Execution Version

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

Dear Ladies and Gentlemen:

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

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 Except to the extent supplemented or superseded by the terms set forth herein or in the Schedules hereto, the provisions contained in the Securities Purchase Agreement – Standard Terms attached hereto as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

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

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

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

* * *

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

UNITED STATES DEPARTMENT OF THE TREASURY

By:_____
Name:
Title:

COMPANY: TREATY OAK BANCORP, INC.

By:
Name:
Title: PRESIDENT & CEO

Date: January 16, 2009

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

UNITED STATES DEPARTMENT OF THE TREASURY

By:_____
Name:
Title: Neel Kashkari
Interim Assistant Secretary
For Financial Stability

COMPANY: TREATY OAK BANCORP, INC.

By:_____
Name:
Title:

Date: January 16, 2009

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

SECURITIES PURCHASE AGREEMENT

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SECURITIES PURCHASE AGREEMENT – STANDARD TERMS

Recitals:

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

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

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

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

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

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

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

Article I
Purchase; Closing

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

1.2 Closing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Article II
Representations and Warranties

2.1 Disclosure.

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

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

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

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

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

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

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

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

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

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

(e) Authorization, Enforceability.

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

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

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

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

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

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

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

(i) Reports.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

expected to have a Company Material Adverse Effect, to the Company's knowledge, no other person is infringing, diluting, misappropriating or violating, nor has the Company or any 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 Depositary Shares. Upon request by the Investor at any time following the Closing Date, the Company shall promptly enter into a depositary arrangement, pursuant to customary agreements reasonably satisfactory to the Investor and with a depositary reasonably acceptable to the Investor, pursuant to which the Preferred Shares or the Warrant Shares may be deposited and depositary 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 depositary arrangement, and the deposit of any Preferred Shares or Warrant Shares, as applicable, pursuant thereto, the depositary 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]

ANNEX A

FORM OF [CERTIFICATE OF DESIGNATIONS]

OF

FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [•]

OF

[•]

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

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

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

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

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

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

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

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

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

(d) "Liquidation Amount" means $[1,000][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:

Schedule A

STANDARD PROVISIONS

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

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

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

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

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

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

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

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

(g) "Charter" means the Issuer's certificate or articles of incorporation, articles of association, or similar organizational document.

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

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

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

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

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

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

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

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

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

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

Section 3. Dividends.

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

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

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

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

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

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

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

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

Section 4. Liquidation Rights.

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

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

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

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

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

Section 5. Redemption.

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

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

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

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

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

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

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

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

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

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

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

Section 7. Voting Rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ANNEX B

FORM OF CERTIFICATE OF DESIGNATIONS FOR WARRANT PREFERRED STOCK

[SEE ATTACHED]

ANNEX B

FORM OF [CERTIFICATE OF DESIGNATIONS]

OF

FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [•]

OF

[•]

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

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

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

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

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

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

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

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

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

(d) "Liquidation Amount" means $[1,000][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 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:

Schedule A

STANDARD PROVISIONS

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

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

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

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

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

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

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

(f) "Charter" means the Issuer's certificate or articles of incorporation, articles of association, or similar organizational document.

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

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

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

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

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

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

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

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

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

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

Section 3. Dividends.

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

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

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

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

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

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

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

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

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

Section 4. Liquidation Rights.

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

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

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

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

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

Section 5. Redemption.

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

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

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

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

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

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

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

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

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

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

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

Section 7. Voting Rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ANNEX C

FORM OF WAIVER

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

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

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

ANNEX D

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]

ANNEX E

FORM OF WARRANT TO PURCHASE PREFERRED STOCK

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

WARRANT
to purchase

_____
Shares of Preferred Stock

of _____

Issue Date: _____

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"*SEC*" means the U.S. Securities and Exchange Commission.

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

"*Shares*" has the meaning set forth in Section 2.

"*Warrantholder*" has the meaning set forth in Section 2.

