorities, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Registrant.

The Registrant cannot predict what legislation might be enacted or what regulations might be adopted, or if enacted or adopted, the effect thereof on the Registrant's operations.

Community Reinvestment Act. The Registrant is subject to the provisions of the Community Reinvestment Act of 1977, as amended (CRA). Under the terms of the CRA, the appropriate federal bank regulatory agency is required, in connection with the examination of a bank, to assess such bank's record in meeting the credit needs of the community served by that bank, including low-and moderate-income neighborhoods. The regulatory agency's assessment of the Registrant's record is made available to the public. Such an assessment is required of any bank which has applied for any application for a domestic deposit-taking branch, relocation of a main office, branch or ATM, merger or consolidation with or acquisition of assets or assumption of liabilities of a federally insured depository institution.

Under CRA regulations, banks with assets of less than \$250,000,000 that are independent or affiliated with a holding company with total banking assets of less than \$1 billion, are subject to streamlined small bank performance standards and much less stringent data collection and reporting requirements than larger banks. The agencies emphasize that small banks are not exempt from CRA requirements. The streamlined performance method for small banks focuses on the bank's loan-to-deposit ratio, adjusted for seasonal variations and as appropriate, other lending-related activities, such as loan originations for sale to secondary markets or community development lending or qualified investments; the percentage of loans and, as appropriate, other lending-related activities located in the Registrant's assessment areas; the Registrant's record of lending to and, as appropriate, other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of the Registrant's loans given its assessment areas, capacity to lend, local economic conditions, and lending opportunities; and the Registrant's record of taking action, if warranted, in response to written complaints about its performance in meeting the credit needs of its assessment areas.

Regulatory agencies will assign a composite rating of "outstanding," "satisfactory," "needs to improve," or "substantial noncompliance" to the institution using the foregoing ground rules. A bank's performance need not fit each aspect of a particular rating profile in order for the bank to receive that rating; exceptionally strong performance with respect to some aspects may compensate for weak performance in others, and the bank's overall performance must be consistent with safe and sound banking practices and generally with the appropriate rating profile. To earn an outstanding rating, the bank first must exceed some or all of the standards mentioned above. The agencies may assign a "needs to improve" or "substantial noncompliance" rating depending on the degree to which the bank has failed to meet the standards mentioned above.

The regulation further states that the agencies will take into consideration these CRA ratings when considering any application and that a bank's record of performance may be the basis for denying or conditioning the approval of an application.

ITEM 2 - DESCRIPTION OF PROPERTY

The following table sets forth the location of the Registrant's banking offices, as well as certain information relating to these offices to date.

<u>Office Location</u>	<u>Year Opened</u>	<u>Approximate Square Footage</u>	<u>Owned or Leased</u>
Main Office 175 North Fayetteville Street Asheboro, NC 27203	1978	7,735	Owned
Dixie Drive Office 854 East Dixie Drive Asheboro, NC 27203	1985	4,228	Owned Building on Leased Property
West Pointe Office 415 NC Highway 49 South Asheboro, NC 27205	2000	3,226	Owned
North Office 1532 North Fayetteville Street Asheboro, NC 27205	1981	2,450	Owned
Randleman Office 109 West Naomi Street Randleman, NC 27317	1988	2,218	Owned
Data Processing Center 146 E. Ward Street Asheboro, NC 27203	1999	9,500	Owned
Mebane Office 1008 Mebane Oaks Road Mebane, NC 27302	2005	2,400	Leased
Mortgage Office 119 E. Kivett Street Asheboro, NC 27203	2005	1,200	Leased
Burlington Office 3239 S. Church Street Burlington, NC 27215	2007	9,000	Owned
Unimproved Lot W. Swannanoa Ave. & N. Foster St. Liberty, NC 27298	N/A	N/A	Owned
Loan Operations Center 240 N. Fayetteville St. Asheboro, NC 27203	2000	4,873	Owned
Business Banking Office 533 S. Fayetteville St. Asheboro, NC 27203	1997	4,530	Leased
Mebane ATM 1048 Mebane Oaks Rd. Mebane, NC 27302	2006	N/A	Owned ATM on Leased Property

ITEM 3 - LEGAL PROCEEDINGS

From time to time as part of our business, we are subject to routine litigation. To the best of our knowledge, there is no pending material litigation to which we are subject.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

PART II

ITEM 5 - MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Bank's common stock is not traded on an established public trading market, and there is no market maker for the stock. Trades of the Bank's common stock occur through private negotiations between buyers and sellers. Accordingly, management of the Bank does not have information with respect to the price at which the common stock has traded in all of such private transactions.

Known stock trading prices, adjusted for stock dividends.

	<u>High</u>	<u>Low</u>
2008		
First quarter	\$ 28.00	\$ 25.00
Second quarter	28.00	21.09
Third quarter	24.50	19.00
Fourth quarter	20.00	19.00
2007		
First quarter	\$ 32.00	\$ 32.00
Second quarter	33.00	29.00
Third quarter	30.00	28.00
Fourth quarter	28.00	26.00

As of March 31, 2009, there were 1,348 record holders of the Bank's Common Stock. During 2008 the Bank did not pay an annual cash dividend and in 2007 they paid \$.15 per share. As a state-chartered bank subject to North Carolina banking law, the Registrant may not pay cash dividends unless the Registrant's capital surplus is at least 50% of its paid-in capital.

See Item 11 of this report for disclosure regarding securities authorized for issuance under equity compensation plans.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis is intended to assist readers in the understanding and evaluation of the financial condition and results of operations of Randolph Bank & Trust Company (the "Bank"). It should be read in conjunction with the audited financial statements and accompanying notes included in this annual report and the supplemental financial data appearing throughout this discussion and analysis. The Bank declared 5% stock dividends in 2006 and 2007, but not in 2008. All per share and weighted average share information presented in this discussion and analysis has been adjusted for the effects of these stock dividends.

OVERVIEW

The Bank is a North Carolina chartered banking corporation organized in 1978. The Bank is focused on community-oriented banking through localized lending, core deposit funding, conservative balance sheet management, and stable growth.

The Bank offers a full array of commercial and retail banking services through seven offices in the city of Asheboro and surrounding areas of Randolph County, North Carolina and the city of Burlington and surrounding areas of Alamance County, North Carolina. The Bank also has a lending presence in the city of Greenville, NC. The Bank's customer base is primarily retail oriented and directed toward individuals and small- and medium-sized businesses.

The Bank has one wholly-owned subsidiary, Randolph Investment Services Company, which provides brokerage services.

RANDOLPH BANK & TRUST COMPANY
SELECTED FINANCIAL INFORMATION AND OTHER DATA

	At or for the Year Ended December 31,		
	2008	2007	2006
	(Dollars in thousands, except per share data)		
Summary of Operations:			
Interest income	\$ 16,120	\$ 17,400	\$ 16,686
Interest expense	<u>7,570</u>	<u>9,168</u>	<u>7,956</u>
Net interest income	8,550	8,232	8,730
Provision for loan losses.....	<u>1,318</u>	<u>455</u>	<u>585</u>
Net interest income after provision for loan losses.....	7,232	7,777	8,145
Other income	2,800	2,386	2,850
Other expenses.....	<u>10,489</u>	<u>9,495</u>	<u>10,271</u>
Income (loss) before income taxes.....	(457)	668	724
Income taxes	<u>(257)</u>	<u>120</u>	<u>32</u>
Net income (loss).....	(200)	548	692
Dividends on preferred stock	<u>219</u>	<u>218</u>	<u>175</u>
Net income (loss) available to common shareholders	<u>\$ (419)</u>	<u>\$ 330</u>	<u>\$ 517</u>
Per Share Data: ⁽¹⁾			
Net income (loss)			
Basic	\$ (0.40)	\$ 0.32	\$ 0.50
Diluted	(0.40)	0.32	0.50
Cash dividend	-	0.15	0.25
Book value ⁽²⁾	17.85	19.59	19.10
Weighted average shares outstanding			
Basic	1,041,858	1,036,145	1,034,004
Diluted	1,041,858	1,044,093	1,043,915
Selected Year-End Balance Sheet Data:			
Total assets.....	\$ 270,157	\$ 286,256	\$ 278,313
Loans.....	208,002	205,265	190,494
Allowance for loan losses.....	2,734	2,954	2,630
Deposits	220,432	243,682	229,777
Borrowings	26,691	17,636	23,702
Shareholders' equity.....	20,947	22,598	22,084
Selected Average Balances:			
Total assets.....	\$ 279,358	\$ 281,305	\$ 274,869
Loans.....	207,159	194,079	185,495
Total interest-earning assets	258,021	261,308	254,486
Deposits	229,861	235,393	225,422
Total interest-bearing liabilities.....	231,330	231,240	224,882
Shareholders' equity.....	22,282	22,371	22,540
Selected Performance Ratios:			
Return on average assets	(0.07%)	0.20%	0.25%
Return on average equity.....	(0.90%)	2.45%	3.07%
Net interest spread	3.04%	2.84%	3.16%
Net interest margin	3.38%	3.27%	3.57%
Noninterest income to total revenue	24.68%	22.47%	24.61%
Noninterest income to average assets	1.00%	0.85%	1.04%
Noninterest expense to average assets	3.75%	3.37%	3.74%
Efficiency ratio	92.41%	89.41%	88.70%
Dividend payout ratio	0.00%	47.16%	50.00%

	At or for the Year Ended December 31,		
	2008	2007	2006

(Dollars in thousands, except per share data)

Asset Quality Ratios:

Nonperforming loans to period-end loans	1.13%	2.09%	3.05%
Allowance for loan losses to period-end loans	1.31%	1.44%	1.38%
Allowance for loan losses to nonperforming loans	116.44%	68.91%	45.20%
Nonperforming assets to total assets	1.44%	1.67%	3.02%
Net loan charge-offs to average loans	0.70%	0.07%	0.28%

Capital Ratios:

Total risk-based capital	11.59%	11.68%	12.38%
Tier 1 risk-based capital	10.17%	10.43%	11.13%
Leverage ratio	7.90%	7.64%	7.84%
Equity to asset ratio	7.75%	7.89%	7.93%

Other Data:

Number of banking offices	7	7	7
---------------------------------	---	---	---

(1) All per share data has been adjusted to reflect the effect of 5% stock dividends declared in 2007 and 2006.

(2) Book value is based on total equity less preferred stock proceeds.

RESULTS OF OPERATIONS - 2008 COMPARED TO 2007

The following discussion and analysis provides a comparison of the Bank's results of operations for the years ended December 31, 2008 and 2007. This discussion should be read in conjunction with the accompanying consolidated financial statements and related notes.

Overview

The Bank reported a net loss available to common shareholders of \$419,000 or diluted net loss per common share of \$0.40 for the year ended December 31, 2008, as compared with net income of \$330,000 or \$0.32 per diluted share for the year ended December 31, 2007. Net loss before the payment of dividends to preferred stock shareholders was \$200,000 for the year ended December 31, 2008, representing a 136.48% decrease from the prior year. The decrease was primarily attributable to an increase in the provision for loan losses of \$863,000. Net interest income increased by \$318,000 or 3.86% over the prior year, while non-interest income increased by \$415,000 or 17.37%, but these increases were offset by a 10.47% increase in non-interest expense of \$994,000 resulting in a decrease of \$1,124,000 in income before taxes.

Year-to-date annualized return on average assets based on a net loss available to common shareholders was a negative .07% compared to .20% for the year ended December 31, 2007. Year-to-date annualized return on equity on the same basis was negative .90% compared to 2.45% for the year ended December 31, 2007.

Net Interest Income

An analysis of the Bank's net interest income and average balance sheet is presented in Table 1. The changes in net interest income from year to year are analyzed in Table 2.

Net interest income, the difference between total interest income and total interest expense, is the Bank's principal source of earnings. Changes in net interest income result from changes in volume, spread and margin. Volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities. Spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Margin is tax equivalent net interest income divided by average earning assets and is influenced by the level and mix of interest-earning assets and interest-bearing liabilities.

For the year ended December 31, 2008, net interest income amounted to \$8.6 million. The tax equivalent net interest margin (tax equivalent net interest income/average earning assets) increased 11 basis points to 3.38% compared to last year's ratio of 3.27%. The increase in the net margin was attributable to (i) a change in the mix of earning assets (average loans as a percentage of average earning assets increased, while investments, federal funds sold, and interest-bearing balances with banks to average earning assets decreased), (ii) an overall decline in interest rates resulting in lower borrowing rates, (iii) the fact that the Bank was liability sensitive in the short term, and (iv) competitive pricing pressures for loans and deposits.

Total interest income for the year ending December 31, 2008 was \$16.1 million, a 7.36% decrease from 2007. The decrease is primarily attributable to a 49 basis point decrease in the yield on earning assets. Although the prime rate declined 400 basis points from December 2007 to December 2008, only a small portion of the Bank's earning assets repriced as prime adjusts. The majority of the loan portfolio and the investment portfolio are priced according to longer-term market rates. A change in the mix of earning assets also contributed to the increase. The average balance of loans increased \$13.2 million, while the average balance of investments decreased \$6.6 million and overnight funds and interest-bearing balances decreased \$7.6 million.

Total interest expense for the year ended December 31, 2008 was \$7.6 million, a decrease of \$1.6 million or 17.43% from the year ended December 31, 2007. The cost of funds decreased 69 basis points from 3.96% for the year ended December 31, 2007 to 3.27% for the year ended December 31, 2008. The decrease in rate was attributable to a decrease in market interest rates. Average time deposits \$100,000 or under as a percentage of total interest-bearing liabilities for the years ended December 31, 2008 and 2007 were 37.8% and 38.0%, respectively. Over that period of time, the yield on those deposits dropped from 4.70% to 3.99%. The yield on time deposits over \$100,000, which were 21.2% and 21.8% of total interest-bearing liabilities for the years ended December 31, 2008 and 2007, respectively, dropped from 4.85% to 4.11%.

Table 1
Average Balances and Net Interest Income Analysis

	Year Ended December 31, 2008			Year Ended December 31, 2007			Year Ended December 31, 2006		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
(Dollars in thousands)									
Interest-earning assets:									
Loans, net ⁽¹⁾⁽²⁾	\$ 204,765	\$ 13,404	6.55%	\$ 191,588	\$ 14,115	7.37%	\$ 185,495	\$ 13,471	7.26%
Investment securities ⁽²⁾	50,907	2,793	5.49%	57,489	2,999	5.22%	62,857	3,261	5.19%
Federal funds sold.....	220	3	1.36%	4,923	251	5.10%	2,250	116	5.16%
Interest bearing balances									
with banks.....	504	19	3.77%	3,368	168	4.99%	2,288	104	4.55%
FHLB stock.....	1,625	78	4.80%	1,448	91	6.28%	1,596	86	5.39%
Total interest-earning assets.....	258,021	16,297	6.32%	258,816	17,624	6.81%	254,486	17,038	6.70%
Other assets.....	21,338			22,489			20,383		
Total assets.....	<u>\$ 279,359</u>			<u>\$ 281,305</u>			<u>\$ 274,869</u>		
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand.....	\$ 29,535	343	1.16%	\$ 32,034	611	1.91%	\$ 32,313	591	1.83%
Savings and money market.....	40,332	585	1.45%	40,362	805	1.99%	43,023	788	1.83%
Time deposits over									
\$100,000.....	49,136	2,017	4.11%	50,385	2,443	4.85%	43,970	1,927	4.38%
Other time deposits.....	87,508	3,491	3.99%	87,961	4,134	4.70%	81,211	3,292	4.05%
Federal funds purchased.....	290	6	2.07%	22	1	4.55%	263	15	5.70%
Borrowings.....	24,529	1,128	4.60%	20,478	1,174	5.73%	24,102	1,343	5.57%
Total interest-bearing liabilities.....	231,330	7,570	3.27%	231,242	9,168	3.96%	224,882	7,956	3.54%
Noninterest-bearing deposits.....	23,350			24,652			24,905		
Other liabilities.....	2,397			3,040			2,542		
Shareholders' equity.....	22,282			22,371			22,540		
Total liabilities and shareholders' equity.....	<u>\$ 279,359</u>			<u>\$ 281,305</u>			<u>\$ 274,869</u>		
Net interest income and interest rate spread.....		<u>\$ 8,727</u>	<u>3.04%</u>		<u>\$ 8,456</u>	<u>2.84%</u>		<u>\$ 9,082</u>	<u>3.16%</u>
Net yield on average interest-earning assets.....			<u>3.38%</u>			<u>3.27%</u>			<u>3.57%</u>
Ratio of average interest-earning assets to average interest-bearing liabilities.....			<u>111.54%</u>			<u>111.92%</u>			<u>113.16%</u>

(1) Average balances include nonaccrual loans.

(2) Yields on securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 34 percent.

Table 2
Volume and Rate Variance Analysis

	Year Ended			Year Ended		
	December 31, 2008 vs. 2007			December 31, 2007 vs. 2006		
	Increase (Decrease) Due To			Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest income:						
Loans	\$ 917	\$ (1,628)	\$ (711)	\$ 625	\$ 20	\$ 645
Investment securities.....	(352)	147	(205)	(279)	16	(263)
Fed funds sold	(152)	(96)	(248)	137	(2)	135
Interest bearing balances						
with banks	(125)	(24)	(149)	51	13	64
FHLB stock.....	10	(23)	(13)	(9)	13	4
Total interest income	298	(1,624)	(1,326)	525	60	585
Interest expense:						
Deposits:						
Interest-bearing						
demand.....	(38)	(230)	(268)	(5)	25	20
Savings and money						
market	(1)	(219)	(220)	(51)	68	17
Time deposits over						
\$100,000	(56)	(370)	(426)	296	380	676
Other time deposits.....	(20)	(624)	(644)	298	382	680
Federal funds purchased ...	9	(4)	5	(12)	(2)	(14)
Borrowings.....	209	(255)	(46)	(205)	37	(168)
Total interest expense	103	(1,702)	(1,599)	321	890	1,211
Net interest income						
increase (decrease).....	\$ 195	\$ 78	\$ 273	\$ 204	\$ (830)	\$ (626)

Provision for Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered appropriate to absorb probable losses inherent in the portfolio. Accordingly, changes in the allowance for loan losses have a direct effect on the provision. Management's determination of the adequacy of the allowance is based on the level of loan growth, changes in impaired loan valuations, changes in credit grades within the portfolio, current economic conditions, historical loan loss experience and other risk factors. For a more detailed discussion of the Bank's process for estimating the allowance for loan losses, see Allowance for Loan Losses.

The provision for loan losses for the year ended December 31, 2008 amounted to \$1.3 million compared to the provision for loan losses of \$455,000 for the year ended December 31, 2007. The increase in the provision was deemed necessary to restore the allowance account to an acceptable level after the charge-off on one loan of \$855,000 and the charge-off of \$236,000 and foreclosure on another. With respect to the loan charged down by \$855,000, in advance of the charge-off, all outstanding loans to the borrower, including overdrafts, were refinanced and additional collateral was obtained in order to more adequately secure the loan balance. The balance in excess of the collateral amount was charged off, but the borrower continues to make regular payments on the full amount. Net charge-offs for the year ended December 31, 2008 amounted to \$1.5 million or 0.70% of average loans compared to \$131,000 or 0.07% of average loans in 2007. Nonperforming loans, which consist of nonaccrual and restructured loans, totaled \$2.3 million or 1.13% of total loans at December 31, 2008 compared with \$4.3 million or 2.09% of total loans at December 31, 2007. The allowance for loan losses at December 31, 2008 of \$2.7 million was 1.31% of total loans outstanding compared with \$3.0 million at December 31, 2007 or 1.44% of total loans.

Non-Interest Income

The Bank's primary sources of non-interest income are service charges on deposit accounts, gains and losses from the sale of investment securities and fee income from other bank products such as mortgages, non-bank investment products and services and merchant services. Also included in non-interest income are gains and losses on derivatives. Because the Bank's derivatives do not qualify for hedge accounting, changes in the fair value of the derivatives are recognized in non-interest income. In addition, net cash payments on the Bank's interest rate swaps are also recognized in non-interest income.

Non-interest income was \$2.8 million for the year ended December 31, 2008, an increase of \$415,000 from the prior year. The increase was primarily attributable to a gain of \$91,000 recorded on the sale of other real estate in 2008 compared to a loss on the sale of loans and other real estate of \$475,000 in 2007. The Bank experienced increases in investment commission income of \$155,000 and ATM fee income of \$27,000 over the prior year, while brokered mortgage fees dropped by \$18,000 over that same period. The net gain on derivative transactions was \$397,000 for the year ended December 31, 2008 compared to a net gain of \$388,000 for 2007. All derivative instruments were terminated in 2008. The Bank had a gain on the sale of investment securities of \$17,000 in 2008 compared to a gain of \$22,000 in the prior year. Finally, the Bank had a loss on the disposal of fixed assets of \$13,000 in 2008 compared to a gain of \$174,000 in the prior year.

Non-Interest Expense

Non-interest expense totaled \$10.5 million for the year ended December 31, 2008, an increase of \$994,000 or 10.47% over the \$9.5 million reported for the same period of 2007. Salaries and benefits, the primary component of non-interest expense, increased 8.12% or \$396,000 due to senior level staffing changes. Occupancy expense decreased by the modest rate of 1.79% or \$28,000, while other operating expenses increased by 32.08% or \$893,000, not taking into account expenses incurred in 2007 related to the failed merger between the Bank and Bank of the Carolinas. In particular, outside service fees increased by \$219,000 or 36.13% primarily related to investment services, Sarbanes-Oxley compliance, and credit risk management/loan review services. Audit fees rose \$65,000 or 36.5% while the FDIC Assessment amount increased by \$60,000 or 74.93%. In addition, during 2008, an \$18,000 reduction in future benefits under the Bank's deferred compensation plan covering several key executives who are no longer with the bank was recorded, while in 2007 and 2006, provisions of approximately \$74,000 and \$98,000, respectively, were expensed for future benefits to be provided under this plan. The reduction in future benefits for 2008 is based in part on the poor performance in 2008 of the policies that were tied to certain of the plans referred to as indexed plans. In addition, the Bank negotiated a buyout of the three plans covering one of the former key executives which resulted in a reduction in the Bank's liability to him and an offsetting credit to deferred officer expense.

Income Taxes

The Bank recorded a tax benefit of \$257,000 for the year ended December 31, 2008 compared to a tax provision of \$120,000 for the year ended December 31, 2007. The tax benefit was calculated based upon the pretax loss reported for the year, but was impacted by the level of the Bank's tax-exempt income for the year. The tax provision recorded for the year ended December 31, 2007, was similarly affected by the level of the Bank's tax-exempt income. The effective tax rate for 2007 was 17.9%.

RESULTS OF OPERATIONS - 2007 COMPARED TO 2006

The following discussion and analysis provides a comparison of the Bank's results of operations for the years ended December 31, 2007 and 2006. This discussion should be read in conjunction with the accompanying consolidated financial statements and related notes.

Overview

The Bank reported net income available to common shareholders of \$330,000 or diluted net income per common share of \$0.32 for the year ended December 31, 2007, as compared with net income of \$517,000 or \$0.50 per diluted share for the year ended December 31, 2006. Net income before the payment of dividends to preferred stock shareholders was \$548,000 for the year ended December 31, 2007, representing a 20.80% decrease from the prior year. The decrease was primarily attributable to higher losses from the sale of loans and other real estate of \$423,000, a decrease in net interest income of \$498,000, a decrease of \$693,000 in investment commission income, and non-recurring merger related expenses of \$267,000. These decreases were partially offset by a decline of \$130,000 in the provision for loan losses, a higher net gain on derivative transactions of \$704,000, and decreases in non-interest expenses of \$776,000.

Year-to-date annualized return on average assets based on net income available to common shareholders was .20% compared to .19% for the year ended December 31, 2006. Year-to-date annualized return on equity on the same basis was 2.45% compared to 2.29% for the year ended December 31, 2006.

Net Interest Income

Net interest income, the difference between total interest income and total interest expense, is the Bank's principal source of earnings. Changes in net interest income result from changes in volume, spread and margin. Volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities. Spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Margin is tax equivalent net interest income divided by average earning assets and is influenced by the level and mix of interest-earning assets and interest-bearing liabilities.

For the year ended December 31, 2007, net interest income amounted to \$8.2 million. The tax equivalent net interest margin (tax equivalent net interest income/average earning assets) decreased 33 basis points to 3.24% compared to last

year's ratio of 3.57%. The decline in the net margin was attributable to (i) a change in the mix of earning assets (average loans and average investments as a percentage of average earning assets increased, while federal funds sold to average earning assets decreased), (ii) a change in the mix of deposits (average time deposits as a percentage of total deposits for the year ended December 31, 2007 was higher than the same ratio for the year ended December 31, 2006. Time deposits typically have a higher interest rate than other deposit types), (iii) a steepening of the treasury yield curve (iv) increases in average short-term rates and (v) competitive pricing pressures for loans and deposits.

Total interest income for the year ending December 31, 2007 was \$17.4 million, a 4.28% increase from December 31, 2006. The increase is primarily attributable to a 4 basis point increase in the yield on earning assets. Although the prime rate declined 100 basis points from June 2006 to December 31, 2007, only a small portion of the Bank's earning assets repriced as prime adjusts. The majority of the loan portfolio and the investment portfolio are priced according to longer-term market rates. During 2007, the shape of the treasury yield curve steepened and longer-term rates did not rise in proportion to short-term rates. A \$6.8 million increase in average earning assets and the change in the mix of earning assets also contributed to the increase. The average balance of loans increased \$8.6 million and the average balance of investments decreased \$5.4 million, while overnight funds increased \$2.7 million.

Total interest expense for the year ended December 31, 2007 was \$9.2 million, an increase of \$1.2 million or 15.2% from the year ended December 31, 2006. The cost of funds increased 42 basis points from 3.54% for year-ended 2006 to 3.96% for year-ended 2007. The increase in rate was attributable to an increase in market interest rates, an increase in average interest-bearing deposits of \$10.2 million, and a change in the mix of deposits. Average time deposits as a percentage of total average deposits for the years ended December 31, 2007 and 2006 were 58.8% and 55.5%, respectively. Time deposits typically have a higher interest rate than other deposit types which drives the Bank's interest cost higher or lower as their portion of the mix increases or decreases respectively.

Provision for Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered appropriate to absorb probable losses inherent in the portfolio. Accordingly, changes in the allowance for loan losses have a direct effect on the provision. Management's determination of the adequacy of the allowance is based on the level of loan growth, changes in impaired loan valuations, changes in credit grades within the portfolio, current economic conditions, historical loan loss experience and other risk factors. For a more detailed discussion of the Bank's process for estimating the allowance for loan losses, see Allowance for Loan Losses.

The provision for loan losses for the year ended December 31, 2007 amounted to \$455,000 compared to the provision for loan losses of \$585,000 for the year ended December 31, 2006. A significant portion of the Bank's impaired assets were identified and loan sales occurred to improve overall portfolio quality. The level of impaired assets declined and there was no further weakening in the credit quality of these assets; hence, the lower provision for loan losses in 2007. Net charge-offs for the year ended December 31, 2007 amounted to \$131,000 or 0.07% of average loans compared to \$519,000 or 0.28% of average loans in 2006. The majority of the charge-offs in 2007 had been provided for in prior periods.

Non-Interest Income

The Bank's primary sources of non-interest income are service charges on deposit accounts, gains and losses from the sale of investment securities and fee income from other bank products such as mortgages, non-bank investment products and services and merchant services. Also included in non-interest income are gains and losses on derivatives. Because the Bank's derivatives do not qualify for hedge accounting, changes in the fair value of the derivatives are recognized in non-interest income. In addition, net cash payments on the Bank's interest rate swaps are also recognized in non-interest income.

Non-interest income was \$2.4 million for the year ended December 31, 2007, a decrease of \$464,000 from the prior year. The decrease was primarily attributable to a \$693,000 decrease in investment commission income. Other income also decreased \$423,000 due to losses on sale of loans and other real estate. The Bank had declines in service charge income, and brokered mortgage fees and increases in ATM, Point of Sale, credit life, and merchant services fees. The net gain on derivative transactions was \$388,000 for the year ended December 31, 2007 compared to a net loss of \$316,000 for 2006. The fair market value of derivatives increased \$692,000 for year ended December 31, 2007 and decreased \$56,000 for year ended December 31, 2006. The net amount paid on the interest rate swaps was \$304,000 in 2007 compared to \$260,000 in 2006. Under the terms of the swaps, the Bank makes a series of LIBOR based floating rate payments in exchange for receiving a series of fixed rate payments. In 2007 and 2006, the variable LIBOR rate amount exceeded the fixed rate amount. The Bank had a gain on the sale of investment securities of \$22,000 in 2007 compared to a loss of \$16,000 in the prior year. Finally, the Bank had a gain on the sale of fixed assets of \$174,000 in 2007 compared to a loss of \$16,000 in the prior year.

Non-Interest Expense

Non-interest expense totaled \$9.5 million for the year ended December 31, 2007, a decrease of \$776,000 or 7.6% over the \$10.3 million reported for the same period of 2006. Salaries and benefits, the primary component of non-interest expense,

decreased 6.0% or \$311,000 due to staff turnover primarily of investment brokers. Occupancy expense decreased 10.5% or \$187,000 due to reduction in equipment maintenance costs. Other operating expense had a net decrease of \$278,000 that was impacted by (i) an increase in loan collection and other real estate expense associated with nonperforming assets, (ii) a decrease in marketing expenses associated with the Bank's brand identity campaign and new logo, (iii) an increase in professional audit fees associated with the Bank's derivative instruments and the related restatement of the Bank's financial statements, and (iv) merger related costs. As of November 14, 2007, the Bank and Bank of the Carolinas, Mocksville, NC each terminated their merger agreement dated April 12, 2007, after the Bank's shareholders did not approve the merger at the Bank's annual meeting. .

Income Taxes

The Bank had an expense of \$120,000 for the year ended December 31, 2007 or an effective tax rate of 17.9% compared to \$32,000 for the year ended December 31, 2006 or an effective tax rate of 4.4%. The provision in each year was affected by the level of the Bank's tax-exempt income.

FINANCIAL CONDITION

December 31, 2008 and 2007

Summary

Total assets were \$270.2 million at December 31, 2008, a decrease of \$16.0 million or a negative 5.58% from year-end 2007. The investment portfolio alone declined by \$21.1 million or 36.0%. Sales of U.S. government agency securities, principal paydowns on collateralized mortgage obligations (CMOs), and declines in the market value of private issue CMOs were largely responsible for the drop. Loans held for investment increased to \$208.0 million, representing growth of \$2.7 million or 1.33%. In addition, the Bank's credit card portfolio of \$1.8 million was transferred to Loans Held for Sale pending the sale of the portfolio to Silverton Bank in February 2009. Total deposits were \$220.4 million at December 31, 2008 compared to \$243.7 million at December 31, 2007. This represents a decline of \$23.3 million or 9.54%. In particular, time deposits declined by \$22.9 million while money market and savings accounts increased by \$3.9 million. To make up for the loss in deposits, the Bank increased its reliance on brokered deposits going from \$3.0 million in 2007 to \$15.3 million in 2008 as well as continuing to rely on FHLB advances as a funding source. FHLB advances increased from \$17.1 million at December 31, 2007 to \$26.1 million at December 31, 2008.