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

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

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

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

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

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

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

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

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

7. Transfer/Assignment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Remainder of page intentionally left blank]

[Form of Notice of Exercise]

Date: _____

TO: **[Company]**

RE: Election to Purchase Preferred Stock

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

Number of Shares of Preferred Stock:[1] _____

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

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

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

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

Dated: _____

COMPANY: _____

By: _____
Name:
Title:

Attest:

By: _____
Name:
Title:

[Signature Page to Warrant]

SCHEDULE A

Item 1
Name:
Corporate or other organizational form:
Jurisdiction of organization:

Item 2
Exercise Price:[2]

Item 3
Issue Date:

Item 4
Liquidation Amount:

Item 5
Series of Perpetual Preferred Stock:

Item 6
Date of Letter Agreement between the Company and the United States Department of the Treasury:

Item 7
Number of shares of Preferred Stock:[3]

Item 8
Company's address:

Item 9
Notice information:

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

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

SCHEDULE A
ADDITIONAL TERMS AND CONDITIONS

Company Information:

Name of the Company:	Treaty Oak Bancorp, Inc.
Corporate or other organizational form:	Corporation
Jurisdiction of Organization:	Texas
Appropriate Federal Banking Agency:	Federal Deposit Insurance Corporation
Notice Information:	Coralie S. Pledger Chief Financial Officer, Treaty Oak Bank 101 Westlake Drive Austin, TX 78746 Direct Line (512) 617-3607 Fax (512) 617-3697 Email cpledger@treatyoakbank.com

Terms of the Purchase:

Series of Preferred Stock Purchased:	Fixed Rate Cumulative Perpetual Preferred Stock, Series B
Per Share Liquidation Preference of Preferred Stock:	$1,000
Number of Shares of Preferred Stock Purchased:	3,268
Dividend Payment Dates on the Preferred Stock:	February 15, May 15, August 15 and November 15 of each year
Series of Warrant Preferred Stock:	Fixed Rate Cumulative Perpetual Preferred Stock, Series C
Number of Warrant Shares:	163.16316
Number of Net Warrant Shares (after net settlement):	163
Exercise Price of the Warrant:	$1.00
Purchase Price:	$3,268,000

Closing:
Location of Closing: Telephonic

Time of Closing: 9:00 AM Eastern

Date of Closing: January 16, 2009

Wire Information for Closing:

ABA Number: [redacted]
Bank: Treaty Oak Bank
Account Name: Treaty Oak Bancorp, Inc.
Account Number: [redacted]
Beneficiary: Treaty Oak Bancorp, Inc.

Contact for Confirmation of Wire Information:

Coralie Pledger (512) 617-3607 cpledger@treatyoakbank.com
Laura Jimenez (512) 617-3685 ljimenez@treatyoakbank.com

SCHEDULE B
CAPITALIZATION

Capitalization Date: December 31, 2008

Common Stock

Par value:	$0.01
Total Authorized:	20,000,000
Outstanding:	2,701,473, net of treasury shares of 15,257
Subject to warrants, options, convertible securities, etc.:	1,027,174
Reserved for benefit plans and other issuances:	94,537 (not yet issued)
Remaining authorized but unissued:	14,899,236
Shares issued after Capitalization Date (other than pursuant to warrants, options, convertible securities, etc. as set forth above):	0

Preferred Stock

Par value:	$1.00
Total Authorized:	10,000,000
Outstanding:	199,249 (Series A)
Reserved for issuance:	0
Remaining authorized but unissued:	7,500,000

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

[redacted] – 5.09%
Primary address: [redacted]

(Calculated as the number of each class of shares owned divided by the number of shares of each class outstanding. The calculation does not include outstanding/exercisable options or warrants.)

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.

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]

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended September 30, 2007

Commission File Number: 000-52911

Treaty Oak Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Texas	**20-0413144**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
101 Westlake Drive, Austin, Texas	**78746**
(Address of Principal Executive Offices)	(Zip Code)

(512) 617-3600

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: **None.**

Securities registered under Section 12(g) of the Exchange Act: **Common stock**

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐

Indicate by check mark whether the issuer (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 ☐

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

Yes ☐ No ☒

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

Yes ☐ No ☒

The issuer's revenues for its most recent fiscal year were approximately $7,849,000.