Investment Portfolio

The securities portfolio, all of which is classified as available for sale, is a component of the Bank's asset-liability management strategy. The decision to purchase or sell securities is based upon liquidity needs, changes in interest rates, changes in prepayment risk, and other factors. Securities available for sale are accounted for at fair value, with unrealized gains and losses recorded net of tax as a component of other comprehensive income. At December 31, 2008, securities available for sale were \$37.7 million or 13.9% of total assets, compared to \$58.8 million or 20.5% of total assets at December 31, 2007. The Bank's strategy was to sell lower yielding government agency securities to improve the overall yield and provide liquidity. The net yield on the portfolio at December 31, 2008 was 5.49%, up from 5.22% at December 31, 2007. The securities available for sale portfolio was also impacted by an increase in the unrealized net losses in the portfolio due primarily to declines in the market value of private issue CMOs. Unrealized net losses on securities available for sale were \$2.1 million at December 31, 2008 compared to a net loss of \$15,000 at December 31, 2007.

Table 3 shows as of December 31, 2008, 2007 and 2006 the carrying value of the components of the portfolio.

Table 3
Securities Portfolio Composition

	At December 31,		
	2008	2007	2006
	(In thousands)		
Securities available for sale:			
U.S. government agencies	\$ 2,661	\$ 14,782	\$ 23,004
Obligations of states and political subdivisions	4,216	5,504	7,406
Mortgage-backed securities	28,424	36,569	20,736
Corporate debt securities	1,310	1,532	4,332
Asset-backed securities	671	-	-
Equity securities	386	435	-
	<u>\$ 37,668</u>	<u>\$ 58,822</u>	<u>\$ 55,478</u>
Total securities available for sale			

Table 4 summarizes the amortized costs, fair values and weighted average yields of securities available for sale at December 31, 2008 by contractual maturity groups.

Table 4
Maturities and Yields of Investment Securities

	Amortized Cost	Fair Value	Book Yield
	(Dollars in thousands)		
Securities available for sale:			
U. S. Treasury securities and obligations of U.S. government agencies			
Due within one year	\$ 499	\$ 512	4.35%
Due after one but within five years	2,055	2,149	4.86%
Due after five but within ten years	-	-	0.00%
Due after ten years	-	-	0.00%
	<u>2,554</u>	<u>2,661</u>	4.76%
Obligations of states and political subdivisions			
Due within one year	396	400	3.84%
Due after one but within five years	1,575	1,591	4.07%
Due after five but within ten years	1,422	1,459	4.62%
Due after ten years	787	766	4.26%
	<u>4,180</u>	<u>4,216</u>	4.27%
Mortgage-backed securities			
Due after one but within five years	946	948	4.59%
Due after five but within ten years	3,709	3,724	4.71%
Due after ten years	25,490	23,752	5.43%
	<u>30,145</u>	<u>28,424</u>	5.31%
Corporate debt securities			
Due after ten years	1,540	1,310	7.35%
Asset-backed securities			
Due after ten years	740	671	8.35%
Securities with no stated maturity	611	386	10.44%
Total securities available for sale			
Due within one year	895	912	4.12%
Due after one but within five years	4,576	4,688	4.53%
Due after five but within ten years	5,131	5,183	4.69%
Due after ten years	28,557	26,499	5.58%
No stated maturity	611	386	10.44%
	<u>\$ 39,770</u>	<u>\$ 37,668</u>	5.38%

Loan Portfolio

The Bank's loan portfolio at December 31, 2008 was \$208.0 million as compared with \$205.3 million as of December 31, 2007, an increase of \$2.7 million or 1.33%. The Bank's portfolio is comprised primarily of commercial and commercial real estate loans to small and medium-sized businesses. The Bank also originates 1-4 family residential loans that may be sold in the secondary market or retained in the Bank's portfolio. The increase in real estate mortgage loans is primarily attributable to an increase in commercial real estate loans. The amounts and types of loans outstanding for the dates indicated are shown on Table 5.

Table 5
Loan Portfolio Composition

	At December 31,					
	2008		2007		2006	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(Dollars in thousands)					
Loan type:						
Real estate - mortgage loans	\$ 157,220	75.49%	\$ 142,282	69.23%	\$ 133,111	69.82%
Real estate - construction loans	7,865	3.78%	16,235	7.90%	9,260	4.86%
Commercial and industrial loans	33,939	16.29%	35,274	17.16%	39,398	20.67%
Consumer loans	9,247	4.44%	11,736	5.71%	8,861	4.65%
Other loans	-	0.00%	-	-%	-	-%
Total loans	208,271	<u>100.00%</u>	205,527	<u>100.00%</u>	190,630	<u>100.00%</u>
Less:						
Allowance for loan losses	(2,734)		(2,954)		(2,630)	
Unearned net loan fees	<u>(269)</u>		<u>(262)</u>		<u>(136)</u>	
Net loans	<u>\$ 205,268</u>		<u>\$ 202,311</u>		<u>\$ 187,864</u>	

	At December 31,			
	2005		2004	
	Amount	% of Total Loans	Amount	% of Total Loans
	(Dollars in thousands)			
Loan type:				
Real estate - mortgage loans	\$ 116,879	63.59%	\$ 101,085	57.72%
Real estate - construction loans	17,348	9.44%	14,202	8.11%
Commercial and industrial loans	42,760	23.26%	52,357	29.89%
Consumer loans	6,814	3.71%	6,641	3.79%
Other loans	-	-%	853	0.49%
Total loans	183,801	<u>100.00%</u>	175,138	<u>100.00%</u>
Less:				
Allowance for loan losses	(2,564)		(3,585)	
Unearned net loan fees	<u>(346)</u>		<u>(348)</u>	
Net loans	<u>\$ 180,891</u>		<u>\$ 171,205</u>	

Table 6 presents, at December 31, 2008, (i) the aggregate maturities or repricings of loans in the named categories of the Bank's loan portfolio and (ii) the aggregate amounts of such loans maturing or repricing after one year by fixed and variable rates.

Table 6
Loan Maturities

	At December 31, 2008			
	Due within one year	Due after one year but within 5	Due after five years	Total
Commercial and industrial loans	\$ 17,808	\$ 10,455	\$ 5,676	\$ 33,939
Real estate - construction	4,795	2,336	734	7,865
Total	<u>\$ 22,603</u>	<u>\$ 12,791</u>	<u>\$ 6,410</u>	<u>\$ 41,804</u>
Amount of above loans maturing or repricing after one year:				
Fixed rate loans				\$ 13,879
Variable rate loans				<u>5,322</u>
				<u>\$ 19,201</u>

The above table is based on contractual scheduled maturities. Early repayment of loans or renewals at maturity is not considered in this table.

Nonperforming Assets

Nonperforming assets are comprised of nonaccrual loans, restructured loans and other real estate owned ("OREO"). The nonaccrual status is determined after a loan is 90 days past due as to principal or interest. OREO represents real estate acquired through foreclosure or deed in lieu thereof and is carried at the lower of cost or fair value, less estimated costs to sell.

Nonaccrual loans at December 31, 2008 were \$1.3 million, compared to \$3.6 million at December 31, 2007. Total nonperforming assets totaled \$3.9 million or 1.86% of total loans and other real estate at December 31, 2008 compared to \$4.8 million or 2.32% of total loans and other real estate at December 31, 2007.

It is the general policy of the Bank to discontinue the accrual of interest on loans 90 days past due as to principal and interest.

Table 7 summarizes the Bank's nonperforming assets and loans 90 days or more past due and still accruing as of the dates indicated.

Table 7
Nonperforming Assets

	At December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Nonaccrual loans	\$ 1,287	\$ 3,607	\$ 5,253	\$ 4,320	\$ 5,497
Restructured loans	<u>1,061</u>	<u>680</u>	<u>565</u>	<u>561</u>	<u>-</u>
Total nonperforming loans	2,348	4,287	5,818	4,881	5,497
Other real estate owned	<u>1,547</u>	<u>492</u>	<u>2,600</u>	<u>1,099</u>	<u>1,402</u>
Total nonperforming assets	<u>\$ 3,895</u>	<u>\$ 4,779</u>	<u>\$ 8,418</u>	<u>\$ 5,980</u>	<u>\$ 6,899</u>
Accruing loans past due 90 days or more	\$ -	\$ 62	\$ 22	\$ 9	\$ 3
Allowance for loan losses	2,734	2,954	2,630	2,564	3,585
Nonperforming loans to total loans	1.13%	2.09%	3.05%	2.66%	3.14%
Allowance for loan losses to total loans	1.31%	1.44%	1.38%	1.40%	2.05%
Nonperforming assets to total loans and other real estate	1.86%	2.33%	4.36%	3.24%	3.92%
Nonperforming assets to total assets	1.44%	1.67%	3.02%	2.22%	2.83%
Allowance for loan losses to nonperforming loans	116.44%	68.91%	45.20%	52.53%	64.31%

Allowance for Loan Losses

The allowance for loan losses is created by direct charges to operations. Losses on loans are charged to the allowance in the period in which such loans, in management's opinion, become uncollectible. All recoveries realized during the period are credited to the allowance.

In evaluating the adequacy of the allowance for loan losses, management estimates losses on individual loans that are defined as impaired and estimates inherent losses for all loans not considered to be impaired. A loan is considered impaired when it is probable that all amounts due will not be collected in accordance with the contractual terms of the loan agreement. The estimated valuation allowance is the difference, if any, between the loan balance outstanding and the value of the impaired loan as determined by either an estimate of the cash flows that the Bank expects to receive from the borrower discounted at the loan's effective rate or in the case of collateral dependent loans, the fair value of the collateral. For those loans not considered impaired, a loss percentage is assigned based on historical losses, composition of the loan portfolio and current economic conditions.

At December 31, 2008, the allowance for loan losses was \$2.7 million or 1.31% of total loans down from 1.44% at December 31, 2007. As seen in Table 9, net charge-offs for the year were \$1.5 million or .70% of average loans compared to \$131,000 or .07% of average loans in 2007. The recorded investment in impaired loans declined to \$2.6 million at December 31, 2008 from \$5.5 million at December 31, 2007. The Bank has specific allowance amounts related to those loans of \$423,000 and \$1.4 million, respectively.

Management considers the allowance for loan losses adequate to cover probable losses inherent in the Bank's loan portfolio as of the date of the financial statements. While management uses the best information available to make evaluations, future adjustments may be necessary based on changes in economic and other conditions. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the recognition of adjustments to the allowance based on their judgments of information available to them at the time of their examinations.

The following table shows the allocation of the allowance for loan losses applicable to major loan categories and the percentage of the loans in each category to total loans at the dates indicated.

Table 8
Allocation of the Allowance for Loan Losses

	At December 31,					
	2008		2007		2006	
	<u>Amount</u>	<u>% of Total Loans</u>	<u>Amount</u>	<u>% of Total Loans</u>	<u>Amount</u>	<u>% of Total Loans</u>
	(Dollars in thousands)					
Real estate - mortgage loans	\$ 971	35.52%	\$ 1,337	45.26%	\$ 421	16.01%
Real estate - construction loans	55	2.01%	27	0.91%	13	0.49%
Commercial and industrial loans	1,609	58.85%	1,452	49.16%	2,081	79.13%
Consumer loans	99	3.62%	138	4.67%	115	4.37%
Total	<u>\$ 2,734</u>	<u>100.00%</u>	<u>\$ 2,954</u>	<u>100.00%</u>	<u>\$ 2,630</u>	<u>100.00%</u>

	At December 31,			
	2005		2004	
	<u>Amount</u>	<u>% of Total Loans</u>	<u>Amount</u>	<u>% of Total Loans</u>
	(Dollars in thousands)			
Real estate - mortgage loans	\$ 515	20.09%	\$ 1,679	46.83%
Real estate - construction loans	19	0.74%	33	0.92%
Commercial and industrial loans	1,916	74.72%	1,753	48.90%
Consumer loans	114	4.45%	120	3.35%
Total	<u>\$ 2,564</u>	<u>100.00%</u>	<u>\$ 3,585</u>	<u>100.00%</u>

Table 9 sets forth for the periods indicated information regarding changes in the Bank's allowance for loan losses.

Table 9
Analysis of the Allowance for Loan Losses

	At or for the Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Loans outstanding at the end of the year	\$ 208,002	\$ 205,265	\$ 190,494	\$ 183,456	\$ 174,790
Average loans outstanding during the year	\$ 207,159	\$ 194,079	\$ 185,495	\$ 179,060	\$ 177,134
Allowance for loan losses at beginning of year	\$ 2,954	\$ 2,630	\$ 2,564	\$ 3,585	\$ 2,734
Transfer to held for sale account	(80)	-	-	-	-
Provision for loan losses	1,318	455	585	700	2,560
	<u>4,192</u>	<u>3,085</u>	<u>3,149</u>	<u>4,285</u>	<u>5,294</u>
Loans charged off:					
Commercial	990	41	381	1,683	1,691
Real estate	326	267	-	52	141
Consumer	195	159	438	134	191
Total charge-offs	<u>1,511</u>	<u>467</u>	<u>819</u>	<u>1,869</u>	<u>2,023</u>
Recoveries of loans previously charged off:					
Commercial	16	278	221	104	250
Real estate	-	4	-	-	-
Consumer	37	54	79	44	64
Total recoveries	<u>53</u>	<u>336</u>	<u>300</u>	<u>148</u>	<u>314</u>
Net charge-offs	<u>1,458</u>	<u>131</u>	<u>519</u>	<u>1,721</u>	<u>1,709</u>
Allowance for loan losses at end of year	\$ 2,734	\$ 2,954	\$ 2,630	\$ 2,564	\$ 3,585
Net charge-offs as a percent of average loans	0.70%	0.07%	0.28%	0.96%	0.96%

Deposits

Deposits represent the primary funding source for the Bank. At December 31, 2008, total deposits were \$220.4 million compared to the \$243.7 million at the same period last year. This represents a decrease of \$23.3 million or 9.54%. The decrease was attributable to a decline of \$22.9 million in certificates of deposits, accompanied by declines of \$1.5 million and \$2.8 million in noninterest-bearing demand deposits and \$2.8 million in interest-bearing demand deposits, primarily due to the decline in interest rates during 2008 and competitive pressure from other institutions to attract deposits. The Bank's reliance on brokered deposits to offset those declines increased with balances rising from \$3.0 million at December 31, 2007 to \$15.3 million at December 31, 2008. As a percent of total deposits, brokered deposits only accounted for 6.92% which is well below the Bank's guideline of 25% for managing the Bank's liquidity position.

Table 10 sets forth for the periods indicated the average balances outstanding and average interest rates for each major category of deposits.

Table 10
Average Deposits

	For the Year Ended December 31,					
	2008		2007		2006	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
	(Dollars in thousands)					
Interest-bearing demand deposits	\$ 29,535	1.16%	\$ 32,034	1.91%	\$ 32,313	1.83%
Savings and money market	40,332	1.45%	40,362	1.99%	43,023	1.83%
Time deposits over \$100,000	49,136	4.11%	50,385	4.85%	43,970	4.38%
Other time deposits	<u>87,508</u>	3.99%	<u>87,965</u>	4.70%	<u>81,211</u>	4.05%
Total interest-bearing deposits	206,511	3.12%	210,742	3.79%	200,517	3.29%
Non-interest-bearing deposits	<u>23,350</u>	-	<u>24,652</u>	-	<u>24,905</u>	-
Total deposits	<u>\$ 229,861</u>	2.80%	<u>\$ 235,394</u>	3.40%	<u>\$ 225,422</u>	2.93%

Table 11 sets forth at the dates indicated the amounts and maturities of certificates of deposit with balances of \$100,000 or more at December 31, 2008.

Table 11
Maturities of Time Deposits of \$100,000 or more

	At December 31, 2008				
	3 Months or Less	Over 3 Months to 6 Months	Over 6 Months to 12 Months	Over 12 Months	Total
	(In thousands)				
Time Deposits of \$100,000 or more	<u>\$ 7,808</u>	<u>\$ 6,818</u>	<u>\$ 10,241</u>	<u>\$ 15,299</u>	<u>\$ 40,166</u>

Borrowings

Total borrowings at December 31, 2008 were \$26.7 million, up from \$17.6 million at December 31, 2007. The primary component of borrowings is advances from the Federal Home Loan Bank of Atlanta ("FHLB").

Liquidity

Liquidity is necessary to maintain cash flows adequate to meet present and future needs for credit demand, deposit withdrawals, maturing liabilities and operating expenses. Liquidity is provided by the ability to attract deposits, flexible repricing schedules in the loan portfolio, current earnings, a strong capital base and the ability to use alternative funding sources that complement normal sources. Management's asset-liability policy is to maximize net interest income while continuing to provide adequate liquidity to meet continuing loan demand and deposit withdrawal requirements and to service normal operating expenses. Utilizing a model that simulates net interest income and performs gap analysis, the Bank is able to manage the risk/return relationships between liquidity, interest rate risk, market risk, and capital adequacy.

The Bank's primary sources of liquidity are core deposits, loan repayments, and securities available for sale. If additional funding sources are needed, the Bank has access to federal funds lines at correspondent banks, a multiple use credit facility provided by the FHLB, and the Federal Reserve Bank's discount window.

The Bank is currently able to meet any potential liquidity needs with its existing credit facilities and investment portfolio. The investment portfolio consists primarily of securities of government agencies, mortgage-backed securities, and North Carolina municipal bonds, the majority of which are readily marketable.

Contractual Obligations and Commitments

In the normal course of business there are various outstanding contractual obligations of the Bank that will require future cash outflows. In addition, there are commitments and contingent liabilities, such as commitments to extend credit that may or may not require future cash outflows. Table 12 reflects contractual obligations of the Bank outstanding as of December 31, 2008.

Table 12
Contractual Obligations

Contractual Obligations	Payments Due by Period				
	Total	On Demand or Within 1 Year	2-3 Years	4-5 Years	After 5 Years
	(Dollars in thousands)				
FHLB advances	\$ 26,120	\$ 2,620	\$ 15,400	\$ 2,000	\$ 6,100
Other borrowings	571	-	-	571	-
Operating leases	538	123	223	160	32
Deposits	<u>220,432</u>	<u>162,233</u>	<u>56,229</u>	<u>1,970</u>	<u>-</u>
Total contractual cash obligations	<u>\$ 247,661</u>	<u>\$ 164,976</u>	<u>\$ 71,852</u>	<u>\$ 4,701</u>	<u>\$ 6,132</u>

In the normal course of business, the Bank enters into purchase agreements for goods or services. The dollar amount of such purchase obligations at December 31, 2008 is not material and has not been included in the above table.

Table 13 reflects other commitments of the Bank outstanding as of December 31, 2008.

Table 13
Commitments

Other Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(In thousands)				
Credit cards	\$ 6,910	\$ -	\$ -	\$ -	\$ 6,910
Undisbursed home equity lines of credit	10,406	33	153	275	9,945
Lines of credit and loan commitments	20,276	15,688	887	1,086	2,615
Letters of credit	566	559	-	-	7
Overdraft protection	<u>61</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61</u>
Total other commitments	<u>\$ 38,219</u>	<u>\$ 16,280</u>	<u>\$ 1,040</u>	<u>\$ 1,361</u>	<u>\$ 19,538</u>

Asset/Liability and Interest Rate Risk Management

The objective of asset/liability management is to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk and profitability goals. The primary purpose of the Bank's asset liability management and risk management strategy is to establish a prudent and comprehensive program to identify, manage, monitor and control various asset/liability risk areas including interest rate risk and liquidity risks.

Management uses an earnings simulation model to assess the amount of earnings at risk due to changes in interest rates. This model is updated based on a range of interest rate shock scenarios. Under the Bank's policy the limit for interest rate risk is 25% of net interest income over a twelve-month period when considering a 300 basis point immediate interest rate shock. Assuming a 300 basis point immediate increase in interest rates over a twelve-month period, the Bank's sensitivity to interest rate risk would negatively impact net interest income by 6.47%. Assuming a 100 basis point decrease in interest rates over a twelve-month period, the Bank's sensitivity to interest rate risk would positively impact net interest income by 2.66%. A 300 basis point decrease would have a negative impact because deposit rates are already so low that they can't be reduced much more while loan rates would be lower.

The analysis of an institution's interest rate gap (the difference between the repricing of interest-earning assets and interest-bearing liabilities during a given period of time) is another standard tool for the measurement of the exposure to interest rate risk. The Bank believes that because interest rate gap analysis does not address all factors that can affect earnings performance, it should be used in conjunction with other methods of evaluating interest rate risk.

Table 14 sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2008 which are projected to reprice or mature in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown which reprice or mature within a particular period were determined in accordance with the contractual terms of the assets or liabilities. Loans with adjustable rates are shown as being due at the end of the next upcoming adjustment period. Money market deposit accounts and negotiable order of withdrawal or other transaction accounts are assumed to be subject to immediate repricing and depositor availability and have been placed in the shortest period. In making the gap computations, none of the assumptions sometimes made regarding prepayment rates and deposit decay rates have been used for any interest-earning assets or interest-bearing liabilities. In addition, the table does not reflect scheduled principal payments that will be received throughout the lives of the loans and mortgage-backed securities. The interest rate sensitivity of the Bank's assets and liabilities illustrated in Table 14 would vary substantially if different assumptions were used or if actual experience differs from that indicated by such assumptions.

Table 14
Gap Analysis

	Terms to Repricing at December 31, 2008				
	3 Months or Less	Over 3 Months to 12 Months	Total Within 12 Months	Over 12 Months	Total
	(Dollars in thousands)				
Interest-earning assets:					
Loans	\$ 64,394	\$ 9,294	\$ 73,688	\$ 136,108	\$ 209,796
Securities available for sale	980	1,182	2,162	35,506	37,668
Other earning assets	51	40	91	1,738	1,829
Total interest-earning assets	<u>\$ 65,425</u>	<u>\$ 10,516</u>	<u>\$ 75,941</u>	<u>\$ 173,352</u>	<u>\$ 249,293</u>
Percent of total interest-earning assets	26.24%	4.22%	30.46%	69.54%	100.00%
Cumulative percent of total interest-earning assets	26.24%	30.46%	30.46%	100.00%	100.00%
Interest-bearing liabilities:					
Fixed maturity deposits	\$ 19,110	\$ 51,190	\$ 70,300	\$ 58,200	\$ 128,500
All other deposits	91,932	-	91,932	-	91,932
Borrowings	2,620	-	2,620	24,071	26,691
Total interest-bearing liabilities	<u>\$ 113,662</u>	<u>\$ 51,190</u>	<u>\$ 164,852</u>	<u>\$ 82,271</u>	<u>\$ 247,123</u>
Percent of total interest-bearing liabilities	45.99%	20.71%	66.70%	33.29%	100.00%
Cumulative percent of total interest-bearing liabilities	45.99%	66.70%	66.70%	100.00%	100.00%
Interest sensitivity gap	\$ (48,237)	\$ (40,674)	\$ (88,911)	\$ 91,081	\$ 2,170
Cumulative interest sensitivity gap	\$ (48,237)	\$ (88,911)	\$ (88,911)	\$ 2,170	\$ 2,170
Cumulative interest sensitivity gap as a percent of total interest-earning assets	(19.35)%	(35.67)%	(35.67)%	0.87%	0.87%
Cumulative ratio of interest-sensitive assets to interest-sensitive liabilities	57.56%	46.07%	46.07%	100.88%	100.88%

The table illustrates that if assets and liabilities reprice in the time intervals indicated in the table, the Bank is liability sensitive within twelve months and asset sensitive thereafter. As stated above, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market interest rates. For instance, while the table is based on the assumption that interest-bearing demand accounts, money market accounts and savings accounts are immediately sensitive to movements in rates, the Bank expects that in a changing rate environment the amount of the adjustment in interest rates for such accounts would be less than the adjustment in categories of assets which are considered to be immediately sensitive. Additionally, certain assets have features which restrict changes in the interest rates of such assets both on a short-term basis and over the lives of such assets.

Further, in the event of a change in market interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an increase in market interest rates. Due to these shortcomings, the Bank places primary emphasis on its income simulation model when managing its exposure to changes in interest rates.

Capital Resources

At December 31, 2008, the Bank's ratio of total capital to risk-weighted assets of 11.59% exceeded the regulatory requirement for a "well-capitalized" bank. The Bank's leverage ratio of 7.90% exceeded the required minimum leverage ratio of at least 5% for this category of institution. Bank regulatory agencies set five capital levels for banks, ranging from well-capitalized to critically under-capitalized. Regulatory action is mandatory if capital levels fall and the institution becomes "under-capitalized" within the meaning of the regulations. Based on its existing capital ratios, the Bank is currently "well-capitalized" within the meaning of the applicable regulations.

CRITICAL ACCOUNTING POLICY

Our most significant critical accounting policy is the determination of our allowance for loan losses. A critical accounting policy is one that is both very important to the portrayal of our financial condition and results, and requires our most difficult, subjective or complex judgments. What makes these judgments difficult, subjective and/or complex is the need to make estimates about the effects of matters that are inherently uncertain. If the mix and amount of future write-offs differ significantly from those assumptions we use in making our determination, the allowance for loan losses and provision for loan losses on our income statement could be materially affected. For further discussion of the allowance for loan losses and a detailed description of the methodology we use in determining the adequacy of the allowance, see the section of this discussion titled "Allowance for Loan Losses" and Note C to our consolidated financial statements contained in this Annual Report.

OFF-BALANCE SHEET ARRANGEMENTS

Information about the Bank's off-balance sheet risk exposure is presented in Note L to the accompanying consolidated financial statements. As part of its ongoing business, the Bank does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose entities (SPEs), which generally are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2008, the Bank is not involved in any unconsolidated SPE transactions.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note A to the financial statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on results of operations and financial condition.

FORWARD-LOOKING INFORMATION

Statements contained in this report, which are not historical facts, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Amounts herein could vary as a result of market and other factors. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Bank with the Federal Deposit Insurance Corporation from time to time. Such forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "might," "planned," "estimated," and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, expected or anticipated revenue, results of operations and business of the Bank that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, loan demand, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory, and technological factors affecting the Bank's operations, pricing, products and services.

ITEM 8 - FINANCIAL STATEMENTS

(The remainder of this page intentionally left blank)



DIXON HUGHES PLLC
Certified Public Accountants and Advisors

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Randolph Bank & Trust Company
Asheboro, North Carolina

We have audited the accompanying consolidated balance sheets of Randolph Bank & Trust Company and Subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 Randolph Bank & Trust Company and Subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the consolidated financial statements, effective January 1, 2008 the Company adopted Emerging Issues Task Force Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects Endorsement Split-Dollar Life Insurance Arrangements*.

Dixon Hughes PLLC

Raleigh, North Carolina
April 24, 2009

RANDOLPH BANK & TRUST COMPANY
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Cash and due from banks.....	\$ 8,189,159	\$ 9,310,280
Interest-earning deposits with banks	103,146	1,010,363
Investment securities available for sale, at fair value.....	37,668,125	58,822,216
Loans held for sale	1,793,415	-
Loans	208,002,139	205,265,137
Allowance for loan losses	<u>(2,734,119)</u>	<u>(2,953,815)</u>
Loans receivable, net.....	205,268,020	202,311,322
Bank premises and equipment, net.....	6,342,100	6,431,160
Accrued interest receivable.....	1,114,000	1,272,066
Stock in Federal Home Loan Bank of Atlanta, at cost.....	1,726,100	1,272,000
Goodwill.....	571,202	571,202
Cash value of life insurance.....	1,736,891	1,768,984
Other real estate owned.....	1,546,674	492,276
Deferred tax asset.....	2,728,525	1,562,920
Other assets	<u>1,369,866</u>	<u>1,431,186</u>
TOTAL ASSETS	<u>\$ 270,157,223</u>	<u>\$ 286,255,975</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest-bearing demand accounts.....	\$ 22,122,209	\$ 23,627,546
Interest-bearing demand accounts.....	27,331,449	30,105,600
Savings.....	42,478,855	38,562,925
Time deposits.....	<u>128,499,722</u>	<u>151,386,249</u>
Total deposits	220,432,235	243,682,320
Federal Home Loan Bank advances and other borrowings	26,690,881	17,636,381
Accrued expenses and other liabilities	<u>2,087,308</u>	<u>2,339,367</u>
TOTAL LIABILITIES	<u>249,210,424</u>	<u>263,658,068</u>
Shareholders' equity		
Preferred stock, \$5 par value, 1,000,000 shares authorized, 2,300 Series A non-cumulative perpetual preferred shares issued and outstanding at December 31, 2008 and 2007	11,500	11,500
Common stock, \$5 par value, 2,500,000 shares authorized, 1,044,748 shares and 1,036,718 shares issued and outstanding at December 31, 2008 and 2007, respectively	5,223,740	5,183,590
Additional paid-in capital.....	16,792,205	16,680,664
Retained earnings	210,793	731,287
Accumulated other comprehensive loss.....	<u>(1,291,439)</u>	<u>(9,134)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>20,946,799</u>	<u>22,597,907</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 270,157,223</u>	<u>\$ 286,255,975</u>

See accompanying notes.

RANDOLPH BANK & TRUST COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
INTEREST INCOME			
Loans	\$ 13,340,940	\$ 14,004,218	\$ 13,350,338
Investment securities available for sale	2,757,467	2,976,657	3,115,509
Federal funds sold and interest-earning deposits	<u>21,392</u>	<u>418,806</u>	<u>219,672</u>
TOTAL INTEREST INCOME	<u>16,119,799</u>	<u>17,399,681</u>	<u>16,685,519</u>
INTEREST EXPENSE			
Interest-bearing demand accounts	343,136	611,161	590,555
Savings	584,339	804,918	788,487
Time	5,508,678	6,576,333	5,219,485
Federal funds purchased and securities sold under agreements to repurchase	6,389	1,217	14,516
Other borrowings	<u>1,127,562</u>	<u>1,173,997</u>	<u>1,342,482</u>
TOTAL INTEREST EXPENSE	<u>7,570,104</u>	<u>9,167,626</u>	<u>7,955,525</u>
NET INTEREST INCOME	8,549,695	8,232,055	8,729,994
PROVISION FOR LOAN LOSSES	<u>1,317,655</u>	<u>455,000</u>	<u>585,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>7,232,040</u>	<u>7,777,055</u>	<u>8,144,994</u>
NON-INTEREST INCOME			
Net realized gains (losses) from sale of available for sale securities	17,037	21,589	(16,476)
Service charges on deposit accounts	1,165,427	1,167,495	1,324,532
Gains (losses) on economic hedges	396,670	388,107	(316,237)
Gains (losses) on sale of loans/other real estate	91,234	(474,516)	82,717
Gains (losses) on disposal of bank premises and equipment	(13,072)	174,057	(16,053)
Other	<u>1,143,333</u>	<u>1,109,329</u>	<u>1,791,340</u>
TOTAL NON-INTEREST INCOME	<u>2,800,629</u>	<u>2,386,061</u>	<u>2,849,823</u>
NON-INTEREST EXPENSE			
Salaries and employee benefits	5,274,959	4,878,720	5,190,122
Occupancy and equipment expenses	1,535,524	1,563,541	1,730,117
Other	<u>3,678,874</u>	<u>3,052,999</u>	<u>3,351,071</u>
TOTAL NON-INTEREST EXPENSE	<u>10,489,357</u>	<u>9,495,260</u>	<u>10,271,310</u>
INCOME (LOSS) BEFORE INCOME TAXES	(456,688)	667,856	723,507
INCOME TAXES	<u>(256,779)</u>	<u>119,801</u>	<u>31,500</u>
NET INCOME (LOSS)	(199,909)	548,055	692,007
Dividend on preferred stock	<u>(219,099)</u>	<u>218,500</u>	<u>174,800</u>
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ (419,008)</u>	<u>\$ 329,555</u>	<u>\$ 517,207</u>
NET INCOME (LOSS) PER COMMON SHARE			
Basic	\$ (.40)	\$.32	\$.50
Diluted	(.40)	.32	.50

See accompanying notes.

RANDOLPH BANK & TRUST COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net income (loss)	\$ (199,909)	\$ 548,055	\$ 692,007
Other comprehensive income (loss):			
<u>Securities available for sale:</u>			
Unrealized holding gains (losses) on			
available for sale securities.....	\$ (2,069,844)	\$ 532,262	\$ (50,019)
Tax effect.....	798,008	(202,260)	19,007
Reclassification adjustment for net (gains) losses			
realized in income.....	(17,037)	(21,589)	16,476
Tax effect.....	<u>6,568</u>	<u>8,204</u>	<u>(6,261)</u>
Total other comprehensive income (loss)	<u>(1,282,305)</u>	<u>316,617</u>	<u>(20,797)</u>
Comprehensive income (loss)	<u>\$ (1,482,214)</u>	<u>\$ 864,672</u>	<u>\$ 671,210</u>

See accompanying notes.

RANDOLPH BANK & TRUST COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2008, 2007 and 2006

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated other com- prehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
BALANCE, DECEMBER 31, 2006	2,300	11,500	986,267	4,931,335	15,533,283	1,933,377	(325,751)	22,083,744
Net income	-	-	-	-	-	548,055	-	548,055
Other comprehensive income	-	-	-	-	-	-	316,617	316,617
Cash dividends (\$.15 per common share).....	-	-	-	-	-	(148,204)	-	(148,204)
Preferred stock issuance, net.....	-	-	-	-	-	-	-	-
Preferred stock dividend	-	-	-	-	-	(218,500)	-	(218,500)
Common stock issued pursuant to: 5% stock dividend with cash paid for fractional shares.....	-	-	48,703	243,515	1,120,169	(1,383,721)	-	(20,037)
Exercise of employee stock options.....	-	-	1,758	8,790	27,442	-	-	36,232
Retirement of common stock	-	-	(10)	(50)	(230)	280	-	-
BALANCE, DECEMBER 31, 2007	2,300	11,500	1,036,718	5,183,590	16,680,664	731,287	(9,134)	22,597,907
Cumulative effect adjustment resulting from the adoption of EITF 06-04.....	-	-	-	-	-	(101,486)	-	(101,486)
Net loss	-	-	-	-	-	(199,909)	-	(199,909)
Other comprehensive income (loss).....	-	-	-	-	-	-	(1,282,305)	(1,282,305)
Preferred stock dividend	-	-	-	-	-	(219,099)	-	(219,099)
Common stock issued pursuant to: Exercise of employee stock options.....	-	-	8,030	40,150	111,541	-	-	151,691
BALANCE, DECEMBER 31, 2008	<u>2,300</u>	<u>\$ 11,500</u>	<u>1,044,748</u>	<u>\$ 5,223,740</u>	<u>\$ 16,792,205</u>	<u>\$ 210,793</u>	<u>\$(1,291,439)</u>	<u>\$ 20,946,799</u>

See accompanying notes.

RANDOLPH BANK & TRUST COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (199,909)	\$ 548,055	\$ 692,007
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	614,848	591,201	655,460
Deferred income taxes	(360,895)	77,769	13,836
(Increase) decrease in cash surrender value – life insurance	32,093	(4,234)	(134,473)
Amortization of discounts and premiums on securities	238,756	121,480	235,447
Provision for loan losses	1,317,655	455,000	585,000
(Gain) loss on disposal of bank premises and equipment	13,072	(174,756)	16,053
(Gain) loss on sale of investment securities	(17,037)	(21,589)	16,476
Loss on sale of loans	-	286,831	116,391
(Gain) loss on sale of foreclosed real estate	(91,234)	187,685	(66,717)
(Increase) decrease in fair market value of economic hedges	(8,716)	364,298	56,087
Change in assets and liabilities:			
(Increase) decrease in interest receivable	158,066	80,448	(63,745)
(Increase) decrease in other assets	(147,808)	443,773	(917,725)
Increase (decrease) in accrued interest and other liabilities	(50,409)	(893,643)	146,446
	<u>1,498,482</u>	<u>2,062,318</u>	<u>1,350,543</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment securities	(4,645,620)	(34,177,447)	(19,027,715)
Proceeds from sales and maturities of investment securities	23,490,977	31,243,862	25,098,507
Proceeds from sale of loans	-	1,755,609	630,028
Net increase in loans	(7,839,841)	(17,963,393)	(9,724,637)
Net decrease in loans held for sale	26,373	-	-
Purchases of bank premises and equipment	(624,152)	(2,229,506)	(978,704)
Proceeds from disposal of bank premises and equipment	-	409,898	29,682
(Purchase) redemption of FHLB stock	(454,100)	374,500	(18,100)
Proceeds from sale of foreclosed real estate	782,536	2,050,462	550,405
	<u>10,736,173</u>	<u>(18,536,015)</u>	<u>(3,440,534)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in demand deposits and savings	(363,558)	(5,249,277)	(3,245,996)
Net increase (decrease) in certificates of deposit	(22,886,527)	19,896,868	14,855,426
Net decrease in federal funds purchased and securities sold under agreement to repurchase	-	-	(2,750,000)
Net increase (decrease) in borrowings	9,054,500	(6,065,500)	(2,065,500)
Proceeds from issuance of preferred stock	-	-	2,259,992
Proceeds from exercise of stock options	151,691	36,232	80,448
Payment of cash dividends	(219,099)	(386,741)	(431,031)
	<u>(14,262,993)</u>	<u>8,231,582</u>	<u>8,703,339</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES			
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(2,028,338)	(8,242,115)	6,613,348
CASH AND CASH EQUIVALENTS, BEGINNING	<u>10,320,643</u>	<u>18,562,758</u>	<u>11,949,410</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 8,292,305</u>	<u>\$ 10,320,643</u>	<u>\$ 18,562,758</u>

See accompanying notes.

RANDOLPH BANK & TRUST COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	\$ 7,649,634	\$ 9,185,693	\$ 7,867,779
Income taxes, net of refunds.....	189,781	(201,141)	-
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Unrealized gains (losses) on securities available for sale, net of deferred taxes	\$ (1,282,305)	\$ 316,617	\$ (20,797)
Transfer from loans to other real estate owned	\$ 1,745,700	\$ 130,459	\$ 1,296,928
Transfer of loans from held for investment to held for sale.....	\$ 1,793,415	-	-

See accompanying notes.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Randolph Bank & Trust Company (the “Bank”) is a state chartered independent community bank that offers full banking services to customers in Randolph County, Alamance County and adjacent counties in North Carolina. In addition, the Bank has a lending presence in Pitt County, North Carolina. The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a description of the more significant of those policies which the Bank follows in preparing and presenting its consolidated financial statements.

The consolidated financial statements include the accounts of Randolph Bank & Trust Company and its wholly-owned subsidiary, Randolph Investment Services Company, whose principal activity is to engage in brokerage services as an agent for non-bank investment products and services. All intercompany transactions and balances have been eliminated in consolidation.

Use of 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, federal funds sold, and interest-earning deposits with banks. Generally, cash and cash equivalents have maturities of three months or less, and accordingly, the carrying amount of these instruments is deemed to be fair value.

Investment Securities

Available for sale securities are carried at fair value and consist primarily of bonds and mortgage-backed securities not classified as trading securities nor as held to maturity securities. Unrealized holding gains and losses on available for sale securities are reported as a net amount in accumulated other comprehensive income (loss). Gains and losses on the sale of available for sale securities are determined using the specific-identification method. Bonds and mortgage-backed securities for which the Bank has the positive intent and ability to hold to maturity are reported at amortized cost. Premiums and discounts on investment securities are recognized in interest income using the interest method over the expected period to maturity. Declines in the fair value of individual held to maturity and available for sale securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses.

Certain equity security investments that do not have readily determinable fair values and for which the Bank does not exercise significant influence are carried at cost and classified separately on the balance sheet. These securities consist of shares of Federal Home Loan Bank of Atlanta (FHLB) that are held as a requirement of membership and Silverton Bank (formerly The Bankers Bank) stock. Due to the redemption provisions of the FHLB, the Bank estimated the fair value of the stock to be equal to the cost at December 31, 2008. The Silverton Bank shares are classified with other assets. These equity securities are monitored for impairment on an ongoing basis. Neither were deemed to be impaired at December 31, 2008.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Interest income is recorded as earned on an accrual basis. Generally, the accrual of interest is discontinued on loans 90 days past due as to principal and interest unless in management's opinion collection of both principal and interest is assured by way of collateralization, guarantees or other security and the loan is in the process of collection. Interest income is subsequently recognized only to the extent cash payments are received. Loans are returned to accrual status when management determines, based on evaluation of the underlying collateral together with the borrower's payment record and financial condition, that the borrower has the ability and intent to meet the contractual obligations of the loan agreement. Loans are written down or charged off when management has determined the loan to be uncollectible in part or in total.

Allowance for Loan Losses

The Bank uses the allowance method to provide for loan losses. Accordingly, all loan losses are charged to the allowance for loan losses and all recoveries are credited to it. The provision for loan losses is based upon management's estimate of the amount needed to maintain the allowance for loan losses at a level believed to be adequate to absorb probable losses inherent in the loan portfolio. Management evaluates smaller balance, homogenous loans such as consumer and residential mortgage loans, for impairment on a collective basis. Larger balance commercial loans are considered impaired when it is probable that all amounts due will not be collected in accordance with the contractual terms of the loan agreement. Factors that influence management's judgment include, but are not limited to, loan payment pattern, source of repayment, and the value of collateral. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, or upon the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. In addition to the portion of the allowance for loan losses allocated to specific loans and segments of the loan portfolio, the Bank has developed a component of the allowance based on qualitative and environmental factors that is not applied to specific loan groups. Qualitative factors are identified by management that relate to the Bank's specific profile and influences from economic factors including interest rate trends, unemployment rates, commercial real estate vacancy rates, inflation, housing sales and energy cost. Other qualitative factors considered include portfolio growth, credit grade migration, loan to value exceptions, and account officer tenure at the Bank. In December 2006, the federal banking regulators released an Interagency Policy Statement on the Allowance for Loan and Lease Losses, and related Questions and Answers on Accounting for Loan and Lease Losses. The Bank has evaluated the guidance in the Interagency Policy Statement and has made applicable enhancements to our processes for determining our allowance for loan losses effective as of December 31, 2007 and years thereafter. While management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while the Bank believes the allowance for loan losses has been established in conformity with generally accepted accounting principles, there can be no assurance that regulators, in reviewing the loan portfolio, will not require adjustments to the allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed herein. Any material increase in the allowance for loan losses may adversely affect the Bank's financial condition and results of operations.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value at the date of foreclosure, less estimated cost to sell, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value minus estimated costs to sell. Improvements that increase the value of foreclosed real estate are capitalized.

Bank Premises and Equipment

Bank premises and equipment, exclusive of land, which is carried at cost, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed primarily on accelerated methods over the estimated useful lives of the assets. Useful lives range from three to seven years for furniture and equipment, from twenty-two to forty years for buildings and over the shorter of the estimated useful lives or the terms of the respective leases for leasehold improvements. Repair and maintenance costs are charged to operations as incurred, and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

Intangible Assets

Intangible assets include goodwill and other identifiable assets, such as core deposit premiums, resulting from acquisitions. Core deposit premiums are amortized primarily on a straight-line basis over a ten-year life based upon historical studies of core deposits. Intangible assets related to insurance agency acquisitions are amortized over the expected life of the book of business acquired. Goodwill is not amortized but is tested annually for impairment or at any time an event occurs or circumstances change that may trigger a decline in the value of the reporting unit. Examples of such events or circumstances include adverse changes in legal factors, business climate, unanticipated competition, change in regulatory environment or loss of key personnel.

The Bank tests for impairment in accordance with SFAS No. 142. Potential impairment of goodwill exists when the carrying amount of a reporting unit exceeds its fair value. The fair value of a reporting unit is computed using one or a combination of the following three methods: income, market value or cost method. The income method uses a discounted cash flow analysis to determine fair value by considering a reporting unit's capital structure and applying a risk-adjusted discount rate to forecast earnings based on a capital asset pricing model. The market value method uses recent transaction analysis or publicly traded comparable analysis for similar assets and liabilities to determine fair value. The cost method assumes the net assets of a recent business combination accounted for under the purchase method of accounting will be recorded at fair value if no event or circumstance has occurred triggering a decline in the value.

To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired, and a second step of impairment test will be performed. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities as if the reporting unit had been acquired in a business combination at the date of the impairment test. If the implied fair value of reporting unit goodwill is lower than its carrying amount, goodwill is impaired and is written down to its implied fair value. The loss recognized is limited to the carrying amount of goodwill. Once an impairment loss is recognized, future increases in fair value will not result in the reversal of previously recognized losses. Our goodwill testing for 2008, which was updated as of June 30, 2008, indicated that the goodwill booked at the time of the acquisition of Morris Plan Bank continues to properly value the acquired company and has not been impaired. No impairment has been recorded as a result of goodwill testing performed during 2008 or 2007. Given the

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

decline in trading activity accompanied by a drop in our common stock price and the economic outlook for our industry, the excess of the fair value over carrying value has narrowed compared with previous assessments. If our stock price continues to decline, if the Company does not produce anticipated cash flows, or if comparable banks begin selling at significantly lower prices than in the past, our goodwill may be impaired in the future.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

Derivative Instruments

On January 1, 2001, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This Statement, as amended, established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. This Statement requires that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to either offset related results on the hedged item in the income statement or be accumulated in other comprehensive income and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The Bank utilizes derivative financial instruments to manage various financial risks. These instruments include interest rate swaps, floors and collars. Management accounts for these financial instruments as cash flow hedges when the following conditions are met: (1) the specific assets, liabilities, firm commitments or anticipated transactions (or an identifiable group of essentially similar items) to be hedged expose the Bank to the risk of future changes in cash flows due to changes in interest rates; (2) the financial instrument reduces that exposure; (3) the financial instrument is designated as a hedge at inception; and (4) at the inception of the hedge and throughout the hedge period, there is a high correlation of changes in the future cash flows associated with the financial instrument and the hedged items. Derivative financial instruments that fail to qualify as a hedge are carried at fair value with gains and losses recognized in current earnings.

Derivative contracts are written in amounts referred to as notional amounts. Notional amounts only provide the basis for calculating payments between counterparties and do not represent amounts to be exchanged between parties or a measure of financial risk. As required by SFAS No. 133, the Bank classifies its derivative financial instruments as either (1) a hedge of an exposure to changes in the fair value of a recorded asset or liability ("fair value hedge") or (2) a hedge of an exposure to changes in the cash flows of a recognized asset, liability or forecasted transaction ("cash flow hedge"). For a qualifying fair value hedge, changes in the value of the derivatives that have been highly effective as hedges are recognized in current period earnings along with the corresponding changes in the value of the designated hedged item attributable to the risk being hedged. For a qualifying cash flow hedge, the effective portion of changes in the value of the derivatives that have been highly effective are recognized in other comprehensive income until the related cash flows from the hedged item are recognized in earnings. For either fair value hedges or cash flow hedges, net income may be affected to the extent that changes in the value of the derivative instruments do not perfectly offset changes in the value of the hedged items. See Note M for additional disclosures related to derivative financial instruments.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Compensation Plans

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

The Bank adopted SFAS No. 123R using the modified prospective application as permitted under SFAS No. 123R. Accordingly, prior period amounts were not been restated. Under this application, the Bank is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

Per Share Results

Basic and diluted net income (loss) per common share are computed based on the weighted average number of common shares outstanding during each period after retroactively adjusting for the 5% stock dividends in 2007 and 2006. Diluted net income (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income of the Bank. Dividends paid on preferred stock are subtracted from net income (loss) in calculating net income (loss) available to common shareholders. During 2007 and 2006, there were no antidilutive options. For the year ended December 31, 2008, there was no dilutive effect related to stock options as a net loss was reported for that period.

Basic and diluted net income (loss) per common share have been computed based upon net income (loss) available to common shareholders as presented in the accompanying consolidated statements of operations divided by the weighted average number of common shares outstanding or assumed to be outstanding as summarized below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Weighted average number of common shares used in computing basic net income per share	1,041,858	1,036,145	1,034,004
Effect of dilutive stock options	<u>-</u>	<u>7,948</u>	<u>9,911</u>
Weighted average number of common shares and dilutive potential common shares used in computing diluted net income per share	<u>1,041,858</u>	<u>1,044,093</u>	<u>1,043,915</u>

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accumulated Other Comprehensive Income (Loss)

The Company reports as accumulated other comprehensive income (loss) all changes in stockholders' equity during the year from sources other than stockholders. Accumulated other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Company's only component of accumulated other comprehensive income (loss) at December 31, 2008 and 2007 is unrealized gains and losses on investment securities available for sale as illustrated in the table below:

	<u>2008</u>	<u>2007</u>
Unrealized holding gains (losses) - investment securities available for sale	\$ (2,101,747)	\$ (14,733)
Deferred income taxes	<u>810,308</u>	<u>5,599</u>
Net unrealized holding gains - investment securities available for sale	<u>\$ (1,291,439)</u>	<u>\$ (9,134)</u>

Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, requires management to report selected financial and descriptive information about reportable operating segments. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Generally, disclosures are required for segments internally identified to evaluate performance and resource allocation. In all material respects, the Bank's operations are entirely within the commercial banking segment, and the consolidated financial statements presented herein reflect the results of that segment. Also, the Bank has no foreign operations or customers.

Risks and Uncertainties

In the normal course of its business, the Bank encounters two significant types of risk: economic and regulatory. The two primary components of economic risk to the Bank are credit risk and market risk. Credit risk is the risk of default on the Bank's loan portfolio that results from borrowers' failure to make contractually required payments. Market risk arises principally from interest rate risk inherent in our lending, investing, deposit, and borrowing activities.

The Bank is subject to the regulations of various government agencies. These regulations may change significantly from period to period. The Bank 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 or operating restrictions resulting from the regulators' judgments based upon information available to them at the time of their examination.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement 133*, requires additional disclosures for derivatives and hedging activities. The enhanced disclosures will include a description of an entity's objectives including how and why derivative instruments are used. Other disclosures will include how derivative instruments and related hedged items are accounted for under SFAS 133 and related interpretations and how derivatives and related hedged items affect an entity's financial position, financial performance and cash flows. The statement also requires cross-referencing within the footnotes to improve the reader's ability to locate information about derivative instruments. This statement is effective for the Bank's financial statements issued for the years beginning after November 15, 2008 with early adoption encouraged. The Bank believes that the adoption of SFAS 161 in 2009 will not have a material impact on the consolidated financial statements.

SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*, establishes the framework and sources of accounting principles for determining the appropriate principles to be used when preparing financial statements in conformity with generally accepted accounting principles in the United States. This statement is effective following SEC approval and will not have a material effect on the Company's financial statements.

In December 2007, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company believes that the adoption of SFAS 157-2 in the first quarter 2009 will not have a material impact on the consolidated financial statements.

On January 1, 2008, the Bank adopted the following new pronouncement:

The Emerging Issues Task Force (EITF) 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.

In adopting EITF 06-4, the Bank recognized the cumulative impact of this pronouncement through December 31, 2007 as a reduction of retained earnings at the beginning of the period of approximately \$101,000. The effect on earnings in the current quarter and future quarters is immaterial.

From time to time the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Bank and monitors the status of changes to and proposed effective dates of exposure drafts.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts in the 2007 and 2006 consolidated financial statements have been reclassified to conform to the 2008 presentation. The reclassifications had no effect on net income or shareholders' equity as previously reported.

NOTE B - INVESTMENTS

The amortized cost and fair values of investment securities available for sale at December 31, 2008 and 2007 were:

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Treasury securities and obligations of U. S. government agencies	\$ 2,553,724	\$ 107,703	\$ -	\$ 2,661,427
Obligations of states and political subdivisions	4,179,885	65,117	28,637	4,216,365
Mortgage-backed securities	30,145,122	250,143	1,971,441	28,423,824
Corporate debt securities	1,539,803	10,330	240,000	1,310,133
Asset-backed securities	740,162	-	69,658	670,504
Equity securities	611,176	-	225,304	385,872
	<u>\$ 39,769,872</u>	<u>\$ 433,293</u>	<u>\$ 2,535,040</u>	<u>\$ 37,668,125</u>
	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Treasury securities and obligations of U. S. government agencies	\$ 14,745,546	\$ 80,201	\$ 44,118	\$ 14,781,629
Obligations of states and political subdivisions	5,407,467	99,451	2,605	5,504,313
Mortgage-backed securities	36,562,845	134,189	128,242	36,568,792
Corporate debt securities	1,544,225	1,705	13,750	1,532,180
Equity securities	576,866	-	141,564	435,302
	<u>\$ 58,836,949</u>	<u>\$ 315,546</u>	<u>\$ 330,279</u>	<u>\$ 58,822,216</u>

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE B – INVESTMENTS (Continued)

The amortized cost and fair values of investment securities available for sale at December 31, 2008 by expected maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. For this reason, and because mortgage-backed securities (MBS) pay down as the underlying mortgages pay down, mortgage-backed securities are presented separately below. Equity securities are not shown as they do not follow a specific maturity schedule.

	<u>Securities Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year.....	\$ 894,272	\$ 912,210
Due after one year through five years.....	3,629,889	3,740,638
Due after five years through ten years.....	1,422,136	1,458,962
Due after ten years.....	<u>3,067,277</u>	<u>2,746,619</u>
Total.....	9,013,574	8,858,429
Mortgage-backed securities.....	<u>30,145,122</u>	<u>28,423,824</u>
	<u>\$ 39,158,696</u>	<u>\$ 37,282,253</u>

The following tables show gross unrealized losses and fair values of investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2008 and 2007. At December 31, 2008, the unrealized losses relate to two obligations of state and political subdivisions, eighteen mortgage-backed securities, one asset-backed security, one corporate debt security, and one equity security, of which zero, six, zero, one and one such securities respectively, had continuous unrealized losses for more than twelve months. Since none of the unrealized losses relate to the issuer's ability to honor redemption obligations for the specific tranche level held, but rather to the illiquidity of the market and problems that exist at other levels of the particular issues, and because management has the intent and ability to hold these securities until recovery, none of the securities are deemed to be other than temporarily impaired. Should the Bank decide in the future to sell securities in a unrealized loss position, or determine that impairment of any securities is other than temporary, irrespective of a decision to sell, an impairment loss would be recognized in the period such determination is made.

	<u>2008</u>					
	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
Securities available for sale:						
U.S. government securities and obligations of U.S. government agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Obligations of states and political subdivisions	351,723	28,637	-	-	351,723	28,637
Mortgage-backed securities	10,444,155	1,823,333	1,252,476	148,108	11,696,631	1,971,441
Corporate debt securities	-	-	260,000	240,000	260,000	240,000
Asset-backed securities	670,504	69,658	-	-	670,504	69,658
Equity securities	<u>-</u>	<u>-</u>	<u>385,872</u>	<u>225,304</u>	<u>385,872</u>	<u>225,304</u>
Total securities	<u>\$ 11,466,382</u>	<u>\$ 1,921,628</u>	<u>\$ 1,898,348</u>	<u>\$ 613,412</u>	<u>\$ 13,364,730</u>	<u>\$ 2,535,040</u>

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE B – INVESTMENTS (Continued)

	2007					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available for sale:						
U.S. government securities and obligations of U.S. government agencies	\$ -	\$ -	\$ 6,882,794	\$ 44,118	\$ 6,882,794	\$ 44,118
Obligations of states and political subdivisions	118,079	1,265	705,577	1,340	823,656	2,605
Mortgage-backed securities	8,871,166	39,055	7,872,409	89,187	16,743,575	128,242
Corporate debt securities	486,250	13,750	-	-	486,250	13,750
Equity securities	435,302	141,564	-	-	435,302	141,564
Total securities	<u>\$ 9,910,797</u>	<u>\$ 195,634</u>	<u>\$ 15,460,780</u>	<u>\$ 134,645</u>	<u>\$ 25,371,577</u>	<u>\$ 330,279</u>

Securities with a book value of \$29.7 million and \$17.6 million and a fair value of \$29.6 million and \$17.6 million at December 31, 2008 and 2007, respectively, were pledged to secure public monies, other borrowings, and for other purposes as required or permitted by law.

A summary of sales and calls of investment securities showing approximate gains and losses follows:

	Total Proceeds	Gross Realized	
		Gains	Losses
2008	\$22.8 million	\$ 128,000	\$ 111,000
2007	22.9 million	168,000	146,000
2006	17.7 million	80,000	96,000

NOTE C - LOANS RECEIVABLE

Following is a summary of gross loans and net deferred costs (fees) at December 31, 2008 and 2007:

	2008	2007
Real estate - mortgage loans	\$ 157,219,889	\$ 142,282,084
Real estate - construction loans	7,865,448	16,234,633
Commercial and industrial loans	33,938,742	35,274,983
Consumer loans	9,246,890	11,735,982
Net deferred costs (fees)	<u>(268,830)</u>	<u>(262,545)</u>
Total	<u>\$ 208,002,139</u>	<u>\$ 205,265,137</u>

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE C - LOANS RECEIVABLE (Continued)

The following is a summary of nonperforming assets and loans 90 days or more past due and still accruing interest at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Nonaccrual loans	\$ 1,287,185	\$ 3,606,593
Restructured loans	1,060,915	680,487
Other real estate owned	<u>1,546,674</u>	<u>492,276</u>
Total nonperforming assets	3,894,774	4,779,356
Loans 90 days or more past due and still accruing	<u>-</u>	<u>62,066</u>
Total nonperforming assets and loans 90 days or more past due and still accruing interest	<u>\$ 3,894,774</u>	<u>\$ 4,841,422</u>

At December 31, 2008 and 2007, the recorded investment in loans considered impaired, which includes all nonaccrual loans, totaled \$2.6 million and \$5.5 million, respectively. At December 31, 2008, the allowance for loan losses included specific reserves of \$423,000 on impaired loans with a total recorded balance of \$715,000. The allowance for the remaining impaired loans was \$0. At December 31, 2007, those amounts were \$1.4 million and \$4.3, respectively. For the year ended December 31, 2008, the average recorded investment in impaired loans was approximately \$4.0 million. For the year ended December 31, 2007, that figure was approximately \$7.4 million. Interest income that would have been recorded on nonaccrual loans for the years ended December 31, 2008 and 2007, had they performed in accordance with their original terms, amounted to \$104,000 and \$317,000, respectively. The amount of interest recognized on impaired loans during the portion of the year that they were impaired was not material except for one loan. The amount of interest recognized on that loan during the portion of the year that it was impaired was approximately \$66,000. The Bank had restructured loans amounting to \$1.6 million and \$1.5 million at December 31, 2008 and 2007, respectively. Restructured loans totaling \$527,000 and \$830,000 were included in nonaccrual loans at December 31, 2008 and 2007, respectively.

The Bank has granted loans to certain directors and executive officers of the Bank and their related interests. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers and, in management's opinion, do not involve more than the normal risk of collectibility. All loans to directors and executive officers or their interests are submitted to the Board of Directors for approval. At December 31, 2008 and 2007, outstanding loans to directors and executive officers and their interests aggregated \$4.2 million and \$3.5 million, respectively. Activity for 2008 consisted of loan disbursements of \$1,755,000 and loan repayments of \$931,000. At December 31, 2008, the Bank had pre-approved, but unused lines of credit totaling \$633,000 to executive officers, directors and their affiliates.

All of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. Substantially all such customers are depositors of the Bank. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

Commercial and standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of its internally established loan-to-one-borrower limit (approximately \$3.7 million and \$3.8 million at December 31, 2008 and 2007, respectively). This internally established limitation complies with all regulatory lending limitations.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE C - LOANS RECEIVABLE (Continued)

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

	Years Ended December 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance, beginning of year.....	\$ 2,953,815	\$ 2,630,339	\$ 2,564,389
Current provision charged to operations.....	1,317,655	455,000	585,000
Transfers to held for sale	(79,500)	-	-
Loans charged off	(1,511,386)	(467,311)	(818,620)
Recoveries.....	<u>53,535</u>	<u>335,787</u>	<u>299,570</u>
Balance, end of year	<u>\$ 2,734,119</u>	<u>\$ 2,953,815</u>	<u>\$ 2,630,339</u>

NOTE D - BANK PREMISES AND EQUIPMENT

Following is a summary of bank premises and equipment at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Land	\$ 1,440,074	\$ 1,440,074
Buildings and improvements	5,657,969	5,724,790
Furniture and equipment	<u>5,699,111</u>	<u>5,307,140</u>
	12,797,154	12,472,004
Accumulated depreciation	<u>(6,455,054)</u>	<u>(6,040,844)</u>
	<u>\$ 6,342,100</u>	<u>\$ 6,431,160</u>

Depreciation and amortization amounting to approximately \$526,100 in 2008, \$561,000 in 2007, and \$595,000 in 2006 is included in occupancy and equipment expenses. An additional \$88,000, \$30,000, and \$60,000 in software amortization is included in other expenses for 2008, 2007, and 2006, respectively.

NOTE E - DEPOSIT ACCOUNTS

Time deposits in denominations of \$100,000 or more were \$40.2 million and \$56.6 million at December 31, 2008 and 2007, respectively. At December 31, 2008, the scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2009	\$ 86,001,942
2010	32,301,321
2011	8,228,386
2012	921,546
2013	<u>1,046,527</u>
	<u>\$ 128,499,722</u>

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE F - BORROWINGS

Federal Funds Purchased

Federal funds purchased represent unsecured overnight borrowings from other financial institutions by the Bank. At December 31, 2008 and 2007, the Bank had federal funds lines of credit totaling \$3.0 million and \$2.0 million, respectively, with outstanding balances of zero.

Federal Home Loan Bank (FHLB) Advances

The Bank has a \$54.4 million credit line available with the FHLB, secured by collateral of qualifying first and second mortgage loans and home equity loans with principal balances of \$27.9 million and mortgage-backed securities with a book value of \$16.9 million at December 31, 2008. At December 31, 2008, FHLB advances with original maturities of one year or more under this line amounted to \$23.5 million and were at interest rates ranging from 1.00% to 6.21%. At December 31, 2007, FHLB advances with original maturities of one year or more under this line amounted to \$17.1 million and were at interest rates ranging from 1.00% to 6.21%.

The scheduled maturities of these advances at December 31, 2008 are as follows:

<u>Maturing Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 2,620,000
2010	13,400,000
2011	2,000,000
2012	2,000,000
2013	-
Thereafter	<u>6,100,000</u>
	<u>\$ 26,120,000</u>

Federal Reserve

In March, 2008, the Federal Reserve Bank changed the primary credit program to allow, on a temporary basis, primary credit loans of up to 90 days. All loans are to be secured by collateral acceptable to the Federal Reserve. At December 31, 2008, the Bank had \$5.0 million in credit available secured by mortgage-backed securities with a book value of \$5.4 million. There were no outstanding borrowings.