The aggregate market value of the common stock held by non-affiliates, based upon the last reported sales price at which the common stock was sold as of December 1, 2007, was $24,589,880.

The number of shares outstanding of common stock, par value $0.01 per share, as of the close of business on December 1, 2007 was 2,975,734.

Selected portions of the registrant's definitive proxy statement for the 2008 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-KSB.

Transitional Small Business Disclosure Format (Check One): Yes ☐ No ☒

ANNUAL REPORT ON FORM 10-KSB
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

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This Form 10-KSB contains forward-looking statements consisting of estimates with respect to the financial condition, results of operations and other business of Treaty Oak Bancorp, Inc., that are subject to various factors, which could cause actual results to differ materially from those estimates. Factors that could influence the estimates include changes in the national, regional and local market conditions, legislative and regulatory conditions, and an adverse interest rate environment.

Part I

Item 1. *Description of Business*

Overview

Holding Company

Treaty Oak Bancorp, Inc. (the "Company," "we," "us," or "our" hereafter) was incorporated under the laws of the State of Texas on November 18, 2003. Our primary business is to own and manage our wholly-owned banking subsidiary, Treaty Oak Bank, which is a Texas state-chartered banking association (the "Bank"). On November 15, 2006, we acquired Treaty Oak Holdings, Inc., one of our original organizing shareholders, by merging Treaty Oak Holdings, Inc. with and into us. As a result of the merger transaction, we now control all of the property where our offices and the headquarters of the Bank are located.

We chose a holding company structure because we believe this structure provides flexibility in accommodating our business objectives. For example, we may assist the Bank in maintaining its required capital ratios, or increasing its legal lending limits, by borrowing money and contributing the proceeds to the Bank as primary capital. Additionally, under provisions of the Gramm-Leach-Bliley Act, if we elect to be a financial holding company, we may engage in activities that are financial in nature or incidental or complementary to a financial activity, including merchant banking activities, in which the Bank would be prohibited from engaging. Although we do not presently intend to engage in these financial activities, we would be able to do so without notice to or a filing with the Federal Reserve if we believed that there is a need for these services in our market area, that we can be successful in these activities, and that these activities would be profitable.

On November 15, 2007, we announced plans to terminate the registration of our common stock under the Securities Exchange Act of 1934 and, therefore, terminate our obligations to file reports with the Securities and Exchange Commission. This "going private" transaction would be accomplished through an amendment (the "Amendment") to our Articles of Incorporation, which would (i) authorize 2,500,000 shares of a new Series A Preferred Stock and (ii) effect a reclassification of all shares of our common stock held by record shareholders owning less than 2,500 shares of our common stock into shares of our Series A Preferred Stock on a one-for-one basis (the "Reclassification"). Those shareholders receiving shares of our Series A Preferred Stock in the Reclassification would have the option to sell those shares to us at any time during the 30 day period following the Reclassification at a cash price equal to $11.00 per share. The Amendment must be approved by holders of at least two-thirds of the outstanding shares of our common stock. If the Amendment is approved by the requisite vote of our shareholders and, after the Reclassification, we have fewer than 300 shareholders of record, we intend to terminate the registration of our common stock under the Securities Exchange Act of 1934 and become a non-reporting company. If that occurs, we will no longer file periodic reports with the Securities and Exchange Commission, including annual reports on Form 10-KSB and quarterly reports on Form 10-QSB, and we will no longer be subject to the SEC's proxy rules.

Bank

The primary focus of our Austin branch is on medium and small commercial businesses (including professionals such as doctors, dentists and lawyers) and real estate lending (including interim construction and commercial real estate loans), while our Texline branch has continued to focus primarily on agricultural lending. As of September 30, 2007, the Bank had total assets of approximately $110,554,000 and total deposits of approximately $99,730,000.