Other Borrowings

At December 31, 2008 and 2007, the Bank also had outstanding \$570,880 in subordinated debentures that were issued in connection with the acquisition of Morris Plan Savings Bank, Inc., SSB at the close of business on May 31, 2002. Morris Plan was subsequently merged into Randolph Bank & Trust Company. These subordinated debentures have a maturity date of May 31, 2012, with an interest rate of 7.0%. The May 31, 2007 call option was not exercised.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE G - LEASES

As of December 31, 2008, the Bank leased office facilities under noncancelable leases. Future minimum lease payments required under the leases are as follows:

Year Ending December 31,	
2009	\$ 122,562
2010	112,254
2011	111,116
2012	112,584
2013	47,032
Thereafter	<u>32,065</u>
	<u>\$ 537,613</u>

The leases contain options to extend for additional periods of time. The cost of such rentals is not included above. Total rent expense amounted to approximately \$128,000 in 2008, \$81,000 in 2007, and \$149,000 in 2006.

NOTE H - OTHER NON-INTEREST INCOME AND OTHER NON-INTEREST EXPENSE

The major components of other non-interest income for the years ended December 31, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Investment commissions	253,494	98,994	792,415
Debit card (ATM/POS) income	354,848	327,816	284,994
Merchant services fees	235,841	229,217	223,763
Other	<u>299,150</u>	<u>453,302</u>	<u>490,168</u>
Total	<u>\$ 1,143,333</u>	<u>\$ 1,109,329</u>	<u>\$ 1,791,340</u>

The major components of other non-interest expense for the years ended December 31, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Outside consulting and service fees	\$ 826,375	\$ 607,041	\$ 616,002
Marketing expense.....	191,758	190,895	508,906
Loan collection and loan administration fees	127,188	83,452	73,002
Other real estate expense	266,131	165,600	148,096
Merchant services expense.....	194,539	177,689	191,378
Printing and supplies expense	146,951	216,557	183,276
ATM/POS card expense.....	263,531	242,780	214,371
Audit fees.....	241,303	176,775	174,259
Merger expenses	-	267,332	-
Other	<u>1,421,098</u>	<u>924,878</u>	<u>1,241,781</u>
Total	<u>\$ 3,678,874</u>	<u>\$ 3,052,999</u>	<u>\$ 3,351,071</u>

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE I - EMPLOYEE AND DIRECTOR BENEFIT PLANS

Employee Savings and Profit Sharing Plan

The Bank has adopted a 401(k) Retirement Plan (the "401(k) Plan") which covers all employees that are age 18 or older and that have completed at least thirty days of service (the "401(k) Participant"). The 401(k) Plan provides for discretionary employer contributions and employer matching contributions. For each Plan Year (as defined in the 401(k) Plan), the Bank's Board shall determine a percentage of each 401(k) Participant's salary reduction contribution to contribute. If such determination is not made, then the amount contributed by the Bank is 100% of each 401(k) Participant's salary reduction contribution with the amount matched by the Bank not exceeding 6% of the 401(k) Participant's compensation. The maximum salary reduction permitted to a 401(k) Participant, with certain exceptions, is no more than the maximum set forth under Section 402(g) of the Code. The Bank's expenses under this plan for the years ended December 31, 2008, 2007 and 2006 were approximately \$208,000, \$162,000, and \$178,000, respectively.

Deferred Directors' Compensation and Directors' Consulting and Supplemental Retirement Pay Agreements

The Bank has a non-qualifying deferred compensation plan for directors in which certain directors have elected to participate. Under the plan, a participating director may elect to defer receipt of all or a portion of his/her fees. Amounts deferred, plus earnings thereon, are paid to or for the benefit of the participating director at retirement or death.

Beginning in 1992, the Bank implemented a non-qualifying consulting and supplemental retirement pay agreement for directors. Under the plan, each director will be entitled to receive, upon the later of attainment of age sixty-five or termination of service as an active member of the Bank's board of directors, monthly retirement payments which will continue as long as the director lives. Subject to certain requirements as to length of service as a director, a retired director's monthly benefit payment will be equal to all or some portion of the fee paid by the Bank to active directors for service and attendance at such time. In consideration of such retirement payments, a retired director will be required, so long as such director is physically and mentally able, to provide certain consulting services and to attend certain regular and special meetings of the Bank's board of directors.

During 2008, 2007 and 2006, total provisions of approximately \$66,000, \$31,000, and \$45,000, respectively, were charged to expense to provide for future obligations payable under the arrangements described above. The corresponding liability related to this plan was approximately \$670,000 and \$626,000 as of December 31, 2008 and 2007, respectively.

Officers' Deferred Compensation

The Bank has implemented a non-qualifying deferred compensation plan for certain key executive officers. The Bank has purchased life insurance policies on the participating officers in order to provide future funding of benefit payments. Benefits for each officer participating in the plan will accrue and vest during the period of employment and will be paid in monthly benefit payments over the participant's life after retirement. The plan also provides for payment of disability or death benefits in the event a participating officer becomes permanently disabled or dies prior to attainment of retirement age. During 2008, an \$18,000 reduction in future benefits under this plan was recorded, while in 2007 and 2006, provisions of approximately \$74,000 and \$98,000, respectively, were expensed for future benefits to be provided under this plan. The reduction in future benefits for 2008 is based in part on the poor performance in 2008 of the policies that were tied to certain of the plans referred to as indexed plans. In addition, the Bank negotiated a buyout of the plans covering a former key executive which resulted in a reduction in the Bank's liability to him. The split dollar portion of his buyout was paid prior to December 31, 2008 and the remaining balance was paid out in January 2009. The total liability under this plan

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE I - EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

was approximately \$863,000 and \$891,000 at December 31, 2008 and 2007 respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

Stock Compensation Plans

The Bank had one share-based compensation plan (subject to the provisions of SFAS No. 123R as described in Note A) that expired in May, 2008. Therefore, no new option grants can be awarded under this plan, but existing awards can still be exercised. All shares that have been issued under the plan were fully vested at December 31, 2005. Therefore, there was no compensation cost charged against income for the plan for the year ended December 31, 2008. There was no tax benefit recognized for share-based compensation arrangements during the period.

A summary of the Bank's stock option plan as of and for the years ended December 31, 2008, 2007 and 2006, after giving effect to the 5% stock dividends declared during 2006 and 2007, is as follows:

	Shares Available for Future Grants	Outstanding Options	
		Weighted Average Number Outstanding	Exercise Price
At December 31, 2005	16,926	40,891	\$ 21.33
Options granted/vesting	-	-	-
Options exercised	-	(4,321)	19.55
Options forfeited	<u>1,844</u>	<u>(1,844)</u>	<u>20.39</u>
At December 31, 2006	18,770	34,726	21.77
Options granted/vesting	-	-	-
Options exercised	-	(1,846)	19.63
Options forfeited	<u>4,980</u>	<u>(4,980)</u>	<u>25.60</u>
At December 31, 2007	23,750	27,900	21.23
Options granted/vesting	-	-	-
Options exercised	-	(8,030)	18.89
Options forfeited	-	2,001	19.74
Expiration of future grants	<u>23,750</u>	<u>-</u>	<u>-</u>
At December 31, 2008	<u>-</u>	<u>17,869</u>	<u>\$ 22.45</u>

At December 31, 2008, there were 17,869 exercisable options with a weighted average exercise price of \$22.45. The weighted average remaining life of options outstanding at December 31, 2008 is 3.87 years. At December 31, 2008, the range of exercise prices for the 17,869 outstanding options is \$18.05 to \$25.92.

At December 31, 2008, the total intrinsic value of the outstanding and exercisable options was \$8,130.

NOTE J - INCOME TAXES

The significant components of the provision for income taxes for the years ended December 31 are as follows:

	2008	2007	2006
Current tax provision (benefit)	\$ 104,116	\$ 42,032	\$ 17,664
Deferred tax provision (benefit)	<u>(360,895)</u>	<u>77,769</u>	<u>13,836</u>
Provision for income taxes	<u>\$ (256,779)</u>	<u>\$ 119,801</u>	<u>\$ 31,500</u>

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE J - INCOME TAXES (Continued)

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 34% to income (loss) before income taxes is summarized below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Tax computed at the statutory federal rate.....	\$ (155,274)	\$ 227,071	\$ 245,992
Increases (decreases) resulting from:			
Tax exempt interest, net	(96,781)	(123,221)	(195,000)
State income tax, net of federal tax effect.....	(17,817)	10,268	(5,200)
Officers' life insurance	-	(13,270)	(26,000)
Other, net	<u>13,093</u>	<u>18,953</u>	<u>11,708</u>
Provision for income taxes.....	<u>\$ (256,779)</u>	<u>\$ 119,801</u>	<u>\$ 31,500</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred taxes at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Deferred tax assets relating to:		
Allowance for loan losses.....	\$ 519,270	\$ 596,027
Loan fees and costs.....	103,634	101,211
Deferred compensation.....	551,704	585,007
Other real estate owned	-	769
Other	52,250	12,162
Federal NOL	389,902	-
State NEL.....	38,358	-
Net unrealized loss on securities available for sale	810,308	5,599
Net unrealized loss on derivatives.....	-	97,155
Basis difference in purchase of Morris Plan Bank	-	16,659
Alternative minimum tax.....	<u>411,514</u>	<u>412,577</u>
Total deferred tax assets.....	<u>2,876,940</u>	<u>1,827,166</u>
Deferred tax liabilities relating to:		
Tax depreciation in excess of book depreciation.....	559	-
Basis difference in purchase of Morris Plan Bank	20,846	-
Net unrealized loss on cash flow hedge	-	(14,976)
Prepaid expenses.....	(143,148)	(121,236)
Other	<u>(26,672)</u>	<u>(128,034)</u>
Total deferred tax liability	<u>(148,415)</u>	<u>(264,246)</u>
Net recorded deferred tax asset.....	<u>\$ 2,728,525</u>	<u>\$ 1,562,920</u>

The Bank adopted FIN 48 ("Accounting for Uncertainty in Income Taxes") on January 1, 2007. The adoption of the provisions of FIN 48 did not have a material impact on the Bank's financial position or results of operations. The Bank classifies interest and penalties related to income tax assessments, if any, in income tax expense in the consolidated statement of operations.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE K - REGULATORY MATTERS

The Bank, as a North Carolina banking corporation, may pay cash dividends only out of undivided profits as determined pursuant to the North Carolina General Statutes. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such limitation is in the public interest and is necessary to ensure financial soundness of the Bank.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios, as prescribed by regulations, of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject, as set forth below:

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>As of December 31, 2008:</i>						
Total Capital (to Risk-Weighted Assets)	\$ 24,422	11.59%	\$ 16,859	8.0%	\$ 21,074	10.0%
Tier I Capital (to Risk-Weighted Assets)	21,443	10.17%	8,430	4.0%	12,645	6.0%
Tier I Capital (to Average Assets)	21,443	7.90%	10,861	4.0%	13,576	5.0%
<i>As of December 31, 2007:</i>						
Total Capital (to Risk-Weighted Assets)	\$ 24,582	11.68%	\$ 16,834	8.0%	\$ 21,042	10.0%
Tier I Capital (to Risk-Weighted Assets)	21,948	10.43%	8,417	4.0%	12,625	6.0%
Tier I Capital (to Average Assets)	21,948	7.64%	11,492	4.0%	14,365	5.0%

In September, 2008, at the request of the FDIC, the Bank's Board of Directors adopted a Board Resolution that outlined an action plan to address specific concerns cited by the FDIC upon completion of their normal examination. The Bank provides monthly updates to the FDIC.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE L - OFF-BALANCE SHEET RISK, COMMITMENTS AND CONTINGENT LIABILITIES

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby and commercial letters of credit, and loans sold under agreements with limited recourse provisions. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contract or notional amount of those instruments, assuming that the amounts are fully advanced and that collateral or other security is of no value. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Generally, the Bank may require collateral, deposits or other security to support financial instruments with credit or interest rate risk.

At December 31, 2008, the financial instruments whose contract amounts represent credit risk and whose notional or contract amounts exceed the amount of on-balance sheet credit risk are as follows:

	Contract or Notional Amount <u> </u> (in thousands)
Commitments to extend credit.....	\$ 37,653
Standby and commercial letters of credit	<u>566</u>
	<u>\$ 38,219</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby and commercial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The letters of credit outstanding at December 31, 2008 expire at various dates through 2018. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds various assets as collateral supporting those commitments for which collateral is deemed necessary.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE M - DERIVATIVES

Derivative Financial Instruments

The Bank utilizes stand-alone derivative financial instruments in the form of interest rate swap and floor agreements, in its asset/liability management program. These transactions involve both credit and market risk. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is included on the Bank's consolidated balance sheets in other assets and other liabilities.

The Bank is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Bank controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Bank deals only with primary dealers.

Derivative instruments are generally either negotiated OTC contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instruments, amount, exercise prices and maturity.

Risk Management Policies - Hedging Instruments

The primary focus of the Bank's asset/liability management program is to monitor the sensitivity of the Bank's net portfolio value and net income under varying interest rate scenarios to take steps to control its risks. On a quarterly basis, the Bank simulates the net portfolio value and net income expected to be earned over a twelve-month period following the date of simulation. The simulation is based on a projection of market interest rates at varying levels and estimates the impact of such market rates on the levels of interest-earning assets and interest-bearing liabilities during the measurement period. Based upon the outcome of the simulation analysis, the Bank considers the use of derivatives as a means of reducing the volatility of net portfolio value and projected net income within certain ranges of projected changes in interest rates. The Bank evaluates the effectiveness of entering into any derivative instrument agreement by measuring the cost of such an agreement in relation to the reduction in net portfolio value and net income volatility within an assumed range of interest rates. The Bank has held certain derivative financial instruments to be used as economic hedges that were not qualified by the Bank for hedge accounting treatment, but during 2008, the Bank terminated the swap and floor positions it held so that at December 31, 2008, there was no credit exposure. The Bank recorded net gains of \$397,000 in 2008, \$388,000 in 2007, and a net loss of \$316,237 in 2006.

The fair value of the Bank's derivative financial instruments and their related notional amounts is summarized below.

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>
Interest rate floors associated with lending activities	\$ -	\$ -	\$ 227,599	\$ 10,000,000
Interest rate swaps associated with deposit taking activities.....	-	-	(236,315)	13,000,000
Total.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,716)</u>	<u>\$ 23,000,000</u>

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE M - DERIVATIVES (Continued)

Interest Rate Risk Management - Cash Flow Hedging Instruments

The Bank uses interest rate floors and collars to assist in managing interest rate risk. Interest rate floors are option contracts for which an initial premium is paid and for which no ongoing interest rate risk is present. The ability of counterparties to meet their obligation under the terms of these contracts is the primary risk involved with interest rate floors. The Bank controls the credit risk associated with these instruments through credit approvals, requests for collateral, counterparty limits and monitoring procedures. The interest rate floor agreements provide that the counterparty to the agreement pay to the Bank the difference between the stated variable rates and agreed upon “floor” rates if the stated variable rates drop below the floor rates. The interest rate collar agreements provide that the counterparty make payments to the Bank if the stated variable rates drop below the floor rates and that the Bank make payments to the counterparty if the stated variable rates rise above agreed upon “cap” rates.

At December 31, 2007, the Bank had interest rate floors that provided for payments to the Bank in the event interest rates decreased below levels provided in the agreements. These agreements were not designated as hedges under SFAS No. 133 and were subsequently terminated in 2008. The gains and losses from such agreements are recognized in non-interest income in the line item gains (losses) on economic hedges.

Interest Rate Risk Management – Fair Value Hedging Instruments

As part of interest rate risk management, the Bank from time to time has entered into interest rate swap agreements to convert certain fixed-rate obligations to floating rates. At December 31, 2007, the Bank had interest rate swap agreements related to fixed rate obligations that provided for the Bank to pay floating and receive fixed interest payments. None of these agreements were designated as fair value hedges under SFAS No. 133. These agreements were terminated in 2008. The gains and losses from such agreements are recognized in non-interest income in the line item gains (losses) on economic hedges.

NOTE N - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of the estimated fair values of the Bank’s financial instruments, whether or not recognized in the balance sheet, where it is practical to estimate that value. Such instruments include cash and due from banks, interest-earning deposits, federal funds sold, investment securities, loans, investment in life insurance, accrued interest receivable, deposit accounts, borrowed money, loans sold with recourse, derivatives, and commitments. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank’s entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Bank’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE N - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Investment Securities

Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Investment in Life Insurance

The carrying value of life insurance approximates fair value because this investment is carried at cash surrender value, as determined by the insurer.

Deposits

The fair value of demand and savings deposits is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting expected cash flows using the rates currently offered for deposits of similar remaining maturities.

Borrowings

The carrying amounts of federal funds purchased and borrowings under repurchase agreements approximate their fair values. Fair values of other borrowings are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements, if a quoted market price is not available.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Derivative Financial Instruments

The fair values of derivative financial instruments are determined based on dealer quotes.

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk, it is not practicable to estimate the fair value of future financing commitments, and, because in the case of loans sold with limited recourse the Bank has access to underlying collateral and other lender's remedies, the fair value of such recourse loans is estimated to have only a nominal value.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE N - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of the Bank's financial instruments, none of which are held for trading purposes, are as follows at December 31, 2008 and 2007:

	2008		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	\$ 8,292	\$ 8,292	\$ 10,321	\$ 10,321
Investment securities available				
for sale	37,668	37,688	58,822	58,822
Loans held for sale	1,793	1,793	-	-
Loans, net	205,268	239,281	202,311	205,110
Investment in life insurance.....	1,737	1,737	1,769	1,769
Accrued interest receivable.....	1,114	1,114	1,272	1,272
Financial liabilities:				
Deposits.....	220,432	220,349	243,682	242,988
Borrowings.....	26,691	25,517	17,636	16,965
Accrued interest payable.....	287	287	367	367
Derivative financial instruments:				
Interest rate floors (derivative asset)	-	-	228	228
Interest rate swaps (derivative liabilities).....	-	-	(236)	(236)

NOTE O - FAIR VALUE OF ASSETS AND LIABILITIES

Effective January 1, 2008, the Bank adopted of SFAS No. 157, "Fair Value Measurements" and SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities". SFAS No. 157, which was issued in September 2006, defines fair value, establishes a framework for measuring fair value according to generally accepted accounting principles, and expands disclosures about fair value measurements. While this standard does not require any financial instruments to be measured at fair value, the provisions of the statement must be applied in situations where other accounting pronouncements either permit or require fair value measurement. The Bank reports fair value on a limited basis, most notably for available for sale investment securities and certain derivative instruments which will require compliance with the provisions of SFAS 157. The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value which was below cost at the end of the period. Assets subject to nonrecurring use of fair value measurements could include loans held for sale, goodwill, and foreclosed assets.

In accordance with SFAS No. 157, we group our financial assets and financial liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE O - FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Level 1 – Valuations for assets and liabilities traded in active exchange markets such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party services for similar or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or brokered traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
	(Amounts in thousands)			
Securities available for sale	\$ 37,688	\$ -	\$ 37,688	\$ -

The table below presents the balances of assets measured at fair value on a non-recurring basis.

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
	(Amounts in thousands)			
Impaired Loans	\$ 292	\$ -	\$ 253	\$ 39

The Bank utilizes a third party pricing service to provide valuations on its securities portfolio. Despite most of these securities being U.S. government agency debt obligations, agency mortgage-backed securities, and municipal securities traded in active markets, third party valuations are determined based on the characteristics of a security (such as maturity, duration, rating, etc.) and in reference to similar or comparable securities. Due to the nature and methodology of these valuations, the Bank considers these fair value measurements as Level 2. Derivative contracts and impaired loans are also valued using Level 2 criteria. At December 31, 2008 a number of impaired loans were evaluated based on the present value of anticipated future cash flows which is a Level 3 measurement.

SFAS No. 159 allows an entity to make an irrevocable election to measure certain financial instruments at fair values. The changes in fair value from one reporting period to the next period must be reported in the income statement with additional disclosures to identify the effect on net income. The Bank continued to account for securities available for sale at fair value as reported in prior years which is required by SFAS No. 115. Derivative activity is also reported at fair value as required by SFAS No. 133. Securities available for sale and derivative activity are reported on a recurring basis. Upon adoption of SFAS No. 159, no additional financial assets or liabilities were reported at fair value and there was no material effect on earnings.

RANDOLPH BANK & TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2008, 2007 and 2006

NOTE P – RELATED PARTY TRANSACTIONS

During 2007 and 2008, the Bank leased four separate properties from entities controlled by either the husband or the children of one of the Bank's directors. Annual lease payments for 2008 were \$76,000 and will remain at that level for 2009. Three of the leases expire in 2010 and one lease expires in 2012. All contain options to renew for another five years.

NOTE Q – SUBSEQUENT EVENTS

On January 23, 2009, the Bank completed the sale of its credit card portfolio to Silverton Bank, Atlanta, Georgia at a premium.

In November, 2008, the Bank submitted an application to participate in the federal Capital Purchase Program (CPP) established as part of the Troubled Asset Relief Program (TARP). Shortly after the application was submitted, the Department of the Treasury issued guidance to clarify that any financial institution that is not listed on NASDAQ or an exchange is classified as "private" and, as such, is eligible to participate in the CPP. Therefore, the Bank is being treated as a private bank applicant. As of April 30, 2009, the Bank had not received any notification regarding its status.

On February 27, 2009, the FDIC approved as a part of its restoration plan to restore the Deposit Insurance Plan reserve ratio to an acceptable level the imposition of a 20 basis point emergency special assessment on insured depository institutions as of June 30, 2009. The assessment will be collected on September 30, 2009. This final rule would also permit the FDIC to impose an emergency special assessment after June 30, 2009, of up to ten basis points if necessary to maintain public confidence in federal deposit insurance. Based on assessable deposit balances as of December 31, 2008, this special assessment, if implemented as approved, would equal approximately \$440,000. This special assessment, if implemented as proposed, will have a significant impact on the results of operations of the Company for the quarter ending June 30, 2009 and the full year 2009.

On Friday, May 1, 2009, Silverton Bank, N.A., Atlanta, GA was closed by the Office of the Comptroller of the Currency. Randolph Bank owns 80 shares of the parent company, Community Financial Services, Inc. with an original cost basis of \$50,180. The stock is recorded at cost on the balance sheet as there is no readily determinable market value. The FDIC created a bridge bank to take over the operations of Silverton Bank, N.A. Silverton Bridge Bank, N.A. will continue to operate business as usual through July 29, 2009. Randolph Bank currently has a \$2.0 million fed funds line with Silverton and continues to accept payments on credit cards sold to Silverton in January, 2009. The Bank's correspondent bank account with Silverton has a current balance of \$500 as of April 30, 2009.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9a(T) - CONTROLS AND PROCEDURES

Controls and Procedures

As of the end of the period covered by this report, the Bank carried out an evaluation, under the supervision and with the participation of the Bank's management, including the Bank's principal executive officer and principal financial officer, of the effectiveness of the Bank's disclosure controls and procedures (as defined in Rule 13a-15(e)) pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Bank's principal executive and principal financial officer have concluded that the Bank's disclosure controls and procedures were not effective because of the material weaknesses described in "Management's Report on Internal Control over Financial Reporting" below.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2008. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management's assessment included a limited evaluation of the design of the Bank's internal control over financial reporting. However, due to managerial and organizational constraints, the scope of this evaluation was limited to entity level controls and controls over certain high risk areas of the Bank.

Based on the assessment that was conducted, management has concluded that the Bank's internal control over financial reporting as of December 31, 2008 was not effective because of the material weaknesses described below.

This annual report does not include an attestation report of the Bank's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission, as adopted by the FDIC, that permit the Bank to provide only management's report in this annual report.

Discussion of Material Weaknesses

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Bank's annual or interim financial statements will not be prevented or detected on a timely basis.

In connection with management's assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2008, it was determined that multiple deficiencies in the Bank's method of establishing the allowance for loan losses collectively constituted a material weakness in internal control over financial reporting. Specifically, it was determined that the process of identifying and assessing impaired loans needed to be strengthened, that a process to validate the accuracy of data input to the allowance model needed to be developed, and that updated appraisals needed to be obtained for certain loans.

In addition, it was determined that certain material deviations from the Bank's internal policy for credit limits and cash reserves in its factored accounts receivable program also constituted a material weakness.

Finally, the limited scope of the evaluation of the design of the Bank's internal control over financial reporting to entity level controls and controls over certain high risk areas of the Bank, in and of itself, constituted a material weakness in internal control over financial reporting.

Plan for Remediation of Material Weaknesses

Management has engaged the services of an outside firm to assist it in conducting a more thorough assessment of its internal control over financial reporting as of December 31, 2009. This more thorough assessment will take place throughout the remainder of 2009 and will include:

- Reviewing and updating the risk plan and testing strategy;
- Testing each key control for operating effectiveness on a quarterly basis;
- Developing a system for reporting deficiencies to management on a timely basis; and
- Remediating any deficiencies noted during the testing in a timely manner.

Management also plans to consult with the firm engaged to test the Bank's internal control structure in order to enhance its understanding of the necessary steps needed to remediate the material weaknesses identified relative to the allowance for loan losses. With respect to the factored accounts receivable program policy deviations, management plans to reevaluate the program, as a whole, to determine whether or not it provides the expected returns, given risk parameters. From an individual participant perspective, policy exceptions will be reported and monitored quarterly. The specific noted exception relates to a client that holds receivables for much longer time periods than what was originally designed for the program. Management will work with the client to reduce exposure during the remainder of this year.

Changes in Internal Control over Financial Reporting

No changes in the Bank's internal control over financial reporting occurred during the fourth quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

ITEM 9b - OTHER INFORMATION

None.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Incorporated by reference from the discussion under the headings “Proposal 1: Election of Directors”, “Executive Officers”, and, “Beneficial Ownership of Voting Securities” in the Registrant’s definitive Proxy Statement for the 2009 Annual Meeting filed with the FDIC pursuant to Rule 14a-6 (the “Proxy Statement”). All officers/directors have complied with Section 16(a) of the Exchange Act.

The Registrant has a Code of Ethics that is applicable, among others, to its principal executive officer and principal financial officer. The Registrant’s Code of Ethics will be provided to any person, without charge, upon written request made to C. Michael Whitehead, Jr., President, Randolph Bank & Trust Company, P.O. Box 1888, Asheboro, NC 27204-01888.

The Registrant does not have an audit committee financial expert serving on its audit committee, due to the fact that no member of the Registrant’s audit committee meets all of the criteria set forth in Item 407(d)(5)(i) of Regulation S-K

ITEM 11 - EXECUTIVE COMPENSATION

Incorporated by reference from the discussion under the heading “Executive Officers” in the Registrant’s definitive Proxy Statement filed with the FDIC.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Beneficial Ownership of Voting Securities

Incorporated by reference from the discussion under the heading “Beneficial Ownership of Voting Securities” in the Registrant’s definitive Proxy Statement filed with the FDIC.

Stock Option Plans

Set forth below is certain information regarding the Registrant’s various stock option plans.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	17,869	\$22.45	0
Equity compensation plans not approved by security holders	None	None	None
Total	17,869	\$22.45	0

See additional information in Note I under the heading "Stock Compensation Plans" in Item 7 of this Form 10-K.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the discussion under the headings “Director Relationships” and “Indebtedness and Transaction with Management” in the Registrant’s definitive Proxy Statement filed with the FDIC.

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from the discussion under the headings “Proposal 2: Ratification of Independent Public Accountants” in the Registrant’s definitive Proxy Statement filed with the FDIC.

ITEM 15 - EXHIBITS

(a) Exhibits

- 3.1** Articles of Incorporation of Registrant (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2001).
- 3.2** Bylaws of Registrant (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2001).
- 10.1** 1998 Omnibus Stock Option Plan, approved by shareholders at the 1999 Annual Shareholders Meeting (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2001).
- 10.2** Change in Control Agreement dated June 19, 2003 for K. Reid Pollard (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2005).
- 10.3** Change in Control Agreement dated June 19, 2003 for C. Michael Whitehead, Jr. (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2005).
- 10.4** Executive Income Deferred Compensation Including Payment of Disability Income Policy Premiums Agreement dated September 1, 1992 for K. Reid Pollard (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2005).
- 10.5** Executive Income Split Dollar Agreement dated September 1, 1992 for K. Reid Pollard (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2005).
- 10.6** Supplemental Income Plan Agreement dated August 1, 1995 for K. Reid Pollard (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2005).
- 10.7** Amended Executive Indexed Salary Continuation Plan Agreement dated April 1, 1996 for K. Reid Pollard (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2005).
- 10.8** Endorsement Method Split Dollar Plan Agreement dated April 1, 1996 for K. Reid Pollard (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2005).
- 10.9** Split-Dollar Insurance Agreement dated May 5, 2004 for C. Michael Whitehead, Jr. (incorporated by reference from Registrant’s Form 10-KSB for the year ended December 31, 2005).
- 21** Subsidiary
- 31.1** Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)
- 31.2** Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)
- 32.1** Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2** Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to the requirements of Section 13 of the Securities Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

RANDOLPH BANK & TRUST COMPANY

Registrant

By: /s/ C. Michael Whitehead, Jr.

C. Michael Whitehead, Jr.

President

Date: April 24, 2009

Pursuant to the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Harvey Adams _____, 2009
Harvey Adams, MD, Director

/s/ Katherine Homiller _____, 2009
Katherine Homiller, Chief Financial Officer

/s/ D. Harold Briles _____, 2009
D. Harold Briles, Director

/s/ Henry N. Buckner _____, 2009
Henry N. Buckner, Director

/s/ Wallace Garner _____, 2009
Wallace Garner, Director

/s/ Christy B. McKenzie _____, 2009
Christy B. McKenzie, Director

/s/ Sam W. Moore _____, 2009
Sam W. Moore, Director

/s/ C. Michael Whitehead, Jr. _____, 2009
C. Michael Whitehead, Jr., President

/s/ Phillip O. Ridge _____, 2009
Phillip O. Ridge, Director

/s/ Doris H. Smith _____, 2009
Doris H. Smith, Director

/s/ Milton F. Yates _____, 2009
Milton F. Yates, Director

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit</u>	<u>Page Number</u>
3.1	Articles of Incorporation.	*
3.2	Bylaws	*
10.1	1998 Omnibus Stock Option Plan	*
10.2	Change in Control Agreement dated June 19, 2003 for K. Reid Pollard	**
10.3	Change in Control Agreement dated June 19, 2003 for C. Michael Whitehead	**
10.4	Executive Income Deferred Compensation Including Payment of Disability Income Policy Premiums Agreement dated September 1, 1992 for K. Reid Pollard	**
10.5	Executive Income Split Dollar Agreement dated September 1, 1992 for K. Reid Pollard	**
10.6	Supplemental Income Plan Agreement dated August 1, 1995 for K. Reid Pollard	**
10.7	Amended Executive Indexed Salary Continuation Plan Agreement dated April 1, 1996 for K. Reid Pollard	**
10.8	Endorsement Method Split Dollar Plan Agreement dated April 1, 1996 for K. Reid Pollard	**
10.9	Executive Income Split Dollar Agreement dated May 5, 2004 for C. Michael Whitehead, Jr.	**
21	Subsidiary	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)	Filed herewith
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
*	Incorporated by reference from Registrant's Form 10-KSB for the year ended December 31, 2001.	
**	Incorporated by reference from Registrant's Form 10-KSB for the year ended December 31, 2005.	

Exhibit 21

SUBSIDIARY

1. Randolph Investment Services, a North Carolina corporation

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, C. Michael Whitehead, Jr. certify that:

- (1) I have reviewed this annual report on Form 10-K of Randolph Bank and Trust Company, a North Carolina bank (the "Registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- (4) The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
- (5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 24, 2009

By: /s/ C. Michael Whitehead, Jr.
C. Michael Whitehead, Jr.
President
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Katherine Homiller, certify that:

- (1) I have reviewed this annual report on Form 10-K of Randolph Bank and Trust Company, a North Carolina bank (the "Registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- (4) The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
- (5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 24, 2009

By: /s/ Katherine Homiller
Katherine Homiller
Chief Financial Officer
(Principal Accounting Officer)

Exhibit 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, to his or her knowledge, (i) the Form 10-K filed by Randolph Bank and Trust Company (the “Issuer”) for the year ended December 31, 2008, fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

Date: April 24, 2009

By: /s/ C. Michael Whitehead, Jr.
C. Michael Whitehead, Jr.
President
(Principal Executive Officer)

Exhibit 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, to his or her knowledge, (i) the Form 10-K filed by Randolph Bank and Trust Company (the “Issuer”) for the year ended December 31, 2008, fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

Date: April 24, 2009

By: /s/ Katherine Homiller
Katherine Homiller
Chief Financial Officer
(Principal Accounting Officer)

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K/A
AMENDMENT 1

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from _____ to _____.

FDIC CERTIFICATE NUMBER 22746

RANDOLPH BANK & TRUST COMPANY

(Exact name of registrant as specified in its charter)

NORTH CAROLINA

(State or Other Jurisdiction of incorporation or organization)

56-1194124

(I.R.S. Employer Identification No.)

175 North Fayetteville Street, Asheboro, North Carolina

(Address of principal executive offices)

27203

(Zip Code)

Registrant's Telephone number, including area code: (336) 625-1000

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE \$5.00 PER SHARE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$22,033,735.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: 1,044,748 shares of common stock outstanding as of March 31, 2009.

EXPLANATORY NOTE

Randolph Bank & Trust Company (the "Bank") is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2008, solely to include certain disclosure originally intended to be incorporated by reference from the definitive proxy statement for the Bank's 2009 Annual Meeting of Stockholders (the "Proxy Statement") pursuant to General Instruction G(3) of Form 10-K.

The Bank is not amending or restating its financial results for the fiscal year ended December 31, 2008 as originally reported in its Annual Report on Form 10-K.

This Amendment No. 1 to the Bank's Annual Report on Form 10-K for the fiscal year end December 31, 2008, amends and supersedes the following items in their entirety as set forth below: Items 10, 11, 12, 13, and 14 of Part III of the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation on May 8, 2009.

PART III

[In this Amendment, the terms "Registrant," "Bank," "we," "us," "our" and similar terms refer to Randolph Bank & Trust Company.]

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Director Nominees

The Bank's Bylaws provide that its Board of Directors shall consist of between nine and eighteen members, as determined by the Board of Directors or the shareholders. If there are nine or more members, the Board shall be divided into three classes approximately equal in number with each class being elected for three-year terms on a staggered basis. The Board of Directors has set the number of directors of the Bank at ten and recommends that common stock shareholders vote for each of the four directors listed below for terms of three years.

<u>Name and Age</u>	<u>Position(s) Held</u>	<u>Director Since</u>	<u>Principal Occupation and Business Experience During the Past Five Years</u>
Cynthia G. Hatley (52)	--	New Nominee	Former school counselor, Randolph County Schools, 1995-2007.
Phillip O. Ridge (49)	Director	1989	Manager, Selpro, LLC (cabinet distribution); Owner, Ridge Farms (dairy farm)
Larry K. Small (64)	--	New Nominee	President & CEO, Acme-McCrary Corporation
C. Michael Whitehead, Jr. (39)	Director & President	2008	President, Randolph Bank & Trust Company, 2008-Present; Vice President & Chief Credit Officer, Randolph Bank & Trust Company, 2003 - 2008

THE BOARD OF DIRECTORS RECOMMENDS THAT COMMON STOCK SHAREHOLDERS VOTE "FOR" EACH OF THE FOUR NOMINEES NAMED ABOVE FOR THREE-YEAR TERMS.

Directors Not Standing for Reelection

The Bank's Board of Directors includes the following directors who have chosen not to stand for reelection. The terms of these directors will end upon the election of their successors at the Annual Meeting.

<u>Name and Age</u>	<u>Director Since</u>	<u>Term Expires</u>	<u>Principal Occupation and Business Experience During the Past Five Years</u>
Wallace W. Garner (83)	1978	2009	Retired; previously, Owner, Garner Seed Company (seed wholesaler)

<u>Name and Age</u>	<u>Director Since</u>	<u>Term Expires</u>	<u>Principal Occupation and Business Experience During the Past Five Years</u>
Sam W. Moore (78)	2002	2009	President, Realty Concepts, Inc. (real estate company)

Incumbent Directors

The Bank's Board of Directors includes the following directors whose terms will continue after the Annual Meeting. Certain information regarding those directors is set forth in the following table:

<u>Name and Age</u>	<u>Director Since</u>	<u>Term Expires</u>	<u>Principal Occupation and Business Experience During the Past Five Years</u>
Harvey Adams, M.D. (80)	1978	2010	Retired physician; formerly physician, Asheboro OB GYN Associates, P.A.
D. Harold Briles (74)	1981	2011	Semi-retired Vice President, Briles Oil & Gas, Inc. (petroleum distributor)
Henry N. Buckner (59)	2002	2010	Accountant, Apple, Bell, Johnson & Co., P.A. (accounting firm)
Christy B. McKenzie (53)	1994	2011	Co-owner, Branco Enterprises, Inc. (clothing sales)
Doris H. Smith (72)	1979	2011	Real estate developer
Milton F. Yates (66)	1978	2010	Owner and CEO, Yates Country Ham, Inc., Asheboro, NC

Director Relationships

No director is a director of any other company with a class of securities registered pursuant to Section 12 of the "Exchange Act," or subject to the requirements of Section 15(d) of the Exchange Act, or any company registered as an investment company under the Investment Company Act of 1940.

Mr. Garner and Dr. Adams, each of whom has been a director since 1978, are brothers-in-law. Ms. Hatley, a new nominee for director, is Mr. Garner's daughter and Dr. Adams' niece.

Section 16(a) Beneficial Ownership Reporting Compliance

The Bank's directors and executive officers are required to file certain reports with the Federal Deposit Insurance Corporation ("FDIC") regarding the amount of and changes in their beneficial ownership of the Bank's common stock (including, without limitation, an initial report following the person's election as an officer or director of the Bank and a report following any change in a reporting person's beneficial ownership). Based upon a review of copies of reports received by the Bank, all required reports of directors and executive officers of the Bank were filed on a timely basis.

Meetings and Committees of the Board of Directors

The Bank's Board held 17 meetings during 2008. With the exception of Mr. Redding, who retired as a director on December 31, 2008, each director attended 75% or more of the aggregate number of meetings of the Board and any committees on which he or she served. The Bank encourages each of its directors to attend the Bank's annual shareholder meeting. All of the Bank's eleven (11) directors attended the 2008 annual meeting.

The Bank's Board has several standing committees, including a Compensation Committee, a Nominating Committee, and an Audit Committee. Mr. Redding, who served as a member of the Bank's Board as well as the Bank's Audit and Compensation Committees retired from his Board and committee positions on December 31, 2008.

Compensation Committee. The members of the Compensation Committee during 2008 were Harvey Adams, M.D., D. Harold Briles, Henry N. Buckner, Sam W. Moore, J. Howard Redding, Phillip O. Ridge, Doris H. Smith and Milton F.

Yates. The Compensation Committee reviews and approves all salaries and benefits of Bank personnel. K. Reid Pollard, the Bank's former President and Chief Executive Officer, participated in meetings when called upon by the Compensation Committee, but did not participate in discussions regarding his own compensation. The Compensation Committee met three (3) times in 2008. The Compensation Committee does not have a charter.

Nominating Committee. The members of the Nominating Committee during 2008 were Harvey Adams, M.D., Henry N. Buckner and Milton F. Yates. The Nominating Committee recommends nominees to the entire Board for election as directors. In 2008, the Nominating Committee did not meet and the full Board of Directors (except for Mr. Whitehead) served as the Nominating Committee, and in that capacity, they met three (3) times in connection with the selection of nominees for election at the 2009 Annual Meeting. In making recommendations to the Board, the Nominating Committee will consider candidates recommended by shareholders, in writing, to the Nominating Committee if received at least 120 days, but not more than 150 days prior to the Annual Meeting at which directors are to be elected. Such recommendation of nominees shall include, among other things, in accordance with Article IV, Section 4 of the Bank's Bylaws, the recommended nominee's employment history, current beneficial ownership, criminal history, written consent to such recommendation, and any arrangements in connection with such recommendation. The nominating committee has adopted a written charter which is available at www.randolphbank.com.

Audit Committee. The Audit Committee has in place pre-approval policies and procedures that involve an assessment of the performance and independence of the Bank's independent auditors, an evaluation of any conflicts of interest that may impair the independence of the independent auditors and pre-approval of an engagement letter that outlines all services to be rendered by the independent auditors.

The Registrant does not have an audit committee financial expert serving on its audit committee, due to the fact that no member of the Registrant's audit committee meets all of the criteria set forth in Item 407(d)(5)(i) of Regulation S-K.

Executive Officers

Set forth below is certain information regarding the Bank's executive officers during the year ended December 31, 2008.

<u>NAME</u>	<u>AGE</u>	<u>POSITION WITH BANK</u>	<u>BUSINESS EXPERIENCE</u>
C. Michael Whitehead, Jr.	37	Current President; formerly Vice President & Chief Credit Officer	President of Randolph, 2008 – Present; Vice President & Chief Credit Officer, 2003 - 2008; Assistant Vice President and Commercial Banking Manager, 2000-2003
K. Reid Pollard	53	Former President & Chief Executive Officer	President and Chief Executive Officer of Randolph, 1985-2008
Katherine L. Homiller	56	Vice President and Chief Financial Officer	Vice President and Chief Financial Officer of Randolph 2008 – Present; Self Employed CPA 1983 – Present; Vice President and Controller FNB, Asheboro 1997 - 2005
Laurence J. Trapp	54	Executive Vice President, Chief Credit Officer, and Chief Operating Officer	Executive Vice President, Chief Credit Officer, and Chief Operating Officer of Randolph , 2008–Present; Executive Vice President and Chief Credit Officer of AF Financial Group 2007-2008; President & CEO of Millennia Bank 2004 – 2007; Independent Consultant 1997 – 2003; EVP

The Registrant has a Code of Ethics that is applicable, among others, to its principal executive officer and principal financial officer. The Registrant's Code of Ethics will be provided to any person, without charge, upon written request made to C. Michael Whitehead, Jr., President, Randolph Bank & Trust Company, P.O. Box 1888, Asheboro, NC 27204-01888.

ITEM 11 - EXECUTIVE COMPENSATION

Executive Compensation

The following table shows cash and certain other compensation paid to or received or deferred by Messrs. Whitehead, Pollard and Trapp and by Ms. Homiller for services rendered in all capacities during fiscal year 2008. Mr. Pollard resigned from his position as president and chief executive officer on February 11, 2008. No other current or former executive officer of the Bank received compensation for 2008 which exceeded \$100,000.

SUMMARY COMPENSATION TABLE

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Stock Awards</u>	<u>Option Awards</u>	<u>Non-Equity Incentive Plan Compensation</u>	<u>Nonqualified Deferred Compensation Earnings</u>	<u>All Other Compensation</u>	<u>Total</u>
C. Michael Whitehead, Jr. President	2008	\$159,011	--	--	--	--	--	\$15,946 ⁽¹⁾	\$174,957
	2007	\$100,689	\$10,000	--	--	--	--	\$13,529 ⁽¹⁾	\$124,218
K. Reid Pollard ⁽²⁾ Past President and CEO	2008	\$29,400	\$4,000	--	--	--	--	\$173,081 ⁽³⁾	\$206,481
	2007	\$172,500	\$4,000	--	--	--	--	\$147,274 ⁽⁴⁾	\$323,774
Katherine L. Homiller VP and Chief Financial Officer	2008	\$98,756	--	--	--	--	--	\$10,330 ⁽¹⁾	\$109,086
	2007 ⁽⁵⁾	--	--	--	--	--	--	--	--
Laurence J. Trapp EVP, Chief Credit Officer and Chief Operating Officer	2008	\$92,312	--	--	--	--	--	\$7,675 ⁽¹⁾	\$99,987
	2007 ⁽⁶⁾	--	--	--	--	--	--	--	--

-
- (1) Includes matching 401(k) contributions and insurance premiums paid on behalf of the named executive. In each case, perquisites did not exceed \$10,000.
 - (2) Mr. Pollard resigned his positions with the bank on February 11, 2008.
 - (3) Includes severance payments, matching 401(k) contributions, insurance premiums paid on behalf Mr. Pollard, an automobile, and deferred compensation.
 - (4) Includes \$131,410, which is the 2007 aggregate change in the actuarial present value of Mr. Pollard's deferred compensation plans as more fully described below.
 - (5) Ms. Homiller was hired by the bank in her current position on January 14, 2008. During 2007, Ms. Homiller served as a consultant to the bank for eight months.
 - (6) Mr. Trapp was hired by the bank on May 5, 2008 and did not receive any compensation from the bank prior to that time.

Stock Options

At the Bank's 1998 Annual Meeting, the shareholders approved the adoption of the Randolph Bank & Trust Company 1998 Omnibus Stock Plan, which provides for the issuance of either Incentive Stock Options, as defined in Section 422 of the Code, or Nonqualified Stock Options for directors. No options were granted to Messrs. Whitehead, Pollard, Trapp, or Ms. Homiller during the fiscal year ended December 31, 2008.

The following table sets forth information with regard to outstanding equity awards held by the executive officers as of April 30, 2009.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

<u>Name</u>	<u>No. of Securities Underlying Unexercised Options Exercisable</u>	<u>No. of Securities Underlying Unexercised Options Unexercisable</u>	<u>Option Exercise Price</u>	<u>Option Expiration Date</u>
C. Michael Whitehead, Jr.	429	--	\$19.90	6/1/2011
	638	--	\$23.51	5/1/2013
	4,341	--	\$25.92	8/1/2015
Katherine L. Homiller	--	--	--	--
Laurence J. Trapp	--	--	--	--

401(k) Savings Plan

The Bank has adopted a 401(k) Retirement Plan (the “401(k) Plan”) which covers all employees that are age 18 or older and that have completed at least thirty days of service (each a “401(k) Participant”). The 401(k) Plan was restated and amended effective January 1, 2002 to incorporate provisions needed to satisfy revised tax and pension law requirements. The 401(k) Plan provides for discretionary employer contributions, and employer matching contributions. For each Plan Year (as defined in the 401(k) Plan), the Bank’s Board of Directors shall determine a percentage of each 401(k) Participant’s salary reduction contribution to contribute. If such determination is not made, then the amount contributed by the Bank is 100% of each 401(k) Participant’s salary reduction contribution with the amount matched by the Bank not exceeding 6% of the 401(k) Participant’s compensation. The maximum salary reduction permitted to a 401(k) Participant, with certain exceptions, was \$15,500 for 2008, but in no event were Participants permitted to contribute more than the maximum set forth under Section 402(g) of the Code. All employee contributions are fully vested and nonforfeitable at all times, and all employer contributions begin vesting after two years of service at 20% per year. The value of a 401(k) Participant’s accounts under the 401(k) Plan becomes payable to him or her in full upon retirement, total or permanent disability or termination of employment for any other reason, or becomes payable to a designated beneficiary upon a 401(k) Participant’s death. The 401(k) Plan provides that the 401(k) Participant shall share in contributions made by the Bank for a Plan Year if the 401(k) Participant is terminated for any reason other than death, disability, or retirement (as permitted under the 401(k) Plan). The 401(k) Plan also contains provisions for withdrawals in the event of certain hardships. Contributions to the 401(k) Plan and any income accrued on such contributions are not subject to federal or state taxes until such time as they are withdrawn by the 401(k) Participant.

Deferred Compensation Plans and “Change in Control” Arrangements

In 1992, the Bank established an Executive Income Deferred Compensation Plan and in 1995, a Supplemental Income Plan for the benefit of Mr. Pollard for his past and future service. The Deferred Compensation Plan and Supplemental Income Plan would have provided for payments of \$55,000 and \$72,000, respectively, per year for 10 years if Mr. Pollard had retired from the Bank at age 65. The Deferred Compensation Plan also provided for the payment of disability insurance premiums on Mr. Pollard’s behalf. Under the Deferred Compensation Plan, Mr. Pollard would not have been entitled to any benefits if he had voluntarily resigned or was terminated for cause prior to age 65. However, because Mr. Pollard’s employment was terminated without cause prior to reaching age 65, Mr. Pollard was entitled to the benefit accrued on his behalf based on a vesting schedule set forth in the Plan, which the Bank would have started paying in the thirteenth month after Mr. Pollard’s termination. However, in December 2008, the Bank negotiated a buyout of the plan. Mr. Pollard received a lump sum of \$128,437 in January 2009. The Supplemental Income Plan, on the other hand, provided that in the event of Mr. Pollard’s termination from service with the Bank for any reason other than retirement or death, he was entitled to his vested percentage in that Plan’s benefit upon reaching age 65, or upon death. This plan was also part of the negotiated buyout. Mr. Pollard received a lump sum of \$181,607 to satisfy the Bank’s liability with respect to that plan. The Supplemental Income Plan had provided that, upon a “change in control” of the Bank, he would have been fully vested in the benefit of the Plan. Because no “change in control” had occurred while Mr. Pollard was employed with the Bank, he was not entitled to any additional benefit due to a future “change in control.”

In 1996, the Bank established an Executive Indexed Salary Contribution Plan (the “Index Plan”) to provide supplemental retirement benefits for Mr. Pollard. The Index Plan would have provided benefits to Mr. Pollard upon attaining age 60 equal to the difference between the cash value of an insurance policy purchased pursuant to the Index Plan and the real costs plus opportunity costs associated with maintaining the Index Plan. Because Mr. Pollard was discharged without cause prior to attaining age 60, he was entitled to reduced benefits under the Index Plan. However, in December 2008 the Bank negotiated a buyout of the plan. The split dollar portion of his buyout of \$58,813 was paid out prior to December 31, 2008. Mr. Pollard received a lump sum of \$161,477 in January 2009 for the remaining balance.

In 2003, the Bank and Mr. Whitehead entered into an agreement (the “Change in Control Agreement”) providing that, following a change in control, if the Bank had terminated Mr. Whitehead’s employment for reasons other than his disability, retirement, or for cause, or if Mr. Whitehead terminated his own employment for certain reasons relating to his then current work conditions, then the Bank would have been required to pay Mr. Whitehead a lump sum equal to 1.60 times his “base amount” during the years immediately preceding a change in control of the Bank, subject to certain provisions in the agreement resulting in the reduction of the lump sum payment to Mr. Whitehead.

The Bank has entered into agreements with Ms. Homiller and Mr. Trapp which are substantially similar to Mr. Whitehead’s Change in Control Agreement, providing that each executive would be paid a lump sum equal to 1.60 times his/her “base amount” during the years immediately preceding a change in control of the Bank. If a change in control of the Bank had occurred on December 31, 2008, the lump sum payable to Mr. Whitehead under his Change in Control Agreement would have been \$256,000, the lump sum payable to Ms. Homiller under her Change in Control Agreement would have been \$172,800, and the lump sum payable to Mr. Trapp under his Change in Control Agreement would have been \$220,800.

During 2004, the Bank and Mr. Whitehead entered into a Split-Dollar Insurance Agreement under which the Bank pays the premiums for a life insurance policy on Mr. Whitehead’s life with a face amount of \$350,000. In the event of Mr. Whitehead’s death while employed with the Bank, Mr. Whitehead’s beneficiary will receive up to \$100,000, and the Bank will receive the remaining face value of the policy.

Director Compensation

Directors were paid a \$1,200 monthly retainer during for the first ten months of the fiscal year ended December 31, 2008. Directors did not receive any compensation for the months of November and December of 2008.

DIRECTOR COMPENSATION TABLE

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Stock Awards</u>	<u>Option Awards</u>	<u>All Other Compensation⁽¹⁾</u>	<u>Total</u>
Harvey Adams, M.D.	\$12,000	--	--	--	\$12,000
D. Harold Briles	\$12,000	--	--	--	\$12,000
Henry N. Buckner	\$12,000	--	--	--	\$12,000
Wallace W. Garner	\$12,000	--	--	--	\$12,000
Christy B. McKenzie	\$12,000	--	--	--	\$12,000
Sam W. Moore	\$12,000	--	--	--	\$12,000
K. Reid Pollard ⁽¹⁾	--	--	--	--	--
J. Howard Redding ⁽²⁾	\$12,000	--	--	--	\$12,000
Phillip O. Ridge	\$12,000	--	--	--	\$12,000
Doris H. Smith	\$12,000	--	--	--	\$12,000
Milton F. Yates	\$12,000	--	--	--	\$12,000

(1) Mr. Pollard resigned from his positions as Director, President, and Chief Executive Officer on February 11, 2008. Compensation paid to Mr. Pollard in connection with his service as Director,

President and Chief Executive Officer of the Bank during 2008 is presented in the Summary Compensation Table.

- (2) Mr. Redding retired from his position on the Board of Directors on December 31, 2008.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Beneficial Ownership of Voting Securities

As of May 14, 2009, no shareholders known to management beneficially owned more than 5% of the Bank's common stock.

As of May 14, 2009, the beneficial ownership of the Bank's common stock by directors individually, and by directors and executive officers as a group, was as follows:

<u>NAME AND ADDRESS OF BENEFICIAL OWNER</u>	<u>AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP</u>	<u>PERCENT OF CLASS⁽¹⁾</u>
Harvey Adams, M.D. Asheboro, NC	28,244 ⁽²⁾	2.70
D. Harold Briles Asheboro, NC	32,975 ⁽³⁾	3.16
Henry N. Buckner Burlington, NC	3,240	0.31
Wallace W. Garner Denton, NC	52,222 ⁽⁴⁾	5.00
Cynthia G. Hatley Trinity, NC	327	0.03
Katherine L. Homiller Asheboro, NC	0	0.00
Christy B. McKenzie Asheboro, NC	39,971 ⁽⁵⁾	3.83
Sam W. Moore Burlington, NC	2,526	0.24
Phillip O. Ridge Randleman, NC	10,456 ⁽⁶⁾	1.00
Larry K. Small Burlington, NC	99	0.01
Doris H. Smith Asheboro, NC	34,578 ⁽⁷⁾	3.31
Laurence J. Trapp Asheboro, NC	1,670	0.16
C. Michael Whitehead, Jr. Asheboro, NC	5,472 ⁽⁸⁾	0.52

<u>NAME AND ADDRESS OF BENEFICIAL OWNER</u>	<u>AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP</u>	<u>PERCENT OF CLASS⁽¹⁾</u>
Milton F. Yates Asheboro, NC	6,241 ⁽⁹⁾	0.60
All Directors and Executive Officers as a group (14 persons)	227,187	21.63

-
- (1) The calculation of the percentage of class beneficially owned by each individual and the group is based on the sum of (i) 1,044,748 shares of common stock outstanding as of May 14, 2009 plus (ii) shares of common stock capable of being acquired upon the exercise of stock options within 60 days by the individual or group.
- (2) Includes 3,666 shares owned individually by Dr. Adams' spouse.
- (3) Includes 5,425 shares owned jointly with Mr. Briles' spouse and 6,778 owned individually by Mr. Briles' spouse.
- (4) Includes 26,111 shares owned individually by Mr. Garner's spouse.
- (5) Includes 10,411 shares owned jointly with Ms. McKenzie's spouse, 9,668 shares owned individually by Ms. McKenzie's spouse, and 1,631 shares held as custodian for minor children.
- (6) Includes 8,859 shares owned jointly with Mr. Ridge's spouse and 1,300 shares held as custodian for minor children.
- (7) Includes 26,226 shares owned jointly with Ms. Smith's spouse and 3,676 shares owned individually by Ms. Smith's spouse.
- (8) Includes 5,409 shares capable of being acquired upon the exercise of stock options and 2 shares held as custodian for minor children.
- (9) Includes 1,726 shares owned jointly with Mr. Yates' spouse and 497 owned individually by Mr. Yates' spouse.

The Bank has a class of 2,300 shares of non-voting preferred stock outstanding. As of May 14, 2009, Harvey Adams, M.D., Wallace W. Garner and Christy B. McKenzie, each of whom is a member of the Bank's Board of Directors, owned 100, 350 and 350 shares of the preferred stock or 4.3%, 15.2% and 15.2%, respectively, of the total number of preferred stock outstanding or an aggregate of 34.7%.

Stock Option Plans

Set forth below is certain information regarding the Registrant's various stock option plans.

EQUITY COMPENSATION PLAN INFORMATION

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants, and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	17,869	\$22.45	0
Equity compensation plans not approved by security holders	None	None	None
Total	17,869	\$22.45	0

See additional information in Note I under the heading "Stock Compensation Plans" in Item 7 of Registrant's Form 10-K filed with the FDIC on May 8, 2009.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transactions with Related Persons

The Bank has had, and expects to have in the future, banking transactions in the ordinary course of business with certain of its current directors, nominees for director, executive officers and their associates. All loans included in such transactions were made on substantially the same terms, including interest rates, repayment terms and collateral, as those prevailing at the time such loans were made for comparable transactions with other persons, and do not involve more than the normal risk of collectability or present other unfavorable features.

Loans made by the Bank to directors and executive officers are subject to the requirements of Regulation O of the Board of Governors of the Federal Reserve System. Regulation O requires, among other things, prior approval of the Board of Directors with any "interested director" not participating, dollar limitations on amounts of certain loans and prohibits any favorable treatment being extended to any director or executive officer in any of the Bank's lending matters. To the best knowledge of the management of the Bank, Regulation O has been complied with in its entirety.

The highest aggregate balance of loans outstanding to current directors, nominees for director, executive officers and their related interests during the fiscal year ended December 31, 2008 occurred on December 31, 2008 and was \$4,915,896, which equaled 23.5% of the Bank's total capital. At August 31, 2008, the Bank had extensions of credit and guarantees in an aggregate amount of \$3,837,540 outstanding to Phillip O. Ridge, which equaled 18.2% of the Bank's total capital on that date.

Director Independence

With the exception of Mr. Whitehead, each nominee for and member of the Bank's Board of Directors is "independent" as defined by Nasdaq listing standards and the regulations promulgated under the "Exchange Act." In making this determination, the Board considered all insider transactions with directors for the provision of goods or services to the Bank. All such transactions were conducted at arm's length upon terms no less favorable than those that would be available from an independent third party.

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Accountants

The Audit Committee has appointed the firm of Elliot Davis, Certified Public Accountants, as the Bank's independent public accountants for 2009. A representative of Elliot Davis is expected to be present at the Annual Meeting and available to respond to appropriate questions, and will have the opportunity to make a statement if he or she desires to do so.

On May 11, 2009, the Audit Committee of the Bank's Board of Directors appointed Elliott Davis, PLLC ("Elliott Davis") as the principal accountant to audit the Bank's financial statements for the fiscal year ending December 31, 2009. Elliott Davis replaced Dixon Hughes PLLC ("Dixon Hughes"), who had been engaged previously as the principal accountant to audit the Bank's financial statements. Dixon Hughes's reports on the Bank's financial statements for the past two years do not contain an adverse opinion or a disclaimer of opinion and are not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the Bank's two most recent fiscal years and during the period from December 31, 2008, until May 11, 2009, the date of dismissal, there were no disagreements with Dixon Hughes on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Dixon Hughes' satisfaction, would have caused it to make reference to the subject matter of the disagreement in connection with its reports on the Bank's financial statements. There have been no such disagreements with Dixon Hughes from May 11, 2009, until the date of this proxy statement.

Prior to May 11, 2009, the Bank paid Dixon Hughes fees in connection with its assistance in the Bank's annual audit and review of the Bank's financial statements. Sometimes, the Bank would engage Dixon Hughes PLLC to assist in other areas of accounting consultations. The following table sets forth the fees paid to Dixon Hughes PLLC in various categories in 2008 and 2007.

<u>Category</u>	<u>2008</u>	<u>2007</u>
Audit Fees:	\$ 169,778	\$ 97,500
Audit-Related Fees:	3,562	33,215
Tax Fees:	15,125	14,200
All Other Fees:	<u>55,155</u>	<u>36,250</u>
Total Fees Paid:	<u>\$ 243,620</u>	<u>\$ 181,165</u>

ALL SERVICES RENDERED BY DIXON HUGHES PLLC DURING 2008 AND 2007 WERE SUBJECT TO PRE-APPROVAL BY THE AUDIT COMMITTEE.

Report of the Audit Committee

The Audit Committee of the Bank is responsible for receiving and reviewing the annual audit report of the Bank's independent auditors and reports of examinations by bank regulatory agencies, and helps formulate, implement, and review the Bank's internal audit program. The Audit Committee assesses the performance and independence of the Bank's independent auditors and recommends their appointment and retention.

During the course of its examination of the Bank's audit process in 2008, the Audit Committee reviewed and discussed the audited financial statements with management. The Audit Committee also discussed with the independent auditors, Dixon Hughes PLLC, all matters required to be discussed by the Statement of Auditing Standards No. 61, as amended. Furthermore, the Audit Committee received from Dixon Hughes PLLC disclosures regarding their independence required by the Independence Standards Board Standard No. 1, as amended and discussed with Dixon Hughes PLLC their independence.

Based on the review and discussions above, the Audit Committee recommended to the Board that the audited financial statements be included in the Bank's annual report on Form 10-K for the year ended December 31, 2008 for filing with the FDIC.

The Audit Committee has a written charter which is available at www.randolphbank.com. Although the Bank's common stock is not traded on any exchange, the Audit Committee members are "independent" and "financially literate" as defined by the Nasdaq listing standards. The Audit Committee has not appointed an "audit committee financial expert," because no member of the Audit Committee meets the criteria of an "audit committee financial expert."

The Audit Committee met eight (8) times during 2008. This report is submitted by the Audit Committee:

Henry Buckner, Chairman
D. Harold Briles
Doris H. Smith

Christy B. McKenzie
J. Howard Redding

Pursuant to the requirements of Section 13 of the Securities Act of 1934, the Registrant has duly caused this amendment to the annual report on Form 10-K/A to be signed on its behalf by the undersigned thereunto duly authorized.