When we opened the Austin offices of the Bank, our goal was to return a high level of personal service and personal contact to our banking relationships. Our management has accomplished this by:

- demonstrating that banking can be built on interpersonal relationships and still be profitable, by capitalizing on our relationships in the community to build our loan and deposit base;
- creating a bank driven by client needs and expectations by training our staff and establishing policies and reward systems that are driven by client feedback;
- using technology to enhance the relationship between the Bank and its clients instead of replacing that relationship with technology solutions to banking, as well as maintaining a strong commitment to personal service and a personal banking relationship with our private bankers;
- empowering clients through education by providing both programs and printed information designed to increase our clients' awareness both of banking opportunities and of general financial matters; and
- facilitating an open dialogue between clients and our staff by creating both a physical and emotional atmosphere conducive to communication between staff and clients.

We attempt to differentiate ourselves from other banks in our market area by delivering a high degree of personal service combined with a suite of products and capabilities comparable to that offered by much larger banks, all within a neighborhood community bank. We empower our employees with both the authority and the responsibility to ensure that each client's needs are addressed in a timely and satisfactory manner. We measure our success in the relationships we have developed with our clients by their referrals to us and by their feedback about their experiences with us and with our staff.

On June 28, 2005, the Bank acquired a 50% ownership interest in Treaty Oak Mortgage, LLC ("Treaty Oak Mortgage"), which offices in the same building as the Company and the Bank. Treaty Oak Mortgage is a mortgage broker focused primarily on a wide range of residential lending products that complement our own products and provide a greater degree of residential mortgage flexibility. We do not have a controlling financial interest in Treaty Oak Mortgage, and it is, therefore, not included in our consolidated results of operations.

On June 29, 2006, the Bank acquired a 50% ownership interest in Treaty Oak Commercial Group, LLC ("TOCG"). TOCG is a commercial real estate mortgage brokerage firm providing medium and long term mortgages on commercial real estate. TOCG works with life insurance and pension companies to fund these mortgages. TOCG offices in the same building as the Company and the Bank, and also maintains an office in Houston, Texas. Aside from its initial investment, the Company has no risk associated with operating expenditures or other liabilities of TOCG. The transaction was approved by the Texas Department of Banking on June 19, 2006.

We believe the operations of Treaty Oak Mortgage and TOCG are not significant when compared to the operations of the Bank.

Primary Clients and Markets

In the Austin area, the Bank concentrates on small and middle market businesses and individual clients with net worth in excess of $1,000,000. The Bank's Texline branch in the Texas panhandle continues to concentrate its efforts primarily in agricultural lending. We believe that the diverse nature of customers in the target markets provides a varied client base and allows the Bank to spread lending risk over different industries. We plan to open additional branches through internal growth and capital expansion, but do not compete on a retail basis with the large national banks that have branches located in and around Austin. Our branch in Marble Falls, Texas opened in July 2007 and we anticipate that our new branch in Barton Creek, in southwest Austin, will open in January 2008. In October 2007,

we opened a small one-person office in a retirement community known as Querencia that is located near the Barton Creek branch.

Banking Operations

Our core services include traditional banking activities, such as personal and commercial deposit accounts and loans, as well as finance, consulting, and treasury services. Ancillary services include notary services, safe deposit boxes, cashiers' checks and money orders, traveler's checks, wire transfers, and other services.

The Bank is an active business lender, with approximately 35% of its total loans as commercial loans, 52% as residential, commercial and construction real estate loans, and the balance in agricultural and personal lending. The Bank's primary targeted businesses are those requiring aggregate loans in the $100,000 to $10,000,000 range. The Bank offers business-oriented banking products and services, including the following:

- commercial loans for businesses to finance internal growth, acquisitions, and working capital needs;
- real estate and construction loans;
- cash management services, including on-line banking; and
- remote deposit opportunities and other business services.