RANDOLPH BANK & TRUST COMPANY
Registrant

Date: June 16, 2009

C. Michael Whitehead, Jr.
President

Pursuant to the Securities Exchange Act of 1934, this amendment to the annual report on Form 10-K/A has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

_____ Harvey Adams, MD, Director	June 16, 2009
_____ Katherine Homiller, Chief Financial Officer (Principal Financial and Principal Accounting Officer)	June 16, 2009
_____ D. Harold Briles, Director	June 16, 2009
_____ Henry N. Buckner, Director	June 16, 2009
_____ Wallace Garner, Director	June 16, 2009
_____ Christy B. McKenzie, Director	June 16, 2009
_____ Sam W. Moore, Director	June 16, 2009
_____ C. Michael Whitehead, Jr., Director and President (Principal Executive Officer)	June 16, 2009
_____ Phillip O. Ridge, Director	June 16, 2009
_____ Doris H. Smith, Director	June 16, 2009
_____ Milton F. Yates, Director	June 16, 2009

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit</u>	<u>Page Number</u>
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)	Filed herewith
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, C. Michael Whitehead, Jr. certify that:

- (1) I have reviewed this amendment to the annual report on Form 10-K/A of Randolph Bank and Trust Company, a North Carolina bank (the "Registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- (4) The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
- (5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: June 16, 2009

C. Michael Whitehead, Jr.
President
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Katherine Homiller, certify that:

- (1) I have reviewed this amendment to the annual report on Form 10-K/A of Randolph Bank and Trust Company, a North Carolina bank (the "Registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- (4) The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
- (5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: June 16, 2009

Katherine L. Homiller
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, to his or her knowledge, (i) this amendment to the annual report on Form 10-K/A filed by Randolph Bank and Trust Company (the “Issuer”) for the year ended December 31, 2008, fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

Date: June 16, 2009

C. Michael Whitehead, Jr.
President
(Principal Executive Officer)

Exhibit 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, to his or her knowledge, (i) this amendment to the annual report on Form 10-K/A filed by Randolph Bank and Trust Company (the “Issuer”) for the year ended December 31, 2008, fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

Date: June 16, 2009

Katherine L. Homiller
Chief Financial Officer
(Principal Financial Officer)

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, DC 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from _____ to _____

FDIC Certificate Number: 22746

Randolph Bank and Trust Company
(Exact name of registrant as specified in its charter)

North Carolina 56-1194124
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

175 North Fayetteville Street, Asheboro, North Carolina 27203
(Address of principal executive offices) (Zip Code)

(336) 625-1000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

There were 1,044,748 shares of the Registrant's common stock outstanding as of April 30, 2009.

	<u>Page No.</u>
Part I. FINANCIAL INFORMATION	
Item 1 - Financial Statements (Unaudited)	
Consolidated Statements of Financial Condition March 31, 2009 and December 31, 2008	3
Consolidated Statements of Operations Three Months Ended March 31, 2009 and 2008.....	4
Consolidated Statements of Comprehensive Income Three Months Ended March 31, 2009 and 2008.....	5
Consolidated Statements of Shareholders' Equity Three Months Ended March 31, 2009 and 2008	6
Consolidated Statements of Cash Flows Three Months Ended March 31, 2009 and 2008.....	7
Notes to Consolidated Financial Statements	8
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 4T - Controls and Procedures	17
Part II. OTHER INFORMATION	
Item 6 - Exhibits.....	19

Part I. FINANCIAL INFORMATION**Item 1 - Financial Statements****RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	March 31, 2009 (Unaudited)	December 31, 2008*
ASSETS		
Cash and due from banks	\$ 7,806,377	\$ 8,189,159
Interest-earning deposits with banks	123,587	103,146
Federal funds sold	6,630,000	-
Investment securities available for sale, at fair value	34,209,950	37,668,125
Loans held for sale	-	1,793,415
Loans	206,049,085	208,002,139
Allowance for loan losses	<u>(2,757,103)</u>	<u>(2,734,119)</u>
Loans, net	203,291,982	205,268,020
Bank premises and equipment, net	6,272,299	6,342,100
Accrued interest receivable	1,079,793	1,114,000
Stock in Federal Home Loan Bank of Atlanta, at cost	1,561,900	1,726,100
Goodwill	571,202	571,202
Cash value of life insurance	1,767,404	1,736,891
Other real estate owned	1,530,674	1,546,674
Deferred tax asset	2,922,079	2,728,525
Other assets	<u>1,093,561</u>	<u>1,369,866</u>
TOTAL ASSETS	<u>\$ 268,860,808</u>	<u>\$ 270,157,223</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	\$ 21,774,660	\$ 22,122,209
Interest-bearing demand	28,951,470	27,331,449
Savings	42,225,681	42,478,855
Time deposits	<u>129,202,873</u>	<u>128,499,722</u>
Total Deposits	222,154,684	220,432,235
FHLB and other borrowings	24,070,881	26,690,881
Accrued expenses and other liabilities	<u>1,594,855</u>	<u>2,087,308</u>
TOTAL LIABILITIES	<u>247,820,420</u>	<u>249,210,424</u>
Shareholder's Equity:		
Preferred stock, \$5 par value, 1,000,000 shares authorized, 2,300 Series A non-cumulative perpetual preferred shares issued	11,500	11,500
Common stock, \$5 par value, 2,500,000 shares authorized, 1,044,748 shares issued and outstanding at March 31, 2009 and December 31, 2008	5,223,740	5,223,740
Additional paid-in capital	16,792,205	16,792,205
Retained earnings	612,862	210,793
Accumulated other comprehensive income (loss)	<u>(1,599,919)</u>	<u>(1,291,439)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>21,040,388</u>	<u>20,946,799</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 268,860,808</u>	<u>\$ 270,157,223</u>

* Derived from audited financial statements

See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended	
	March 31,	
	2009	2008
INTEREST INCOME		
Loans	\$ 3,151,619	\$ 3,564,675
Investment securities available for sale	503,203	731,297
Federal funds sold and interest-earning deposits	<u>1,674</u>	<u>8,577</u>
TOTAL INTEREST INCOME	<u>3,656,496</u>	<u>4,304,549</u>
INTEREST EXPENSE		
Demand deposits	33,989	114,008
Savings	84,435	165,769
Time	994,172	1,732,723
Federal funds purchased	15	-
FHLB and other borrowings	<u>271,514</u>	<u>262,149</u>
TOTAL INTEREST EXPENSE	<u>1,384,125</u>	<u>2,274,649</u>
NET INTEREST INCOME	2,272,371	2,029,900
PROVISION FOR LOAN LOSSES	<u>70,100</u>	<u>75,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>2,202,271</u>	<u>1,954,900</u>
NON-INTEREST INCOME		
Net realized gains from sale of available for sale securities	-	10,187
Service charges on deposit accounts	258,076	293,511
Gain on economic hedges	-	505,854
Gain from sale of loans/other real estate	278,119	84,941
Gain on sale of bank premises and equipment	600	-
ATM fee income	87,918	87,044
Merchant services fees	53,089	56,814
Other	<u>129,387</u>	<u>143,803</u>
TOTAL NON-INTEREST INCOME	<u>807,189</u>	<u>1,182,154</u>
NON-INTEREST EXPENSE		
Salaries and employee benefits	1,247,210	1,303,778
Occupancy and equipment	367,204	430,291
Outside consulting and services	125,946	171,874
Loan collection and other real estate expenses	72,569	108,351
ATM/POS expenses	64,914	63,188
FDIC assessment	62,160	34,176
Audit fees	41,250	69,000
Other operating expense	<u>324,261</u>	<u>399,497</u>
TOTAL NON-INTEREST EXPENSE	<u>2,305,514</u>	<u>2,580,155</u>
INCOME BEFORE INCOME TAXES	703,946	556,899
INCOME TAXES	<u>248,000</u>	<u>179,300</u>
NET INCOME	455,946	377,599
Dividends on preferred stock	<u>(53,877)</u>	<u>(54,475)</u>
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ 402,069</u>	<u>\$ 323,124</u>
NET INCOME PER COMMON SHARE		
Basic	\$ 0.38	\$ 0.31
Diluted	0.38	0.31

See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended	
	March 31,	
	2009	2008
Net Income	\$ 455,946	\$ 377,599
Other comprehensive income (loss)		
<u>Securities available for sale:</u>		
Unrealized holding gains (losses) on available for sale securities	(502,034)	32,125
Tax effect	193,554	(12,207)
Reclassification adjustment for (gains) losses realized in income	-	(10,187)
Tax effect	-	3,871
Total other comprehensive income (loss)	<u>(308,480)</u>	<u>13,602</u>
Comprehensive income	<u>\$ 147,466</u>	<u>\$ 391,201</u>

See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
BALANCE, DECEMBER 31, 2007	2,300	\$ 11,500	1,036,718	\$ 5,183,590	\$ 16,680,664	\$ 731,287	\$ (9,134)	\$ 22,597,907
Cumulative effect adjustment resulting from the adoption of EITF 06-4						(101,487)		(101,487)
Net income	-	-	-	-	-	377,599	-	377,599
Other comprehensive income	-	-	-	-	-	-	13,602	13,602
Preferred stock dividend	-	-	-	-	-	(54,475)	-	(54,475)
Common stock issued pursuant to: Exercise of employee stock options	-	-	60	300	894	-	-	1,194
BALANCE, MARCH 31, 2008	<u>2,300</u>	<u>\$ 11,500</u>	<u>1,036,778</u>	<u>\$ 5,183,890</u>	<u>\$ 16,681,558</u>	<u>\$ 952,924</u>	<u>\$ 4,468</u>	<u>\$ 22,834,340</u>
BALANCE, DECEMBER 31, 2008	2,300	\$ 11,500	1,044,748	\$ 5,223,740	\$ 16,792,205	\$ 210,793	\$ (1,291,439)	\$ 20,946,799
Net income	-	-	-	-	-	455,946	-	455,946
Other comprehensive loss	-	-	-	-	-	-	(308,480)	(308,480)
Preferred stock dividend	-	-	-	-	-	(53,877)	-	(53,877)
BALANCE, MARCH 31, 2009	<u>2,300</u>	<u>\$ 11,500</u>	<u>1,044,748</u>	<u>\$ 5,223,740</u>	<u>\$ 16,792,205</u>	<u>\$ 612,862</u>	<u>\$ (1,599,919)</u>	<u>\$ 21,040,388</u>

See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended	
	March 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 455,946	\$ 377,599
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	138,688	166,716
Increase in cash surrender value - life insurance	(30,513)	(57,754)
Amortization of discounts and premiums on securities	45,233	99,180
Provision for loan losses	70,100	75,000
Gain on disposal of bank premises and equipment	(600)	-
Gain on sale of investment securities	-	(10,187)
Gain on sale of loans	(278,119)	-
Gain on sale of foreclosed real estate	-	(84,941)
Gain on economic hedges	-	(243,400)
Changes in assets and liabilities:		
(Increase) decrease in interest receivable	34,207	(8,308)
(Increase) decrease in other assets	292,305	(181,304)
Increase (decrease) in accrued interest and other liabilities	(569,894)	291,374
NET CASH PROVIDED BY OPERATING ACTIVITIES	157,353	423,975
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	-	(4,611,310)
Proceeds from sales of investment securities	2,910,908	6,178,354
Proceeds from sale of loans	2,132,249	-
Net decrease in loans	1,922,664	1,573,493
Purchases of bank premises and equipment	(68,887)	(255,768)
Proceeds from disposal of bank premises and equipment	600	-
(Purchase) redemption of FHLB stock	164,200	(71,700)
Proceeds from sale of foreclosed real estate	-	577,218
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,061,734	3,390,287
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits and savings	1,019,298	57,367
Net increase (decrease) in certificates of deposit	703,151	(5,777,442)
Net increase (decrease) in borrowings	(2,620,000)	467,250
Proceeds from exercise of stock options	-	1,194
Payment of cash dividends	(53,877)	(54,475)
NET CASH USED BY FINANCING ACTIVITIES	(951,428)	(5,306,106)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,267,659	(1,491,844)
CASH AND CASH EQUIVALENTS, BEGINNING	8,292,305	10,320,643
CASH AND CASH EQUIVALENTS, ENDING	\$ 14,559,964	\$ 8,828,799

See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE A - BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Randolph Bank and Trust Company and its wholly-owned subsidiary, Randolph Investment Services Company, a full-service brokerage company. All intercompany transactions and balances have been eliminated in consolidation.

In management's opinion, the financial information, which is unaudited, reflects all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the financial information as of and for the three-month periods ended March 31, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America. Operating results for the three-month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009.

The organization and business of Randolph Bank and Trust Company (the "Bank"), accounting policies followed by the Bank and other information are contained in the notes to the financial statements filed as part of the Bank's annual report on Form 10-K. This quarterly report should be read in conjunction with such annual report.

Recent Accounting Pronouncements

Statement of Financial Accounting Standard ("SFAS") 162, *The Hierarchy of Generally Accepted Accounting Principles*, establishes the framework and sources of accounting principles for determining the appropriate principles to be used when preparing financial statements in conformity with generally accepted accounting principles in the United States. This statement is effective following SEC approval and will have no effect on the Company's financial statements.

In December 2007, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"). FSP 157-2 delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The adoption of SFAS 157-2 in the first quarter 2009 did not have a material impact on the consolidated financial statements.

FSP FAS 107-1 and Accounting Principles Board Opinion ("APB") 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP FAS 107-1) requires disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. The Bank will adopt provisions of FSP FAS 107-1 and APB 28-1 for the Company's interim reporting period ending on June 30, 2009. As FSP FAS 107-1 and APB 28-1 amends only the disclosure requirements about fair value of financial instruments in interim periods, the adoption of FSP FAS 107-1 and APB 28-1 is not expected to affect the Bank's consolidated statement of operations and balance sheet.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE A - BASIS OF PRESENTATION (Continued)

Recent Accounting Pronouncements (Continued)

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (FSP FAS 115-2) amends current other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairment of equity securities. FSP FAS 115-2 replaces the assertion of intent and ability to hold an impaired debt security until fair value recovers with assertions that the holder does not intend to sell the security prior to recovery and that it is more likely than not the holder will not be required to sell the impaired security prior to recovery. The full impairment loss is recognized in earnings if the holder is unable to make these assertions. Otherwise, the credit loss portion of the impairment is recognized in earnings and the remaining impairment is recognized in other comprehensive income. Both the full impairment and credit loss portion are presented on the face of the statement of operations. FSP FAS 115-2 also requires additional disclosure in interim periods. FSP FAS 115-2 is effective for interim and annual periods ending after June 15, 2009. Early adoption for interim and annual periods ending after March 15, 2009 is permitted. The Bank adopted FSP FAS 115-2 as of March 31, 2009. The adoption did not have any impact on the Bank's consolidated financial statements.

FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, (FSP FAS 157-4) provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have decreased significantly. FSP FAS 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. The provisions of FSP FAS 157-4 are effective for the Company's interim period ending June 30, 2009. Early adoption for interim and annual periods ending after March 15, 2009 is permitted. The Company will adopt FSP FAS 157-4 as of June 30, 2009. It is not expected to have a significant impact on the Company's consolidated financial statements.

From time to time the Financial Accounting Standards Board ("FASB") issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Bank and monitors the status of changes to and proposed effective dates of exposure drafts.

Certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation. The reclassifications had no effect on net income or shareholders' equity as previously reported.

NOTE B - COMMITMENTS

At March 31, 2009, loan commitments are as follows:

Undisbursed lines of credit	\$ 10,472,000
Commitments to extend credit	20,921,000
Letters of credit	431,000

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE C - EARNINGS PER SHARE

Basic and diluted net income per common share amounts are computed under the provisions of SFAS No. 128, *Earnings Per Share*. The calculations are based on the weighted average number of common shares outstanding during each period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income of the Bank. Dividends paid on preferred stock are subtracted from net income in calculating net income available to common shareholders.

Basic and diluted net income per common share have been computed based upon net income as presented in the accompanying consolidated statements of operations divided by the weighted average number of common shares outstanding or assumed to be outstanding as summarized below:

	Three Months Ended March 31,	
	<u>2009</u>	<u>2008</u>
Weighted average number of common shares used in computing basic net income per share	1,044,748	1,036,721
Effect of dilutive stock options	<u>276</u>	<u>6,106</u>
Weighted average number of common shares and dilutive potential common shares used in computing diluted net income per share	<u>1,045,024</u>	<u>1,042,827</u>

For the three months ended March 31, 2009, there were 14,378 shares related to stock options that were anti-dilutive and were omitted from the calculation of dilutive EPS for that period.

NOTE D - NONPERFORMING ASSETS

Management estimates the allowance for loan losses required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors. The allowance consists of several components. One component is for loans that are individually classified as impaired and measured under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. The other components are for collective loan impairment measured under FASB Statement No. 5, *Accounting for Contingencies*. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

As of March 31, 2009 and December 31, 2008, the recorded investment in loans considered impaired in accordance with SFAS No. 114, which includes all nonaccrual loans, totaled \$2.7 million and \$2.6 million, respectively. A corresponding valuation allowance of \$488,000 has been provided for impaired loans with an outstanding balance of \$665,000 at March 31, 2009. Based upon extensive analyses of the credits, including collateral position, loss exposure, guaranties, or other considerations, no additional reserve for the remaining \$2.1 million in impaired credits at March 31, 2009 was deemed necessary. At March 31, 2009, nonaccrual loans totaled \$1.1 million as compared to \$1.3 million at December 31, 2008.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE D - NONPERFORMING ASSETS (Continued)

At March 31, 2009, the Bank held foreclosed real estate totaling \$1.5 million. At December 31, 2008, that amount was the same. In the first quarter of 2009, the Bank established a valuation allowance of \$16,000 in recognition of a decline in the fair market value of a portion of the foreclosed real estate held.

It is the general policy of the Bank to discontinue the accrual of interest on loans 90 days past due as to principal and interest.

NOTE E - STOCK COMPENSATION PLANS

The Bank had one share-based compensation plan that expired May, 2009. Therefore, no new option grants can be awarded under this plan, but existing awards can still be exercised. All options granted under the plan were fully vested, therefore there was no compensation cost charged against income for the plan for the three months ended March 31, 2009 and 2008. There was no tax benefit recognized for share-based compensation arrangements during the periods.

NOTE F – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Bank adopted of SFAS No. 157, *Fair Value Measurements*, and SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*. SFAS No. 157, which was issued in September 2006, defines fair value, establishes a framework for measuring fair value according to generally accepted accounting principles, and expands disclosures about fair value measurements. While this standard does not require any financial instruments to be measured at fair value, the provisions of the statement must be applied in situations where other accounting pronouncements either permit or require fair value measurement. The Bank reports fair value on a limited basis, most notably for available for sale investment securities and certain derivative instruments which will require compliance with the provisions of SFAS 157. The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value which was below cost at the end of the period. Assets subject to nonrecurring use of fair value measurements could include loans held for sale, goodwill, and foreclosed assets.

In accordance with SFAS No. 157, we group our financial assets and financial liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuations for assets and liabilities traded in active exchange markets such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party services for similar or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or brokered traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE F – FAIR VALUE MEASUREMENT (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

	March 31, 2009			
	Total	Level 1	Level 2	Level 3
	(Amounts in thousands)			
Securities available for sale	\$ 34,210	\$ -	\$ 34,210	\$ -

The table below presents the balances of assets measured at fair value on a non-recurring basis.

	March 31, 2009			
	Total	Level 1	Level 2	Level 3
	(Amounts in thousands)			
Impaired Loans	\$ 177	\$ -	\$ 177	\$ -
Other real estate owned	<u>\$ 1,531</u>	<u>\$ -</u>	<u>\$ 1,531</u>	<u>\$ -</u>
Total assets	<u>\$ 1,708</u>	<u>\$ -</u>	<u>\$ 1,708</u>	<u>\$ -</u>

The Bank utilizes a third party pricing service to provide valuations on its securities portfolio. Despite most of these securities being U.S. government agency debt obligations, agency mortgage-backed securities, and municipal securities traded in active markets, third party valuations are determined based on the characteristics of a security (such as maturity, duration, rating, etc.) and in reference to similar or comparable securities. Due to the nature and methodology of these valuations, the Bank considers these fair value measurements as Level 2. Derivative contracts, impaired loans, and assets held in other real estate are also valued using Level 2 criteria. At March 31, 2009, a number of impaired loans were evaluated based on the present value of anticipated future cash flows which is a Level 3 measurement.

The Bank records loans in the ordinary course of business at cost and does not record loans at fair value on a recurring basis. Loans are considered impaired when it is determined to be probable that all amounts due under the contractual terms of the loan will not be collected when due. Loans considered individually impaired are evaluated under the provisions of SFAS 114 and a specific allowance is established, if required, based on the most appropriate of the three measurement methods: present value of expected future cash flows, fair value of collateral, or the observable market price of a loan method. A specific allowance is required if the fair value of the expected repayments or the collateral is less than the recorded investment in the loan. As reported in Note D, at March 31, 2009, loans with a book value of \$2.7 million were evaluated for impairment. Of this total, \$665,000 required a specific allowance totaling \$488,000 for a net fair value of \$177,000. The methods used to determine the fair value of these loans were generally either the present value of expected future cash flows which is a level three measure or fair value of collateral based upon recent independent appraisals or comparable market values which is a level two measure.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE G – SUBSEQUENT EVENT

On Friday, May 1, 2009, Silverton Bank, N.A., Atlanta, GA was closed by the Office of the Comptroller of the Currency and the FDIC was appointed receiver. Randolph Bank owns 80 shares of Silverton Bank's parent company, Silverton Financial Services, Inc. (formerly, Community Financial Services, Inc.) with an original cost basis of \$50,180. The stock is recorded at cost on the balance sheet as there is no readily determinable market value. The Bank is currently assessing whether the stock has value, but does not consider the amount of the investment to be material. The FDIC created a bridge bank to take over the operations of Silverton Bank, N.A. Silverton Bridge Bank, N.A. will continue to operate business as usual through July 29, 2009. Randolph Bank currently has a \$2.0 million fed funds line with Silverton and continues to accept payments on credit cards sold to Silverton in January, 2009. The sale of the credit card portfolio to Silverton was completed prior to this event and is not impacted in any way. The Bank's correspondent bank account with Silverton has a current balance of \$500 as of April 30, 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis is provided to help the user in examining and understanding the operating results and financial condition of Randolph Bank and Trust Company (the "Bank"). The following analysis should be reviewed along with other information contained in this report, including consolidated financial statements and accompanying notes.

**Comparison of Financial Condition at
March 31, 2009 and December 31, 2008**

Total assets at March 31, 2009 were \$268.9 million compared to \$270.2 million at December 31, 2008, a decrease of \$1.3 million. Gross loans totaled \$206.0 million at March 31, 2009, down from \$208.0 million at December 31, 2008. The decrease is primarily due to the sale of the Bank's credit card portfolio and payouts on loans refinanced with other institutions. The Bank found itself in the position of selling funds as investments paid down and with little demand for loans. Federal funds sold went from zero at December 31, 2008 to \$6.6 million at March 31, 2009, while the Bank's investment portfolio fell by \$3.5 million. \$2.9 million of the decline in investments was from paydowns on mortgage-backed securities.

Total deposits at March 31, 2009 were \$222.2 million, an increase of \$1.7 million from year-end 2008. The primary increase occurred in interest-bearing demand deposits which grew by \$1.6 million. Other borrowings decreased \$2.6 million to \$24.1 million.

Total shareholders' equity at March 31, 2009 was \$21.0 million, up slightly from December 31, 2008. The Bank's leverage ratio (Tier 1 Capital/Assets) was 7.85%. All capital ratios are in excess of the minimum required to be deemed a well-capitalized bank by regulatory measures.

Our allowance for loan losses ("ALLL") is established through charges to earnings in the form of a provision for loan losses. We increase our allowance for loan losses by provisions charged to operations and by recoveries of amounts previously charged off and we reduce our allowance by loans charged off. In evaluating the adequacy of the allowance, we consider the growth, composition and industry diversification of the portfolio, historical loan loss experience, current delinquency levels, trends in past dues and classified assets, adverse situations that may affect a borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions and other relevant factors derived from our

history of operations. The Bank's format for the calculation of ALLL begins with the evaluation of loans under SFAS 114. For the purpose of evaluating loans for impairment under SFAS 114, loans are considered impaired when it is considered probable that all amounts due under the contractual terms of the loan will not be collected when due (minor shortfalls in amount or timing excepted). The Bank has established policies and procedures for identifying loans that should be considered for impairment. Loans are reviewed through multiple means such as delinquency management, credit risk reviews, watch and criticized loan monitoring meetings and general account management. Loans that are outside of the Bank's established criteria for evaluation may be considered for SFAS 114 impairment testing when management deems the risk sufficient to warrant this approach. For loans determined to be impaired, the specific allowance is based on the most appropriate of the three measurement methods: present value of expected future cash flows, fair value of collateral, or the observable market price of a loan method. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. Once a loan is considered impaired, it is not included in the determination of the SFAS 5 component of the allowance, even if no specific allowance (the SFAS 114 component) is considered necessary. See Note D to the Financial Statements for further discussion.

The Bank also utilizes various other factors to further evaluate the portfolio for risk to determine the appropriate level of allowance to provide for probable losses in the loan portfolio. The other factors utilized include the rate of loan growth, credit grade migration, policy exceptions, account officer experience, interest rate trends and various economic factors. These factors are examined for trends and the risk that they represent to the Bank's loan portfolio. Each of these other factors is assigned a level of risk and this risk factor is applied to only the SFAS 5 pool of loans to calculate the appropriate allowance.

We use a risk grading program to facilitate our evaluation of probable inherent loan losses and the adequacy of the allowance for loan losses. We strive to maintain our loan portfolio in accordance with conservative loan underwriting policies that result in loans specifically tailored to the needs of our market area. Every effort is made to identify and minimize the credit risks associated with such lending strategies. We have no foreign loans and we do not engage in lease financing or highly leveraged transactions.

At March 31, 2009, the allowance for loan losses was \$2.8 million or 1.34% of total loans compared to \$2.7 million or 1.31% of total loans at December 31, 2008. As a percent of total loans, nonperforming loans dropped from 1.13% at December 31, 2008 to 0.76% at March 31, 2009. The following table summarizes the activity in the allowance for loan losses for the three months ended March 31, 2009 and 2008:

	Three Months Ended	
	March 31,	
	2009	2008
Balance at beginning of period	\$ 2,734	\$ 2,954
Provision for loan losses	70	75
Charge-offs	(94)	(364)
Recoveries	47	12
Balance at end of period	<u>\$ 2,757</u>	<u>\$ 2,677</u>

Management considers the level of the allowance for loan losses to be appropriate in light of the risk inherent in the Bank's loan portfolio as of the date of the financial statements. While management uses the best information available to make evaluations, future adjustments may be necessary based on changes in economic and other conditions.

Comparison of Results of Operations for the Three Months Ended

March 31, 2009 and 2008

Overview. The Bank reported net income available to common shareholders of \$402,000 or diluted net income per common share of \$.38 for the quarter ended March 31, 2009, as compared with net income per common shareholder of \$323,000 or diluted net income per common share of \$.31 for the quarter ended March 31, 2008. Net interest income increased 11.94% from \$2.0 million for the quarter ended March 31, 2008 to \$2.3 million for the quarter ended March 31, 2009. However, a gain of \$278,000 on the sale of the Bank's credit card portfolio to Silverton Bank was the biggest contributor to the bottom line in 2009. In the first quarter of 2008, net positive earnings were the result of one-time gains on economic hedges of \$506,000 and \$85,000 on the sale of other real estate.

Net Interest Income. Net interest income for the quarter ended March 31, 2009 increased \$242,000 over the amount reported for the same period in 2008. While interest-earning assets declined by more than interest-earning liabilities in actual dollars, the net interest rate spread rose 95 basis points to 3.60% from 2.65% while the net interest margin increased to 3.81% for the period ended March 31, 2009 compared to 3.10% for the same period last year. This was largely the result of decreases in deposit rates at a time when the bank's balance sheet is liability sensitive.

Total interest income for the three month period ended March 31, 2009 fell 15.06% from the three month period ended March 31, 2008. While average earning assets dropped by \$22.9 million from the same period last year, the yield on earning assets declined to 6.09% for the 2009 period from 6.51% for the 2008 period, compounding the decline.

Interest expense for the quarter declined by \$891,000 or 39.15% compared to the same period last year. The average balance of interest-bearing liabilities dropped by \$12.6 million, while the rate paid on these liabilities declined 136 basis points from 3.85% for the period ended March 31, 2008 to 2.49% for the period ended March 31, 2009. During that same period, the fed funds rate, the primary tool that the Federal Open Market Committee of the Federal Reserve Bank uses to influence interest rates and the economy, dropped approximately 200 basis points from 2.25% to a current range of 0% - 0.25%. For many of our deposit products, it was not possible to lower our own rates accordingly.

Provision for Loan Losses. The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered appropriate to absorb probable losses inherent in the portfolio. Management's determination of the adequacy of the allowance is based on the level of loan growth, an evaluation of the portfolio, current economic conditions, historical loan loss experience and other risk factors. The Bank recorded provisions for loan losses of \$70,000 for the quarter ended March 31, 2009 compared to \$75,000 for the quarter ended March 31, 2008. Nonperforming loans, which consist of nonaccrual and restructured loans, were .76% of outstanding loans at March 31, 2009, a decrease from 1.25% at March 31, 2008. The Bank had net charge-offs for the period ended March 31, 2009 of \$49,000 or annualized charge-offs to average loans of 0.09% compared to net charge-offs of \$352,000 or annualized charge-offs to average loans of 0.68% for the period ended March 31, 2008.

Non-Interest Income. Non-interest income totaled \$807,000 for the quarter ended March 31, 2009, a decrease of \$375,000 or 31.72% from the same quarter last year. The decrease is attributable entirely to the fact that one-time gains totaling \$506,000 on derivative activity were reported in the quarter ended March 31, 2008. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires that changes in the fair value of derivative financial instruments that are not designated or do not qualify as hedging instruments be reported as an economic gain or loss in non-interest income. In addition, the net cash monthly settlements required by the agreements are also recorded in non-interest income. On February 8, 2008, stand-alone interest rate swaps with a total notional value of \$5.0 million were terminated and on March 18, 2008 the remaining \$8.0 million in swaps were terminated. In addition, on March 18, 2008, a stand-alone interest rate floor agreement with a notional value of \$5.0 million was terminated. The bank received termination fees totaling \$228,320 that are included in the gain reported during the first three months of 2008. In the quarter ended March 31, 2009, a gain of \$278,000 was recorded on the sale of the Bank's credit card portfolio to Silverton Bank.

Sales of other real estate in the quarter ended March 31, 2008 generated \$85,000 in gains. There were no sales of foreclosed assets in the quarter ended March 31, 2009.

Other accounts with changes impacting non-interest income include service charges and investment commissions. First quarter, 2009 service charges of \$258,000 were 12.07% lower than amounts recorded in the quarter ended March 31, 2008, while investment commissions totaling \$54,000 were up 294.49% over the same period last year based on the Bank's arrangement with an experienced investment professional to provide investment advisory services starting in January, 2008. Staff turnover had resulted in vacancies in that area.

Non-Interest Expense. Non-interest expense totaled \$2.3 million for the quarter ended March 31, 2009, a decrease of \$275,000 or 10.64% over the \$2.6 million reported for the first quarter of 2008. Many factors were responsible for this decline including a decision by the Board of Directors to forego fees for a period of time. Salaries and benefits declined by \$57,000 or 4.34%, due in part to staff turnover, and to efforts to manage staffing more efficiently. Outside service fees fell \$46,000 or 26.72% based primarily upon the reduced need for consulting services related to the finance area and Sarbanes-Oxley compliance. Audit fees reported in the first quarter of 2009 were 40.22% less than what was reported for the first quarter of 2008 largely because there was no interim work for the 2007 audit performed in 2007 based upon the expectation that the Bank was merging with another bank. Instead, the bulk of the interim testing was done in the first quarter of 2008. Finally, loan collection costs and other real estate expenses for the first quarter of 2009 were \$36,000 less than what was reported for the first quarter of 2008. Substantial costs were incurred in the foreclosure on several properties, including a golf course, in the three month period ended March 31, 2008. Offsetting these declines was a \$28,000 increase in the FDIC assessment with the amount going from \$34,000 for the quarter ended March 31, 2008 to \$62,000 for the quarter ended March 31, 2009. The assessment amount is accrued on a monthly basis based upon what the bank anticipates the actual amount will be for the entire year. In December, 2008, the FDIC amended its assessment rate structure to allow for a uniform increase of 7 basis points in rates effective with the quarter ending March 31, 2009 and payable at June 30, 2009. In February, 2009, the FDIC adopted another rule modifying the risk-based assessment system that set the initial base assessment rates beginning April 1, 2009 at 12 to 45 basis points. In addition, they imposed a one-time emergency 20 basis point special assessment on June 30, 2009 balances to be collected on September 30, 2009, and authorized the Board to collect additional special assessments of up to 10 basis points thereafter to maintain public confidence in the Deposit Insurance Fund. This special assessment, if implemented as proposed, would be approximately \$445,000 and will have a significant impact on the results of operations of the Bank for the quarter ending June 30, 2009 and the full year 2009.

Income Taxes. The Bank recorded income tax expense of \$248,000 for the quarter ended March 31, 2009 compared to \$179,000 for the same period last year. For the quarters ended March 31, 2009 and 2008, the effective tax rates were 35.22% and 32.20%, respectively. The provision in each period was favorably impacted by the level of the Bank's tax-exempt income.

Capital Resources and Liquidity

Liquidity is necessary to maintain cash flows adequate to meet present and future needs for credit demand, deposit withdrawals, maturing liabilities and operating expenses. Liquidity is provided by the ability to attract deposits, flexible repricing schedules in the loan portfolio, current earnings, a strong capital base and the ability to use alternative funding sources that complement normal sources. Management's asset-liability policy is to maximize net interest income while continuing to provide adequate liquidity to meet continuing loan demand and deposit withdrawal requirements and to service normal operating expenses. Utilizing a model that simulates net interest income and performs gap analysis, the Bank is able to manage the risk/return relationships between liquidity, interest rate risk, market risk, and capital adequacy.

The Bank's primary sources of liquidity are core deposits, loan repayments, and securities available for sale. If additional funding sources are needed, the Bank has access to federal funds lines at correspondent banks,

a multiple use credit facility provided by the Federal Home Loan Bank of Atlanta (“FHLB”), and the Federal Reserve Bank’s discount window.

The Bank is currently able to meet any potential liquidity needs with its existing credit facilities and investment portfolio. The investment portfolio consists primarily of securities of government agencies, mortgage-backed securities, and North Carolina municipal bonds, the majority of which are readily marketable.

At March 31, 2009, the Bank’s ratio of total capital to risk-weighted assets of 11.54% exceeded the regulatory requirement for a “well-capitalized” bank. The Bank’s leverage ratio of 7.85% exceeded the required minimum leverage ratio of at least 5% for this category of institution. Bank regulatory agencies set five capital levels for banks, ranging from well-capitalized to critically under-capitalized. Regulatory action is mandatory if capital levels fall and the institution becomes “under-capitalized” within the meaning of the regulations. Based on its existing capital ratios, the Bank is currently “well-capitalized” within the meaning of the applicable regulations.

Forward-Looking Information

Statements contained in this report, which are not historical facts, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Amounts herein could vary as a result of market and other factors. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Bank with the Federal Deposit Insurance Corporation from time to time. Such forward-looking statements may be identified by the use of such words as “believe,” “expect,” “anticipate,” “should,” “might,” “planned,” “estimated,” and “potential.” Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, expected or anticipated revenue, results of operations and business of the Bank that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, loan demand, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory, and technological factors affecting the Bank’s operations, pricing, products and services.

Item 4T. Controls and Procedures

As of the end of the period covered by this report, the Bank carried out an evaluation, under the supervision and with the participation of the Bank’s management, including the Bank’s principal executive officer and principal financial officer, of the effectiveness of the Bank’s disclosure controls and procedures (as defined in Rule 13a-15(e)) pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Bank’s principal executive officer and principal financial officer have concluded that the Bank’s disclosure controls and procedures are not effective because the material weaknesses in the controls over financial reporting as of December 31, 2008 that were disclosed in Form 10-K still exist. However, management has made progress towards remediating the issues that led the Bank to conclude that there were material weaknesses over financial reporting. With the help of an outside firm, the Bank will continue to conduct a more thorough assessment of its internal control over financial reporting during the remainder of 2009 which will include:

- Reviewing and updating the risk plan and testing strategy;
- Testing each key control for operating effectiveness on a quarterly basis;
- Developing a system for reporting deficiencies to management on a timely basis; and
- Remediating any deficiencies noted during the testing in a timely manner.

Changes in Internal Control over Financial Reporting

There were no changes in the Bank's internal control over financial reporting that occurred during the quarter ended March 31, 2009 that materially affected, or are reasonably likely to materially affect, the Bank's internal controls over financial reporting other than changes due to the remediation efforts discussed above.

Part II. OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits:

<u>Exhibit #</u>	<u>Description</u>
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)
32.1	Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

RANDOLPH BANK AND TRUST COMPANY

Date: May 20, 2009

By: /s/ C. Michael Whitehead, Jr.

C. Michael Whitehead, Jr.

Principal Executive Officer

Date: May 20, 2009

By: /s/ Katherine L. Homiller

Katherine L. Homiller

Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, C. Michael Whitehead, Jr., certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Randolph Bank and Trust Company, a North Carolina bank (the "Registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 20, 2009

By: /s/ C. Michael Whitehead, Jr.

C. Michael Whitehead, Jr.
Principal Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Katherine L. Homiller, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Randolph Bank and Trust Company, a North Carolina bank (the "Registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 20, 2009

By: /s/ Katherine L. Homiller

Katherine L. Homiller
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, to his or her knowledge, (i) the Form 10-Q filed by Randolph Bank and Trust Company (the “Issuer”) for the quarter ended March 31, 2008, fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

RANDOLPH BANK AND TRUST COMPANY

Date: May 20, 2009

By: /s/ C. Michael Whitehead, Jr.

C. Michael Whitehead, Jr.

Principal Executive Officer

Exhibit 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, to his or her knowledge, (i) the Form 10-Q filed by Randolph Bank and Trust Company (the “Issuer”) for the quarter ended March 31, 2008, fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

RANDOLPH BANK AND TRUST COMPANY

Date: May 20, 2009

By: /s/ Katherine L. Homiller

Katherine L. Homiller
Chief Financial Officer

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, DC 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from _____ to _____

FDIC Certificate Number: 22746

Randolph Bank and Trust Company
(Exact name of registrant as specified in its charter)

North Carolina 56-1194124
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

175 North Fayetteville Street, Asheboro, North Carolina 27203
(Address of principal executive offices) (Zip Code)

(336) 625-1000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

There were 1,044,748 shares of the Registrant's common stock outstanding as of August 18, 2009.

	<u>Page No.</u>
Part I. FINANCIAL INFORMATION	
Item 1 - Financial Statements (Unaudited)	
Consolidated Statements of Financial Condition June 30, 2009 and December 31, 2008.....	3
Consolidated Statements of Operations Three Months and Six Months Ended June 30, 2009 and 2008.....	4
Consolidated Statements of Comprehensive Income Three Months and Six Months June 30, 2009 and 2008.....	5
Consolidated Statements of Shareholders' Equity Six Months Ended June 30, 2009 and 2008	6
Consolidated Statements of Cash Flows Six Months Ended June 30, 2009 and 2008.....	7
Notes to Consolidated Financial Statements.....	8
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 4T - Controls and Procedures	24
Part II. OTHER INFORMATION	
Item 4 - Submission of Matters to a Vote of Security Holders	24
Item 6 - Exhibits	25

Part I. FINANCIAL INFORMATION
Item 1 - Financial Statements

RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	<u>June 30, 2009</u> (Unaudited)	<u>December 31,</u> 2008 *
ASSETS		
Cash and due from banks	\$ 7,637,317	\$ 8,189,159
Interest-earning deposits with banks	2,076,928	103,146
Fed funds sold	5,250,000	-
Investment securities available for sale, at fair value	31,321,145	37,668,125
Loans held for sale	-	1,793,415
Loans held for investment	206,570,476	208,002,139
Allowance for loan losses	<u>(2,730,372)</u>	<u>(2,734,119)</u>
Loans held for investment, net	203,840,104	205,268,020
Bank premises and equipment, net	5,959,111	6,342,100
Accrued interest receivable	1,037,411	1,114,000
Stock in Federal Home Loan Bank of Atlanta, at cost	1,634,100	1,726,100
Goodwill	571,202	571,202
Cash value of life insurance	1,375,690	1,736,891
Other real estate owned	1,518,674	1,546,674
Deferred tax asset	2,989,658	2,728,525
Other assets	<u>922,145</u>	<u>1,369,866</u>
TOTAL ASSETS	<u>\$ 266,133,485</u>	<u>\$ 270,157,223</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	\$ 18,874,822	\$ 22,122,209
Interest-bearing demand	33,483,502	27,331,449
Savings	42,713,618	42,478,855
Time deposits	<u>122,591,792</u>	<u>128,499,722</u>
Total Deposits	217,663,734	220,432,235
FHLB and other borrowings	26,070,881	26,690,881
Accrued expenses and other liabilities	<u>1,516,139</u>	<u>2,087,308</u>
TOTAL LIABILITIES	<u>245,250,754</u>	<u>249,210,424</u>
Shareholder's Equity:		
Preferred stock, \$5 par value, 1,000,000 shares authorized, 2,300 Series A non-cumulative perpetual preferred shares issued	11,500	11,500
Common stock, \$5 par value, 2,500,000 shares authorized, 1,044,748 shares issued and outstanding at both June 30, 2009 and December 31, 2008	5,223,740	5,223,740
Additional paid-in capital	16,792,205	16,792,205
Retained earnings	562,910	210,793
Accumulated other comprehensive loss	<u>(1,707,624)</u>	<u>(1,291,439)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>20,882,731</u>	<u>20,946,799</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 266,133,485</u>	<u>\$ 270,157,223</u>

* Derived from audited consolidated financial statements
See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
INTEREST INCOME				
Loans	\$ 3,119,365	\$ 3,240,978	\$ 6,270,984	\$ 6,805,653
Investment securities available for sale	470,861	782,652	974,064	1,513,949
Federal funds sold and interest-earning deposits	9,649	5,638	11,323	14,215
TOTAL INTEREST INCOME	<u>3,599,875</u>	<u>4,029,268</u>	<u>7,256,371</u>	<u>8,333,817</u>
INTEREST EXPENSE				
Demand deposits	31,018	88,565	65,007	202,573
Savings	77,656	141,101	162,091	306,870
Time	966,160	1,456,446	1,960,332	3,189,169
Federal funds purchased	1	879	16	879
FHLB and other borrowings	268,328	270,212	539,842	532,361
TOTAL INTEREST EXPENSE	<u>1,343,163</u>	<u>1,957,203</u>	<u>2,727,288</u>	<u>4,231,852</u>
NET INTEREST INCOME	2,256,712	2,072,065	4,529,083	4,101,965
PROVISION FOR LOAN LOSSES	<u>672,000</u>	<u>820,000</u>	<u>742,100</u>	<u>895,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>1,584,712</u>	<u>1,252,065</u>	<u>3,786,983</u>	<u>3,206,965</u>
NON-INTEREST INCOME				
Net realized gains (losses) on investment securities	(45,680)	-	(45,680)	10,187
Other than temporary impairment loss on investment securities	(75,428)	-	(75,428)	-
Service charges	266,027	293,846	524,104	587,357
Gain (loss) on economic hedges	-	(109,184)	-	396,670
Gain (loss) on sale of loans/other real estate	-	13,352	278,119	98,293
Gain on sale of bank premises and equipment	201,106	-	201,706	-
ATM fee income	100,020	91,465	187,938	178,509
Merchant services fees	54,132	61,823	107,221	118,638
Other	190,869	169,034	320,255	312,836
TOTAL NON-INTEREST INCOME	<u>691,046</u>	<u>520,336</u>	<u>1,498,235</u>	<u>1,702,490</u>
NON-INTEREST EXPENSE				
Salaries and employee benefits	1,201,546	1,398,345	2,448,756	2,702,123
Occupancy and equipment	352,072	378,543	719,276	808,834
FDIC Assessment	118,479	34,279	180,639	68,455
Outside consulting and services	108,508	270,269	234,454	442,143
ATM/POS expenses	66,981	62,443	126,374	119,992
Merchant services	49,283	51,520	88,933	95,128
Audit fees	41,250	69,000	82,500	138,000
Loan collection and other real estate expenses	40,252	63,387	112,821	171,738
Other operating expense	289,864	379,972	579,995	741,500
TOTAL NON-INTEREST EXPENSE	<u>2,268,235</u>	<u>2,707,758</u>	<u>4,573,748</u>	<u>5,287,913</u>
INCOME (LOSS) BEFORE INCOME TAXES	7,523	(935,357)	711,470	(378,458)
INCOME TAXES	<u>3,000</u>	<u>(261,987)</u>	<u>251,000</u>	<u>(82,687)</u>
NET INCOME (LOSS)	4,523	(673,370)	460,470	(295,771)
Dividends on preferred stock	<u>(54,475)</u>	<u>(54,475)</u>	<u>(108,353)</u>	<u>(108,950)</u>
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ (49,952)</u>	<u>\$ (727,845)</u>	<u>\$ 352,117</u>	<u>\$ (404,721)</u>
NET INCOME (LOSS) PER COMMON SHARE				
Basic	\$ (0.05)	\$ (0.70)	\$ 0.34	\$ (0.39)
Diluted	(0.05)	(0.70)	0.34	(0.39)

See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net income (loss)	\$ 4,523	\$ (673,370)	\$ 460,470	\$ (295,771)
Other comprehensive loss				
<u>Securities available for sale:</u>				
Unrealized holding losses on available for sale securities	(296,393)	(1,509,264)	(798,426)	(1,477,139)
Tax effect	114,271	573,520	307,825	561,313
Reclassification adjustment for (gains) losses realized in income	121,108	-	121,108	(10,187)
Tax effect	<u>(46,692)</u>	<u>-</u>	<u>(46,692)</u>	<u>3,871</u>
Total other comprehensive loss	<u>(107,706)</u>	<u>(935,744)</u>	<u>(416,185)</u>	<u>(922,142)</u>
Comprehensive loss	<u>\$ (103,183)</u>	<u>\$ (1,609,114)</u>	<u>\$ 44,285</u>	<u>\$ (1,217,913)</u>

See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
BALANCE, DECEMBER 31, 2007	2,300	\$ 11,500	1,036,718	\$ 5,183,590	\$ 16,680,664	\$ 731,287	\$ (9,134)	\$ 22,597,907
Cumulative effect adjustment resulting from the adoption of EITF 06-4						(101,486)		(101,486)
Net loss	-	-	-	-	-	(295,771)	-	(295,771)
Other comprehensive loss	-	-	-	-	-	-	(922,142)	(922,142)
Preferred stock dividend	-	-	-	-	-	(108,950)	-	(108,950)
Common stock issued pursuant to: Exercise of employee stock options	-	-	8,030	40,150	111,541	-	-	151,691
BALANCE, JUNE 30, 2008	<u>2,300</u>	<u>\$ 11,500</u>	<u>1,044,748</u>	<u>\$ 5,223,740</u>	<u>\$ 16,792,205</u>	<u>\$ 225,080</u>	<u>\$ (931,276)</u>	<u>\$ 21,321,249</u>
BALANCE, DECEMBER 31, 2008	2,300	\$ 11,500	1,044,748	\$ 5,223,740	\$ 16,792,205	\$ 210,793	\$ (1,291,439)	\$ 20,946,799
Net income	-	-	-	-	-	460,470	-	460,470
Other comprehensive loss	-	-	-	-	-	-	(416,185)	(416,185)
Preferred stock cash dividend	-	-	-	-	-	(108,353)	-	(180,353)
BALANCE, JUNE 30, 2009	<u>2,300</u>	<u>\$ 11,500</u>	<u>1,044,748</u>	<u>\$ 5,223,740</u>	<u>\$ 16,792,205</u>	<u>\$ 562,910</u>	<u>\$ (1,707,624)</u>	<u>\$ 20,882,731</u>

See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
	June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 460,470	\$ (295,771)
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Depreciation and amortization	284,327	353,788
Increase in cash surrender value - life insurance	(77,643)	(81,700)
Amortization of discounts and premiums on securities	75,315	154,353
Provision for loan losses	742,100	895,000
Gain on sale of bank premises and equipment	(201,258)	-
Gain on sale of investment securities	(4,500)	(10,187)
Other than temporary impairment of cost method investment	50,180	-
Loss on other than temporary impairment of investment securities	75,428	-
Gain on sale of loans	(278,119)	-
Gain on sale of foreclosed real estate	(447)	(98,293)
Increase in fair market value of economic hedges	-	(8,716)
Changes in assets and liabilities:		
Decrease in interest receivable	76,589	188,714
(Increase) decrease in other assets	413,541	(30,161)
Decrease in accrued interest and other liabilities	(648,610)	(160,137)
NET CASH PROVIDED BY OPERATING ACTIVITIES	967,373	906,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	-	(4,632,724)
Proceeds from sales of investment securities	5,523,419	8,090,258
Proceeds from sale of loans	2,132,249	-
Net decrease in loans	702,542	2,376,572
Purchases of bank premises and equipment	(148,021)	(465,446)
Proceeds from sale of bank premises and equipment	447,941	-
(Purchase) redemption of FHLB stock	92,000	(658,600)
Redemption of life insurance policy	438,844	-
Proceeds from sale of foreclosed real estate	12,447	709,595
NET CASH PROVIDED BY INVESTING ACTIVITIES	9,201,421	5,419,655
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits and savings	3,139,429	1,386,007
Net decrease in certificates of deposit	(5,907,930)	(24,167,633)
Net increase in federal funds purchased and securities sold under agreement to repurchase	-	930,000
Net increase (decrease) in borrowings	(620,000)	14,309,250
Proceeds from exercise of stock options	-	151,691
Payment of cash dividends	(108,353)	(108,950)
NET CASH USED BY FINANCING ACTIVITIES	(3,496,854)	(7,499,635)
NET DECREASE IN CASH AND CASH EQUIVALENTS	6,671,940	(1,173,090)
CASH AND CASH EQUIVALENTS, BEGINNING	8,292,305	10,320,643
CASH AND CASH EQUIVALENTS, ENDING	\$ 14,964,245	\$ 9,147,553

See accompanying notes.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE A - BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Randolph Bank and Trust Company and its wholly-owned subsidiary, Randolph Investment Services Company, a full-service brokerage company. All intercompany transactions and balances have been eliminated in consolidation.

In management's opinion, the financial information, which is unaudited, reflects all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial information as of and for the three-month and six-month periods ended June 30, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America. Operating results for the three-month and six-month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009.

The organization and business of Randolph Bank and Trust Company (the "Bank"), accounting policies followed by the Bank and other information are contained in the notes to the financial statements filed as part of the Bank's annual report on Form 10-K. This quarterly report should be read in conjunction with such annual report.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, "The *FASB Accounting Standards Codification*TM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162," ("SFAS 168"). SFAS 168 establishes the *FASB Accounting Standards Codification*TM ("Codification") as the source of authoritative generally accepted accounting principles ("GAAP") for nongovernmental entities. The Codification does not change GAAP. Instead, it takes the thousands of individual pronouncements that currently comprise GAAP and reorganizes them into approximately 90 accounting Topics, and displays all Topics using a consistent structure. Contents in each Topic are further organized first by Subtopic, then Section and finally Paragraph. The Paragraph level is the only level that contains substantive content. Citing particular content in the Codification involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. FASB suggests that all citations begin with "FASB ASC," where ASC stands for *Accounting Standards Codification*. SFAS 168, (FASB ASC 105-10-05, 10, 15, 65, 70) is effective for interim and annual periods ending after September 15, 2009 and will not have an impact on the Bank's financial position but will change the referencing system for accounting standards. The following pronouncements provide citations to the applicable Codification by Topic, Subtopic and Section in addition to the original standard type and number.

FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20," (FASB ASC 325-40-65) ("FSP EITF 99-20-1") was issued in January 2009. Prior to the FSP, other-than-temporary impairment was determined by using either Emerging Issues Task Force ("EITF") Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets," ("EITF 99-20") or SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," ("SFAS 115") depending on the type of security. EITF 99-20 required the use of market participant assumptions regarding future cash flows regarding the probability of collecting all cash flows previously projected. SFAS 115 determined impairment to be other than temporary if it was probable that the holder would be unable to collect all amounts due according to the contractual terms. To achieve a more consistent determination of other-than-temporary impairment, the FSP amends EITF 99-20 to determine any other-than-temporary impairment based on the guidance in SFAS 115, allowing management to use more judgment in determining any other-than-temporary impairment. The FSP was effective for reporting

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE A - BASIS OF PRESENTATION (CONTINUED)

Recent Accounting Pronouncements (continued)

periods ending after December 15, 2008. Management has reviewed the Bank's security portfolio and evaluated the portfolio for any other-than-temporary impairments.

On April 9, 2009, the FASB issued three staff positions related to fair value which are discussed below.

FSP FAS 115-2 and FAS 124-2 (FASB ASC 320-10-65), *Recognition and Presentation of Other-Than-Temporary Impairments*, ("FSP SFAS 115-2 and SFAS 124-2") categorizes losses on debt securities available-for-sale or held-to-maturity determined by management to be other-than-temporarily impaired into losses due to credit issues and losses related to all other factors. Other-than-temporary impairment (OTTI) exists when it is more likely than not that the security will mature or be sold before its amortized cost basis can be recovered. An OTTI related to credit losses should be recognized through earnings. An OTTI related to other factors should be recognized in other comprehensive income. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. Annual disclosures required in SFAS 115 and FSP SFAS 115-1 and SFAS 124-1 are also required for interim periods (including the aging of securities with unrealized losses).

FSP SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly" recognizes that quoted prices may not be determinative of fair value when the volume and level of trading activity has significantly decreased. The evaluation of certain factors may necessitate that fair value be determined using a different valuation technique. Fair value should be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction, not a forced liquidation or distressed sale. If a transaction is considered to not be orderly, little, if any, weight should be placed on the transaction price. If there is not sufficient information to conclude as to whether or not the transaction is orderly, the transaction price should be considered when estimating fair value. An entity's intention to hold an asset or liability is not relevant in determining fair value. Quoted prices provided by pricing services may still be used when estimating fair value in accordance with SFAS 157; however, the entity should evaluate whether the quoted prices are based on current information and orderly transactions. Inputs and valuation techniques are required to be disclosed in addition to any changes in valuation techniques.

FSP SFAS 107-1 and APB 28-1 (FASB ASC 825-10-65), "Interim Disclosures about Fair Value of Financial Instruments" requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and also requires those disclosures in summarized financial information at interim reporting periods. A publicly traded company includes any company whose securities trade in a public market on either a stock exchange or in the over-the-counter market, or any company that is a conduit bond obligor. Additionally, when a company makes a filing with a regulatory agency in preparation for sale of its securities in a public market it is considered a publicly traded company for this purpose.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE A - BASIS OF PRESENTATION (CONTINUED)

Recent Accounting Pronouncements (continued)

The three staff positions are effective for periods ending after June 15, 2009, with early adoption of all three permitted for periods ending after March 15, 2009. The Bank adopted FSP FAS 115-2 as of March 31, 2009. The Bank adopted the remaining staff positions for its second quarter 10-Q. The adoption did not have any impact on the Bank's consolidated financial statements. Additional disclosures have been provided where applicable.

The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 111 (FASB ASC 320-10-S99-1) on April 9, 2009 to amend Topic 5.M., "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities" and to supplement FSP SFAS 115-2 and SFAS 124-2. SAB 111 maintains the staff's previous views related to equity securities; however debt securities are excluded from its scope. The SAB provides that "other-than-temporary" impairment is not necessarily the same as "permanent" impairment and unless evidence exists to support a value equal to or greater than the carrying value of the equity security investment, a write-down to fair value should be recorded and accounted for as a realized loss. The SAB was effective upon issuance and had no impact on the Bank's financial position.

SFAS 165 (FASB ASC 855-10-05, 15, 25, 45, 50, 55), "Subsequent Events," ("SFAS 165") was issued in May 2009 and provides guidance on when a subsequent event should be recognized in the financial statements. Subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet should be recognized at the balance sheet date. Subsequent events that provide evidence about conditions that arose after the balance sheet date but before financial statements are issued, or are available to be issued, are not required to be recognized. The date through which subsequent events have been evaluated must be disclosed as well as whether it is the date the financial statements were issued or the date the financial statements were available to be issued. For nonrecognized subsequent events which should be disclosed to keep the financial statements from being misleading, the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made, should be disclosed. The standard is effective for interim or annual periods ending after June 15, 2009. See Note G for Management's evaluation of subsequent events.

The FASB issued SFAS 166 (not yet reflected in FASB ASC), "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140," ("SFAS 166") in June 2009. SFAS 166 limits the circumstances in which a financial asset should be derecognized when the transferor has not transferred the entire financial asset by taking into consideration the transferor's continuing involvement. The standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The concept of a qualifying special-purpose entity is removed from SFAS 140 along with the exception from applying FIN 46(R). The standard is effective for the first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Bank does not expect the standard to have any impact on the Bank's financial position.

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 Bank's financial position, results of operations or cash flows.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE A - BASIS OF PRESENTATION (CONTINUED)

Recent Accounting Pronouncements (continued)

From time to time the Financial Accounting Standards Board ("FASB") issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Bank and monitors the status of changes to and proposed effective dates of exposure drafts.

Certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation. The reclassifications had no effect on net income or shareholders' equity as previously reported.

NOTE B- COMMITMENTS

At June 30, 2009, loan commitments are as follows:

Undisbursed lines of credit	\$ 10,212,000
Commitments to extend credit	19,827,000
Letters of credit	294,000

NOTE C - EARNINGS PER SHARE

Basic and diluted net income (loss) per common share calculations are based on the weighted average number of common shares outstanding during each period. Diluted net income (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income (loss) of the Bank. Dividends paid on preferred stock are subtracted from net income (loss) in calculating net income (loss) available to common shareholders. For the three-month period ended June 30, 2009 and for the three-month and six-month periods ended June 30, 2008, there was no dilutive effect related to stock options as a net loss per common share was reported for each of those periods. Additionally, for the three months and six months ended June 30, 2009, all shares related to stock options were anti-dilutive because the exercise price exceeded the average market price for the respective periods and were omitted from the calculation of dilutive EPS for those periods. For the three months ended June 30, 2008, there were 8,393 shares related to stock options that were anti-dilutive for the same reason, and, likewise, omitted from the calculation of dilutive EPS for that period.

Basic and diluted net income (loss) per common share have been computed based upon net income (loss) as presented in the accompanying consolidated statements of operations divided by the weighted average number of common shares outstanding or assumed to be outstanding as summarized below:

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE C - EARNINGS PER SHARE (CONTINUED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Weighted average number of common shares used in computing basic net income per share	1,044,748	1,041,185	1,044,748	1,038,953
Effect of dilutive stock options	-	-	-	-
Weighted average number of common shares and dilutive potential common shares used in computing diluted net income per share	<u>1,044,748</u>	<u>1,041,185</u>	<u>1,044,748</u>	<u>1,038,953</u>

NOTE D - NONPERFORMING ASSETS

Management estimates the allowance for loan losses required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors. The allowance consists of several components. One component is for loans that are individually classified as impaired and the other components are for collective loan impairment. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

As of June 30, 2009 and December 31, 2008, the recorded investment in loans considered impaired, which includes all nonaccrual loans, totaled \$2.8 million and \$2.6 million, respectively. A corresponding valuation allowance of \$604,000 has been provided for impaired loans with an outstanding balance of \$721,000 at June 30, 2009. Based upon extensive analyses of the credits, including collateral position, loss exposure, guaranties, or other considerations, no additional reserve for the remaining \$2.1 million in impaired credits at June 30, 2009 was deemed necessary. At June 30, 2009, nonaccrual loans totaled \$1.1 million as compared to \$1.3 million at December 31, 2008.

At June 30, 2009, the Bank held foreclosed real estate totaling \$1.5 million. At December 31, 2008, that amount was the same. In the first quarter of 2009, the Bank established a valuation allowance of \$16,000 in recognition of a decline in the fair market value of a portion of the foreclosed real estate held. In the second quarter of 2009, one piece of property was sold that reduced the valuation allowance to \$8,000 at June 30, 2009.

It is the general policy of the Bank to discontinue the accrual of interest on loans 90 days past due as to principal and interest.

NOTE E - STOCK COMPENSATION PLANS

The Bank had one share-based compensation plan that expired in May, 2008. Therefore, no new option grants can be awarded under this plan, but existing awards can still be exercised. All shares that have been issued under the plan were fully vested. Therefore, there was no compensation cost charged against income for the plan for the six months ended June 30, 2009 and 2008. There was no tax benefit recognized for share-based compensation arrangements during the periods.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE F – FAIR VALUE MEASUREMENT

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value other assets and liabilities on a non-recurring basis, such as loans held for sale, goodwill, and foreclosed assets. These non-recurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets or liabilities.

The Bank groups financial assets and financial liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

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

Investments Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 may include asset-backed securities in less liquid markets.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics.

Loans

The Bank records loans in the ordinary course of business at cost and does not record loans at fair value on a recurring basis. Loans are considered impaired when it is determined to be probable that all amounts due under the contractual terms of the loan will not be collected when due. Loans considered individually impaired are evaluated under the provisions of Statement of Financial Accounting Standard (SFAS) 114,

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE F – FAIR VALUE MEASUREMENT (CONTINUED)

Accounting by Creditors for Impairment of a Loan, and a specific allowance is established, if required, based on the most appropriate of the three measurement methods: present value of expected future cash flows, fair value of collateral, or the observable market price of a loan method. A specific allowance is required if the fair value of the expected repayments or the collateral is less than the recorded investment in the loan. As reported in Note D, at June 30, 2009, loans with a book value of \$2.8 million were evaluated for impairment. Of this total, \$721,000 required a specific allowance totaling \$604,000 for a net fair value of \$117,000. The methods used to determine the fair value of these loans were generally either the present value of expected future cash flows which is a Level 3 measure or fair value of collateral based upon recent independent appraisals or comparable market values which is a Level 2 measure.

Other Real Estate Owned

Other real estate owned (“OREO”) is adjusted to fair value upon the transfer of foreclosed property to OREO. Subsequently, OREO is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the foreclosed asset as a non-recurring Level 2 measure. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the OREO as a non-recurring Level 3 measure.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

	June 30, 2009			
	Total	Level 1	Level 2	Level 3
	(Amounts in thousands)			
Securities available for sale	\$ 31,321	\$ -	\$ 24,276	\$ 6,955

The table below presents the balances of assets measured at fair value on a non-recurring basis.