The Bank also offers consumer-oriented banking services, which include consumer loans, checking accounts with debit cards and overdraft protection available, credit card services, traditional savings accounts and certificates of deposit, and 24-hour telephone and Internet banking.

Business Strategies

Our primary objective is to take advantage of expansion opportunities while maintaining efficiency and individualized client service, supplemented with technological advances and strategic branch expansion in key market areas, using the following strategies:

- Developing middle market commercial and private client banking.
- Developing mutual referral relationships with organizations offering complementary services.
- Increasing loan volume and diversifying loan portfolio.
- Expanding operations.

We continue to develop systems and train personnel to deliver the level of banking experience that is the cornerstone of our business. We market through a series of established relationships, including current clients, investors, friends, and business partners of our advisors and directors. By working with community and business leaders, we are developing a bank that is an integral part of the community. We endeavor to create professional relationships with individuals and businesses that complement our client base.

Part of our growth will come from the opening of new offices. Our branch in the Marble Falls/ Horseshoe Bay area in the Texas Hill Country 45 miles northwest of Austin opened in July 2007, while our Barton Creek branch in West Austin is expected to open in January 2008. Given the number of banks and bank branches in the Austin, Texas market, the success of electronic banking services, courier services and other remote banking alternatives that we provide our clients, and our desire to maintain our levels of service, we carefully review both the location of proposed branches and the timing of their opening when planning for expansion.

Services

Deposit Services

The Bank offers a traditional mix of deposit accounts. Rates and terms are set by the Bank's senior management team with input and guidance from our Asset/Liability Committee (ALCO), and are continually updated based on market conditions. The team strives to create a stable, low-cost base of deposits through personalized offerings and high levels of client service.

The Bank also offers a variety of other types of accounts, including:

- goal-oriented savings accounts;
- accumulation certificates of deposit (CDs);
- standard CDs;
- children's savings accounts;
- medical savings accounts;
- IRA accounts; and
- educational accounts.

In order to maximize our ability to serve our clients in a cost-effective manner, we provide automated and electronic account management tools free of charge to all clients.

Lending Services

Our lending practices are structured to meet the credit needs of medium and small-sized businesses. These loans include lines of credit, term loans, home equity products, construction loans and commercial real estate loans for owner-occupants. Our loan portfolio relies on the commercial and consumer credit experience of the loan committee and primary servicing officers.

The Bank's credit standards include consideration of the following:

- historical and projected financial information;
- strength of management, including the experience and character of the principals;
- acceptable collateral and associated advance rates;
- market conditions; and
- trends in the borrower's industry.

As a state chartered bank, total loans and extensions of credit to a person or entity at one time may not exceed an amount equal to 25% of the lesser of the Bank's capital and certified surplus or the Bank's total equity capital according to Texas law.

The Bank is primarily a secured lender with 90% or more of all loans collateralized. Further, a maximum loan to value ratio of 80% is generally targeted for purchase money loans or loans based upon an acceptable appraisal.

We analyze prospective loans based on industry concentrations in the Bank's loan portfolio to prevent an unacceptable concentration of loans in any particular industry. The Bank strives to diversify its loan portfolio by spreading loans over multiple industries and reviewing concentration of loans to related industries. The Bank focuses on middle market commercial and high net worth individual clients. The Bank endeavors to ensure loans that are appropriately collateralized according to its credit standards. We strive to tailor credit policies and underwriting guidelines to address the unique risks of

each industry in the portfolio. We seek a reasonable mix of industries and loan types with up to 40% of the Bank's portfolio over time comprised of commercial loans to businesses, and up to 55% of the portfolio concentrated in real estate loans, including interim construction loans secured by real estate owned by owner/operators.

Interest rates of the Bank's variable rate loans fluctuate with a predetermined indicator, such as the United States prime rate or the London Inter-Bank Offered Rate. Variable rates help to protect the Bank from risks associated with interest rate fluctuations since the rates of interest earned by the Bank automatically reflect those fluctuations. Our expectation is to retain a loan portfolio consisting of at least 90% variable rate loans.

Internet Services

Our service strategy is enhanced through the Internet. We believe the Bank's Internet client demographics parallel those of the general Internet population. Our website, TreatyOakBank.com, provides a complete line of deposit services. Customers are able to view multiple accounts, transfer funds between related accounts, view statements, send and receive messages, pay bills and other traditional online services.

Additionally, we offer remote deposit services via internet integrated devices that reside at our commercial clients' offices, thereby reducing the need for customers to drive to a branch location for deposit services.

We have contracted with third party vendors to provide both basic computer systems and advanced security measures. All banking transactions are encrypted and routed behind the security system. Clients are able to access the Bank's services through any Internet service provider by means of a secure Web browser.

Mortgage Services

Treaty Oak Mortgage is a full service residential mortgage brokerage offering an array of residential mortgage products, while Treaty Oak Commercial Group is a commercial mortgage brokerage sourcing various long-term fixed rate commercial mortgage loans. Under the conditions to acquire granted by the TDB, Treaty Oak Mortgage and TOCG are managed on a day-to-day basis by its officers, but all decisions are ultimately under the control of the Bank to ensure that the mortgage operation does not inadvertently engage in a service or activity inconsistent with state banking regulations. Neither mortgage brokerage originates or holds loans for its own account.

Other Services

We provide other incentives and benefits to our customers, including the following:

- Rebates of ATM fees paid at most ATM machines throughout the United States;
- Correspondent relationships, which allow customers to use the correspondent's locations to make deposits;
- The ability to "link" multiple accounts of different but related Bank clients for the calculation of overall relationship profitability; and
- Extended banking hours.

Market Analysis

Competition

Competition within the banking business in our primary market area of Austin and Central Texas continues to increase. We compete with some of the largest banking organizations in the state and the country. In addition, we face competition from other financial institutions, such as federally and state-chartered savings and loan institutions, and other lenders engaged in the business of extending credit or taking investment monies, such as consumer finance companies and mutual funds. Our competitors also include well-capitalized local banks, branches of large regional or national banks, and state-regulated entities offering bank-like services and products. In addition, there are also quasi-banking institutions, such as credit unions and brokerage houses that may compete with us. These types of competitors have the ability to make loans, issue credit cards, cash checks, conduct wire transfers, and mimic most other banking functions.

Many of our larger competitors have broader geographic markets and higher lending limits than us and have greater access to capital and other resources. They are also able to provide more services and make greater use of media advertising. Although we will compete directly with these larger institutions from time to time, we will likely compete more directly with regional and mid-sized banks that have offices in our target markets. These community banks and others in surrounding areas have a direct competitive advantage as borrowers tend to "shop" the terms of their loans and deposits. In addition, the quasi-banking institutions and non-bank competitors do not fall under the tight regulatory environment applicable to banks. This lack of regulatory oversight gives these competitors advantages over us in providing some services and may enable them to offer more favorable financing alternatives.

Despite the competition in our target markets, we believe that we have certain competitive advantages that distinguish us from our competition. We believe the Bank competes effectively with other financial institutions by emphasizing client service, technology, and responsive decision-making, and by building long-term client relationships based on products and services designed to address clients' specific needs. We offer customers modern banking services without forsaking community values such as prompt, personal service and friendliness. We offer personalized services and attract customers by being responsive and sensitive to their individualized needs. One of our principal competitive advantages is our local decision-making process as opposed to electronic, remote, or out-of-market decisions. We believe our approach to business builds goodwill among our customers, shareholders, and the communities we serve that will result in referrals from shareholders and satisfied customers.

Marketing

The majority of our new business opportunity is derived from referrals from our shareholders, existing customers, officers and directors, and others close to the Bank. In addition to the referral activity, we market in our primary markets through sponsorships and the active involvement and leadership of our employees in community and civic events. By using our limited marketing budget in this manner, we have developed an image as "the" community bank in our primary markets.