	June 30, 2008			
	Total	Level 1	Level 2	Level 3
	(Amounts in thousands)			
Impaired Loans	\$ 117	\$ -	\$ 117	\$ -
Other real estate owned	\$ 1,519	\$ -	\$ 1,519	\$ -
Total assets	\$ 1,636	\$ -	\$ 1,636	\$ -

NOTE F – FAIR VALUE MEASUREMENT (CONTINUED)

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value for each class of the Bank's financial instruments.

Cash and cash equivalents. The carrying amounts for cash and due from banks approximate fair value because of the short maturities of those instruments.

Investment securities. The fair value of investment securities is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The fair value of equity investments in the restricted stock of the Federal Reserve Bank and Federal Home Loan Bank equals the carrying value.

Loans. The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of variable rate loans with frequent repricing and negligible credit risk approximates book value.

Investment in bank-owned life insurance. The carrying value of bank-owned life insurance approximates fair value because this investment is carried at cash surrender value, as determined by the insurer.

Deposits. The fair value of noninterest-bearing demand deposits and NOW, savings, and money market deposits are the amounts payable on demand at the reporting date. The fair value of time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowed funds. The carrying value of federal funds purchased is considered to be a reasonable estimate of fair value. The fair value of Federal Home Loan Bank advances and other borrowed funds is estimated using the rates currently offered for advances of similar remaining maturities.

Accrued interest. The carrying amounts of accrued interest approximate fair value.

Financial instruments with off-balance sheet risk. The fair value of financial instruments with off-balance sheet risk is considered to approximate carrying value, since the large majority of these future financing commitments would result in loans that have variable rates and/or relatively short terms to maturity. For other commitments, generally of a short-term nature, the carrying value is considered to be a reasonable estimate of fair value.

RANDOLPH BANK AND TRUST COMPANY
Notes to Consolidated Financial Statements

NOTE F – FAIR VALUE MEASUREMENT (CONTINUED)

The estimated fair values of financial instruments are as follows:

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
Financial assets:				
Cash and cash equivalents	14,964	14,964	8,292	8,292
Investment securities available for sale	31,321	31,321	37,668	37,668
Loans held for sale	-	-	1,793	1,793
Loans, net	203,840	243,779	205,268	239,281
Investment in life insurance	1,376	1,376	1,737	1,737
Accrued interest receivable	1,037	1,037	1,114	1,114
Financial liabilities:				
Deposits	217,664	219,090	220,432	220,349
Borrowings	26,071	25,200	26,691	25,517
Accrued interest payable	258	258	287	287

NOTE G – SUBSEQUENT EVENTS

The Bank evaluated subsequent events up and through August 17, 2009, which is the date the financial statements were available to be issued. As a result of that evaluation, no subsequent events were identified that required recognition or disclosure in the financial statements.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Management’s discussion and analysis is provided to help the user in examining and understanding the operating results and financial condition of Randolph Bank and Trust Company (the “Bank”). The following analysis should be reviewed along with other information contained in this report, including consolidated financial statements and accompanying notes.

**Comparison of Financial Condition at
June 30, 2009 and December 31, 2008**

Total assets at June 30, 2009 were \$266.1 million compared to \$270.2 million at December 31, 2008, a decrease of \$4.1million. Gross loans, including loans held for sale, totaled \$206.6 million at June 30, 2009, down from \$209.8 million at December 31, 2008. The decrease is primarily due to the sale of the Bank’s credit card portfolio in January, 2009 and payouts on loans refinanced with other institutions. The Bank found itself in the position of selling funds as investments paid down with little demand for loans. Federal funds sold went from zero at December 31, 2008 to \$5.3 million at June 30, 2009 while the Bank’s investment portfolio fell by \$6.3 million. Paydowns and maturities accounted for \$5.5 million of the drop with declines in market value accounting for the majority of the balance.

Total deposits at June 30, 2009 were \$217.7 million, a decrease of \$2.8 million from year-end 2008. Time deposits decreased \$5.9 million during that period, which included \$4.0 million in brokered certificates of deposit that matured, while interest-bearing demand deposits increased \$6.2 million offset in part by a decrease in non-interest-bearing demand deposits of \$3.2 million. Other borrowings declined by \$620,000 over the six month period to \$26.1 million as of June 30, 2009 as the Bank's cash position improved.

Total shareholders' equity at June 30, 2009 was \$20.9 million, compared to \$20.9 million at December 31, 2008. The Bank's leverage ratio (Tier 1 Capital/Assets) was 7.71%. All capital ratios are in excess of the minimum required to be deemed a well-capitalized bank by regulatory measures.

Investment Securities

The Bank evaluates all securities on a quarterly basis, and more frequently when economic conditions warrant additional evaluations, to determine if an other-than-temporary impairment ("OTTI") exists pursuant to guidelines established in FSP 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. In evaluating the possible impairment of securities, consideration is given to the length of time and the extent to which the fair value has been less than book value, the financial conditions and near-term prospects of the issuer, and the ability and intent of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Bank may consider whether the securities are issued by the federal government or its agencies or government sponsored agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. If management determines that an investment experienced an OTTI, the loss is recognized in the income statement as a realized loss. Any recoveries related to the value of these securities are recorded as an unrealized gain (as other comprehensive income/(loss) in shareholders' equity) and not recognized in income until the security is ultimately sold.

In April 2009, the FASB issued FASB Staff Position No. 115-2 and 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," ("FSP FAS 115-2 and 124-2"). FSP FAS 115-2 and 124-2 creates a new model for evaluating other-than-temporary impairment on debt securities. If an entity intends to sell a debt security, or cannot assert it is more likely than not that it will not have to sell the security before recovery, OTTI must be taken. If the entity does not intend to sell the debt security before recovery, but the entity does not expect to recover the entire amortized cost basis, then OTTI must be taken, but the amount of impairment is to be bifurcated between impairment due to credit (which is recorded through earnings) and noncredit impairment (which becomes a component of other comprehensive income ("OCI") for both available-for-sale ("AFS") and held-to-maturity securities ("HTM")). For HTM securities, the amount in OCI will be amortized prospectively over the security's remaining life.

The Bank owns eight private label collateralized debt obligations with a collective book value as of June 30, 2009 of \$9.6 million. With very limited marketability of these securities, down-graded credit ratings and rates well above the coupon rates, the current market value for these securities is \$7.0 million. After extensive review, management determined that an OTTI charge due to credit losses of \$75,000 was necessary in the second quarter of 2009. Management will continue to monitor these securities for future OTTI.

At June 30, 2009, the remainder of the Bank's securities available-for-sale with an unrealized loss position were, in management's belief, primarily due to differences in market interest rates as compared to those of the underlying securities. Management does not believe any of these securities are other-than-temporarily impaired. At June 30, 2009, the Bank has both the intent and ability to hold these impaired securities for a period of time necessary to recover the unrealized losses; however, the Bank may from time to time dispose of an impaired security in response to asset/liability management decisions, future market movements, business plan changes, or if the net proceeds could be reinvested at a rate of return that is expected to recover the loss within a reasonable period of time

Asset Quality

Management considers the asset quality of the Bank to be of primary importance. A formal loan review function, independent of loan origination, is used to identify and monitor problem loans. As part of the loan review function, a third-party assessment group is engaged annually to review the underwriting documentation and risk grading analysis.

Nonperforming assets

Nonperforming assets are comprised of nonaccrual loans, accruing loans past due 90 days or more, repossessed assets and other real estate owned (“OREO”). Loans are placed in nonaccrual status when, in management’s opinion, the collection of all or a portion of interest becomes doubtful. It is the general policy of the Bank to discontinue the accrual of interest on loans 90 days past due as to principal and interest. Loans are returned to accrual status when the factors indicating doubtful collectability cease to exist and the loan has performed in accordance with its terms for a demonstrated period of time. OREO represents real estate acquired through foreclosure or deed in lieu of foreclosure and is generally carried at fair value, less estimated costs to sell.

Nonperforming loans at June 30, 2009 were \$1.7 million, or 0.84% of total loans, compared to \$2.3 million, or 1.13% of total loans at December 31, 2008. OREO was \$1.5 million at both June 30, 2009 and December 31, 2008.

Allowance for Loan Losses

Our allowance for loan losses (“ALLL”) is established through charges to earnings in the form of a provision for loan losses. We increase our allowance for loan losses by provisions charged to operations and by recoveries of amounts previously charged off and we reduce our allowance by loans charged off. In evaluating the adequacy of the allowance, we consider the growth, composition and industry diversification of the portfolio, historical loan loss experience, current delinquency levels, trends in past dues and classified assets, adverse situations that may affect a borrower’s ability to repay, estimated value of any underlying collateral, prevailing economic conditions and other relevant factors derived from our history of operations. The Bank’s format for the calculation of ALLL begins with the evaluation of loans under SFAS 114. For the purpose of evaluating loans for impairment under SFAS 114, loans are considered impaired when it is considered probable that all amounts due under the contractual terms of the loan will not be collected when due (minor shortfalls in amount or timing excepted). The Bank has established policies and procedures for identifying loans that should be considered for impairment. Loans are reviewed through multiple means such as delinquency management, credit risk reviews, watch and criticized loan monitoring meetings and general account management. Loans that are outside of the Bank’s established criteria for evaluation may be considered for SFAS 114 impairment testing when management deems the risk sufficient to warrant this approach. For loans determined to be impaired, the specific allowance is based on the most appropriate of the three measurement methods: present value of expected future cash flows, fair value of collateral, or the observable market price of a loan method. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. Once a loan is considered impaired, it is not included in the determination of the SFAS 5 component of the allowance, even if no specific allowance (the SFAS 114 component) is considered necessary. See Note D to the Financial Statements for further discussion.

The Bank also utilizes various other factors to further evaluate the portfolio for risk to determine the appropriate level of allowance to provide for probable losses in the loan portfolio. The other factors utilized include the rate of loan growth, credit grade migration, policy exceptions, account officer experience, interest rate trends and various economic factors. These factors are examined for trends and the risk that they represent to the Bank’s loan portfolio. Each of these other factors is assigned a level of risk and this risk factor is applied to only the SFAS 5 pool of loans to calculate the appropriate allowance.

We use a risk grading program to facilitate our evaluation of probable inherent loan losses and the adequacy of the allowance for loan losses. We strive to maintain our loan portfolio in accordance with conservative loan underwriting policies that result in loans specifically tailored to the needs of our market area. Every effort is made to identify and minimize the credit risks associated with such lending strategies. We have no foreign loans and we do not engage in lease financing or highly leveraged transactions.

At June 30, 2009, the allowance for loan losses was \$2.7 million or 1.32% of total loans. At December 31, 2008, the dollar level of the allowance was the same, but as a percent of loans, it was one basis point lower at 1.31% of total loans. The following table summarizes the activity in the allowance for loan losses for the six months ended June 30, 2009 and 2008:

	Six Months Ended	
	June 30,	
	2009	2008
Balance at beginning of period	\$ 2,734	\$ 2,954
Provision for loan losses	742	895
Write-down from transfer of loans to held for sale account	-	(76)
Charge-offs	(801)	(1,376)
Recoveries	55	20
Balance at end of period	<u>\$ 2,730</u>	<u>\$ 2,417</u>

Management considers the level of the allowance for loan losses to be appropriate in light of the risk inherent in the Bank's loan portfolio as of the date of the financial statements. While management uses the best information available to make evaluations, future adjustments may be necessary based on changes in economic and other conditions.

Comparison of Results of Operations for the Three months Ended June 30, 2009 and 2008

Overview. The Bank reported a net loss available to common shareholders of \$50,000 or diluted net loss per common share of \$.05 for the quarter ended June 30, 2009, as compared with a net loss available to common shareholders of \$728,000 or \$.70 per diluted common share for the quarter ended June 30, 2008. The loss reported for the second quarter of 2009 is primarily the result of a \$672,000 increase to the provision for loan losses. The loss for the quarter ended June 30, 2008 can be explained similarly except that the amount of the increase to the provision was \$820,000. Increases in salaries and benefits and outside consulting fees also contributed to the loss reported in the second quarter of 2008.

Net Interest Income. Net interest income for the quarter ended June 30, 2009 increased \$185,000 or 8.91% over the amount reported for the same period in 2008, primarily due to changes in rates on the deposit side of the balance sheet. While interest-earning assets declined by more than interest-bearing liabilities in actual dollars, the net interest rate spread rose 55 basis points to 3.53% from 2.98% while the net interest margin (taxable-equivalent net interest income divided by average earning assets) increased to 3.69% for the period ended June 30, 2009 compared to 3.30% for the same period last year. This was largely the result of decreases in deposit rates at a time when the Bank's balance sheet is liability sensitive.

Total interest income of \$3.6 million decreased \$429,000 from the same period last year as a result of a \$13.1 million decrease in average earning assets and a decrease in the yield on earning assets to 5.90% for the 2009 period from 6.35% for the 2008 period. Specifically, the yield on loans declined while the volume of loans increased, whereas the opposite was true for investments. As a result, the decline in loan yields coupled with the decline in investment volume were the contributing factors to the overall reduction in interest income.

Interest expense for the quarter decreased \$614,000 compared to the same period last year. While the average balance of interest-bearing liabilities decreased \$4.9 million, the rate paid on these liabilities decreased from 3.37% for the period ended June 30, 2008 to 2.37% for the period ended June 30, 2009, primarily due to the lowering of the Federal Funds target interest rate by the Federal Reserve from 2.00% at June 30, 2008 to approximately 25 basis points at June 30, 2009.

Provision for Loan Losses. The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to a level considered appropriate to absorb probable losses inherent in the portfolio. Management's determination of the adequacy of the allowance is based on the level of loan growth, an evaluation of the portfolio, current economic conditions, historical loan loss experience and other risk factors. The Bank recorded provisions for loan losses of \$672,000 for the quarter ended June 30, 2009 compared to \$820,000 for the quarter ended June 30, 2008. Management felt that it was necessary to replenish the allowance for loan losses given the current economic climate after having recorded significant charge-offs in both the second quarter of 2009 and the second quarter of 2008. Nonperforming loans, which consist of nonaccrual and restructured loans, were 0.84% of outstanding loans at June 30, 2009, a decrease from 2.13% at June 30, 2008. The Bank had net charge-offs for the three-month period ended June 30, 2009 of \$699,000 compared to net charge-offs of \$1.0 million for the three-month period ended June 30, 2008.

Non-Interest Income. Non-interest income totaled \$691,000 for the quarter ended June 30, 2009, an increase of \$171,000 or 32.81% from the same quarter last year. The increase is attributable, in part, to a gain of \$201,000 on the sale of the Bank's Loan Operations building and a \$39,000 gain on the surrender of an insurance policy insuring the life of a former CEO that were recorded in the second quarter of 2009. These gains were offset by a \$50,000 loss recorded on the disposition of the Bank's investment in a failed "banker's bank" and by an "other than temporary impairment" adjustment of \$75,000 related to the Bank's private label CMO investments. During the second quarter of 2008, a one-time loss of \$109,000 associated with the termination of a stand-alone interest rate floor agreement was recorded. There was one sale of a foreclosed asset in the quarter ended June 30, 2009 that resulted in minimal gain after taking into account that the property was written down \$8,000 in the first quarter of 2009. Sales of other real estate in the quarter ended June 30, 2008 generated \$13,000 in gains.

Non-Interest Expense. Non-interest expense totaled \$2.3 million for the quarter ended June 30, 2009, a decrease of \$440,000 or 16.23% over the \$2.7 million reported for the second quarter of 2008. Many factors were responsible for this decline including decisions by the Board of Directors to forego their fees for a period of time, to freeze salaries, and to cut the employee pension matching contribution in half starting April 1, 2009. Salaries and benefits declined by \$197,000 or 14.07%. Outside service fees fell \$161,000 or 59.85% based primarily upon the reduced need for consulting services related to the finance area and Sarbanes-Oxley compliance. Audit fees reported in the second quarter of 2009 were 40.22% less than what was reported for the second quarter of 2008 as the accrual amount was adjusted to reflect anticipated savings by changing audit firms. Finally, loan collection costs and other real estate expenses for the second quarter of 2009 were \$23,000 less than what was reported for the second quarter of 2008. Substantial costs were incurred in the second quarter of 2008 to make improvements in the golf course acquired through foreclosure in the first quarter of 2008. Offsetting these declines was an \$84,000 increase in the FDIC assessment with the amount going from \$34,000 for the quarter ended June 30, 2008 to \$118,000 for the quarter ended June 30, 2009. The assessment amount is accrued on a monthly basis based upon what the bank anticipates the actual amount will be for the entire year. In December, 2008, the FDIC amended its assessment rate structure to allow for a uniform increase of 7 basis points in rates effective with the quarter ending March 31, 2009 and payable at June 30, 2009. In February, 2009, the FDIC adopted another rule modifying the risk-based assessment system that set the initial base assessment rates beginning April 1, 2009 at 12 to 45 basis points. In addition, they imposed a one-time emergency 20 basis point special assessment on June 30, 2009 balances to be collected on September 30, 2009, and authorized the Board to collect additional special assessments of up to 10 basis points thereafter to maintain public confidence in the Deposit Insurance Fund. In April, 2009, the special assessment was reduced to 5 basis points (to be calculated on total assets less tier one capital), which is approximately \$125,000. That amount has been factored into the accrual for the remainder of the year.

Income Taxes. The Bank recorded a tax provision of \$3,000 for the quarter ended June 30, 2009 compared to an income tax benefit of \$262,000 for the same period last year. For the current quarter ended June 30, 2009, the effective tax rate was 39.88% and reflects the impact of the redemption of the insurance policy insuring the life of the former CEO. The surrender of the policy resulted in a taxable gain of \$95,000. The book gain recorded was \$39,000. For the quarter ended June 30, 2008, the tax benefit resulted primarily from losses recorded in that quarter in addition to the impact of tax-exempt income.

Comparison of Results of Operations for the Six months Ended June 30, 2009 and 2008

Overview. The Bank reported net income available to common shareholders of \$352,000 or a diluted net income per common share of \$.34 for the six month period ended June 30, 2009, as compared with a net loss available to common shareholders of \$405,000 or a diluted net loss per common share of \$.39 for the six month period ended June 30, 2008. Net interest income increased by \$427,000 from \$4.1 million for the six months ended June 30, 2008 to \$4.5 million for the current period, while the six month year-to-date provision for loan losses was \$153,000 less in 2009 as compared to the amount recorded during the first six months of 2008. For those same periods, non-interest income declined by \$204,000, but non-interest expense declined by the even larger amount of \$714,000, yielding a net positive result.

Net Interest Income. The increase of \$427,000 or 10.41% in net interest income for the six months ended June 30, 2009 as compared to the same period in 2008 was primarily due to changes in rates on the deposit side of the balance sheet. While interest-earning assets declined by more than interest-bearing liabilities in actual dollars, the net interest rate spread rose 78 basis points to 3.60% from 2.82% and the net interest margin increased to 3.78% for the period ended June 30, 2009 compared to 3.21% for the same period last year. This was largely the result of decreases in deposit rates at a time when the Bank's balance sheet is liability sensitive. The average rate on time deposits over \$100,000 decreased 122 basis points from 3.74% to 2.52% while the rate on all other time deposits decreased 149 basis points from 4.90% to 3.41%. During the same period, the average rate on loans decreased 61 basis points from 6.76% to 6.15% and the average rate on investments increased from 5.27% to 5.91%.

Total interest income of \$8.3 million decreased \$1,077,000 from the same period last year as a result of both a decrease in the yield on earning assets to 6.03% for the 2009 period from 6.44% for the 2008 period and a decrease in the volume of earning assets from \$263 million to \$245 million. Specifically, the volume of loans increased while the average rate on loans declined. At the same time, the volume of investments decreased while the average return on investments increased. The overall result was that the decrease in the average rate on loans and the reduction in the size of the investment portfolio contributed equally to the decrease in interest income.

Interest expense for the six month period decreased \$1.5 million compared to the same period last year. The average balance of interest-bearing liabilities decreased by \$8.7 million while the average rate paid on these liabilities fell from 3.62% for the period ended June 30, 2008 to 2.43% for the period ended June 30, 2009. However, the drop in rates accounted for the majority of the decline in interest expense.

Provision for Loan Losses. The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to a level considered appropriate to absorb probable losses inherent in the portfolio. Management's determination of the adequacy of the allowance is based on the level of loan growth, an evaluation of the portfolio, current economic conditions, historical loan loss experience and other risk factors. The Bank recorded provisions for loan losses of \$742,000 for the six months ended June 30, 2009 compared to \$895,000 for the six months ended June 30, 2008. Nonperforming loans, which consist of nonaccrual and restructured loans, were 0.84% of outstanding loans at June 30, 2009, a decrease from 2.13% at June 30, 2008. The Bank had net charge-offs for the period ended June 30, 2009 of \$748,000 or annualized charge-offs to average loans of 0.72% compared to a net charge-offs of \$1.4 million or annualized charge-offs to average loans of 1.32% for the period ended June 30, 2008. For both periods of time, one loan accounted for the majority of the net charge-off amount.

Non-Interest Income. Non-interest income totaled \$1.5 million for the six months ended June 30, 2009, a decrease of \$204,000 or 12.00% from the same period last year. Gains on economic hedges resulting from market value fluctuations and gains on the sale of other real estate for the six month period ended June 30, 2008 were significantly greater than the gains recorded on the sale of the credit card portfolio, bank property, and other real estate during the six months ended June 30, 2009. In addition, during the first six months of 2009, the Bank wrote off its \$50,000 investment in a failed “banker’s bank” and recorded an “other than temporary impairment” adjustment of \$75,000 to its investment portfolio related to its holdings of private label CMOs. Non-interest income was also impacted by a drop in service charges of \$63,000 or 10.77% less than amounts recorded in the six months ended June 30, 2008 and an increase in investment commissions of \$24,000 or 25.45%. During the six month period ended June 30, 2008, all derivative instruments were terminated.

Non-Interest Expense. Non-interest expense totaled \$4.6 million for the quarter ended June 30, 2009, a decrease of \$714,000 or 13.51% over the \$5.3 million reported for the second quarter of 2008. Many factors were responsible for this decline including decisions by the Board of Directors to forego their fees for a period of time, to freeze salaries, and to cut the employee pension matching contribution in half starting April 1, 2009. Salaries and benefits declined by \$253,000 or 9.38%. Outside service fees fell \$208,000 or 46.97% based primarily upon the reduced need for consulting services related to the finance area and Sarbanes-Oxley compliance. Audit fees reported in the second quarter of 2009 were 40.22% less than what was reported for the second quarter of 2008 as the accrual amount was adjusted to reflect anticipated savings by changing audit firms. Finally, loan collection costs and other real estate expenses for the first six months of 2009 were \$59,000 less than what was reported for the first six months of 2009. Substantial costs were incurred in the first and second quarters of 2008 to make improvements in the golf course acquired through foreclosure in the first quarter of 2008. Offsetting these declines was an \$112,000 increase in the FDIC assessment with the amount going from \$69,000 for the six months ended June 30, 2008 to \$181,000 for the six months ended June 30, 2009. The assessment amount is accrued on a monthly basis based upon what the bank anticipates the actual amount will be for the entire year. In December, 2008, the FDIC amended its assessment rate structure to allow for a uniform increase of 7 basis points in rates effective with the quarter ending March 31, 2009 and payable at June 30, 2009. In February, 2009, the FDIC adopted another rule modifying the risk-based assessment system that set the initial base assessment rates beginning April 1, 2009 at 12 to 45 basis points. In addition, they imposed a one-time emergency 20 basis point special assessment on June 30, 2009 balances to be collected on September 30, 2009, and authorized the Board to collect additional special assessments of up to 10 basis points thereafter to maintain public confidence in the Deposit Insurance Fund. In April, 2009, the special assessment was reduced to 5 basis points (to be calculated on total assets less tier one capital), which is approximately \$125,000. That amount has been factored into the accrual for the remainder of the year.

Income Taxes. The Bank recorded a tax provision of \$251,000 for the six months ended June 30, 2009 compared to a tax benefit of \$83,000 for the same period last year. For the six months ended June 30, 2009, the effective tax rate was 35.27% and reflects the impact of the redemption of the insurance policy insuring the life of the former CEO. The surrender of the policy resulted in a taxable gain of \$95,000. The book gain recorded was \$39,000. For the six months ended June 30, 2008, the tax benefit was calculated based upon a projection of net income (loss) for the year, but was impacted by the level of the Bank’s tax-exempt income for that period.

Capital Resources and Liquidity

Liquidity management refers to the ability to meet day-to-day cash flow requirements based primarily on activity in loan and deposit accounts of the Bank’s customers. Deposit withdrawals, loan funding, and general corporate activity create a need for liquidity for the Bank. Liquidity is derived from sources such as deposit growth; maturity, calls, or sales of investment securities; principal and interest payments on loans; access to borrowed funds or lines of credit; and profits.

Consistent with the general approach to liquidity, loans and other assets of the Bank are based primarily on a core of local deposits and the Bank’s capital position. To date, deposits and capital, supplemented by Federal Home Loan Bank advances and a modest amount of brokered deposits, have been adequate to

fund loan demand in the Bank's market area, while maintaining the desired level of immediate liquidity and a substantial investment securities portfolio available for both immediate and secondary liquidity purposes. The investment portfolio consists primarily of securities of government agencies, mortgage-backed securities, and North Carolina municipal bonds, all of which are readily marketable. If additional funding sources are needed, the Bank has access to federal funds lines at correspondent banks and the Federal Reserve Bank's discount window.

Management's asset liability and risk management policy is to maximize net interest income while continuing to provide adequate liquidity to meet continuing loan demand and deposit withdrawal requirements and to service normal operating expenses. Utilizing a model that simulates net interest income and performs gap analysis, the Bank is able to manage the risk/return relationships between liquidity, interest rate risk, market risk, and capital adequacy.

Under guidelines established by the Board of Governors of the Federal Reserve System, capital adequacy is currently measured for regulatory purposes by certain risk-based capital ratios, supplemented by a leverage capital ratio. The risk-based capital ratios are determined by expressing allowable capital amounts, defined in terms of Tier 1 and Tier 2, as a percentage of risk-weighted assets, which are computed by measuring the relative credit risk of both the asset categories on the balance sheet and various off-balance sheet exposures. Tier 1 capital consists primarily of common shareholders' equity and qualifying perpetual preferred stock and qualifying trust preferred securities, net of goodwill and other disallowed intangible assets. Tier 2 capital, which is limited to the total of Tier 1 capital, includes allowable amounts of subordinated debt, mandatory convertible debt, preferred stock, trust preferred securities and the allowance for loan losses. Total capital, for risk-based purposes, consists of the sum of Tier 1 and Tier 2 capital. Under current requirements, the minimum total capital ratio is 8.00% and the minimum Tier 1 capital ratio is 4.00%. At June 30, 2009, the Bank's ratio of total capital to risk-weighted assets of 11.29% exceeded the regulatory requirement of 10% for a "well-capitalized" bank, while the Bank's Tier 1 ratio of 9.93% exceeded the required Tier 1 ratio of at least 6% for a "well-capitalized" bank. The Bank's leverage ratio of 7.71 also exceeded the "well-capitalized" threshold of 5.0%. Thus, based on its existing capital ratios, the Bank is currently "well-capitalized" within the meaning of the applicable regulations.

Forward-Looking Information

Statements contained in this report, which are not historical facts, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Amounts herein could vary as a result of market and other factors. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Bank with the Federal Deposit Insurance Corporation from time to time. Such forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "might," "planned," "estimated," and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, expected or anticipated revenue, results of operations and business of the Bank that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, loan demand, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory, and technological factors affecting the Bank's operations, pricing, products and services.

Item 4T. Controls and Procedures

As of the end of the period covered by this report, the Bank carried out an evaluation, under the supervision and with the participation of the Bank's management, including the Bank's Principal Executive Officer and Chief Financial Officer, of the effectiveness of the Bank's disclosure controls and procedures (as defined in Rule 13a-15(e)) pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Bank's Principal Executive and Chief Financial Officer have concluded that the Bank's disclosure controls and procedures are not effective because the material weaknesses in the controls over financial reporting as of December 31, 2008 that were disclosed in Form 10-K still exist. However, management has made progress towards remediating the issues that led the Bank to conclude that there were material weaknesses in internal controls over financial reporting. With the help of an outside firm, the Bank will continue to conduct a more thorough assessment of its internal control over financial reporting during the remainder of 2009 which will include:

- Testing each key control for operating effectiveness on a quarterly basis;
- Reviewing and updating the risk plan and testing strategy;
- Developing a system for reporting deficiencies to management on a timely basis; and
- Remediating any deficiencies noted during the testing in a timely manner.

Changes in Internal Control over Financial Reporting

There were no changes in the Bank's internal control over financial reporting that occurred during the three months ended June 30, 2009 that materially affected, or are reasonably likely to materially affect, the Bank's internal controls over financial reporting other than changes due to the remediation efforts discussed above.

Part II. OTHER INFORMATION

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

The Bank's annual meeting of shareholders was held on June 16, 2009, in Asheboro, North Carolina. The proposal listed in the Proxy Statement dated May 19, 2009, to elect four (4) directors of the Bank to three-year terms, was approved by the shareholders as listed below. There were no other matters submitted for vote of the shareholders at this meeting.

Proposal (1) - To elect four (4) directors to three-year terms. Votes for each nominee were as follows:

Nominee	For	Withheld
Cynthia G. Hatley	605,976	12,426
Phillip O. Ridge	607,650	10,752
Larry K. Small	606,010	12,392
C. Michael Whitehead, Jr.	607,678	10,724

The following 6 directors continued in office: Harvey Adams, M.D., D. Harold Briles, Henry N. Buckner, Christie B. McKenzie, Doris Smith, Milton F. Yates.

Item 6. Exhibits

<u>Exhibit #</u>	<u>Description</u>
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)
32.1	Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

RANDOLPH BANK AND TRUST COMPANY

Date: August 19, 2009

By: /s/ C. Michael Whitehead, Jr.

C. Michael Whitehead, Jr.
Principal Executive Officer

Date: August 19, 2009

By: /s/ Katherine L. Homiller

Katherine L. Homiller
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit #</u>	<u>Description</u>
31.2	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)
32.3	Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.4	Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, C. Michael Whitehead, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Randolph Bank and Trust Company, a North Carolina bank (the "Registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13A-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2009

/s/ C. Michael Whitehead, Jr.

C. Michael Whitehead, Jr.
Principal Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Katherine L. Homiller, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Randolph Bank and Trust Company, a North Carolina bank (the "Registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13A-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2009

/s/ Katherine L. Homiller

Katherine L. Homiller
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, to his or her knowledge, (i) the Form 10-Q filed by Randolph Bank and Trust Company (the “Issuer”) for the quarter ended June 30, 2009, fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

Date: August 19, 2009

/s/ C. Michael Whitehead, Jr.

C. Michael Whitehead, Jr.

Principal Executive Officer

Exhibit 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, to his or her knowledge, (i) the Form 10-Q filed by Randolph Bank and Trust Company (the “Issuer”) for the quarter ended June 30, 2009, fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

Date: August 19, 2009

/s/ Katherine L. Homiller
Katherine L. Homiller
Chief Financial Officer