Employees

We have a total of 38 full time employees. Of those, 27 are employed at the Austin headquarters; five are employed in Texline, Texas, five in Marble Falls, Texas, and one at our Barton Creek branch in Austin, Texas.

Supervision and Regulation

The following is a summary description of the relevant laws, rules and regulations governing banks and bank holding companies. The descriptions of, and references to, the statutes and regulations below are brief

summaries and do not purport to be complete. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

Banking is a complex, highly regulated industry. Consequently, our growth and earnings performance and those of the Bank can be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. These authorities include, but are not limited to, the Board of Governors of the Federal Reserve System ("Federal System"), the FDIC, the Texas Department of Banking, the Internal Revenue Service, and state taxing authorities. The effect of these statutes, regulations, and policies and any changes to any of them can be significant and cannot be predicted.

The primary goals of the bank regulatory system are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress has created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies, and the banking industry. The system of supervision and regulation applicable to us and our banking subsidiary establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance funds, the bank's depositors, and the public, rather than the shareholders and creditors. The following is an attempt to summarize some of the relevant laws, rules, and regulations governing banks and bank holding companies, but does not purport to be a complete summary of all applicable laws, rules, and regulations governing banks and bank holding companies. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

Treaty Oak Bancorp, Inc.

We are a bank holding company registered with, and subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956 (the "Bank Holding Company Act"). The Bank Holding Company Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

In accordance with Federal Reserve policy, we are expected to act as a source of financial strength to the Bank and commit resources to support the Bank. This support may be required under circumstances when we might not be inclined to do so absent this Federal Reserve policy. As discussed below, we could be required to guarantee the capital plan of the Bank if it becomes undercapitalized for purposes of banking regulations.

Certain acquisitions. The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before (1) acquiring more than 5% of the voting stock of any bank or other bank holding company, (2) acquiring all or substantially all of the assets of any bank or bank holding company, or (3) merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly or substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed below. As a result of the USA PATRIOT Act, which is discussed below, the Federal Reserve is also required to consider the record of a bank holding company and its subsidiary bank(s) in combating money laundering activities in its evaluation of bank holding company merger or acquisition transactions. The Federal Reserve is

also required to consider the record of a bank holding company in meeting the needs of its community under the Community Reinvestment Act, which is discussed below.

Under the Bank Holding Company Act, any bank holding company located in Texas, if adequately capitalized and adequately managed, may purchase a bank located outside of Texas, subject to certain restrictions. See further discussion on branch banking under "—The Bank—Branch Banking" below. Conversely, an adequately capitalized and adequately managed bank holding company located outside of Texas may purchase a bank located inside Texas. In each case, however, restrictions currently exist on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits.

Change in Bank control. Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act of 1978, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. With respect to our Company, control is presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities.

Permitted activities. Generally, bank holding companies are prohibited under the Bank Holding Company Act from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in any activity other than (1) banking or managing or controlling banks or (2) an activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;
- making, acquiring, brokering, or servicing loans and usual related activities;
- leasing personal or real property;
- operating a non-bank depository institution, such as a savings association;
- trust company functions;
- financial and investment advisory activities;
- conducting discount securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

Despite prior approval, the Federal Reserve has the authority to require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries or affiliates when the Federal Reserve Board believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness, or stability of any of its banking subsidiaries. A bank holding company that qualifies and elects to become a financial holding company is permitted to engage in additional activities that are financial in nature or incidental or

complementary to financial activity. The Bank Holding Company Act expressly lists the following activities as financial in nature:

- lending, exchanging, transferring, investing for others, or safeguarding money or securities;
- insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state;
- providing financial, investment, or advisory services;
- issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;
- underwriting, dealing in, or making a market in securities;
- other activities that the Federal Reserve may determine to be so closely related to banking or managing or controlling banks as to be a proper incident to managing or controlling banks;
- foreign activities permitted outside of the United States if the Federal Reserve has determined them to be usual in connection with banking operations abroad;
- merchant banking through securities or insurance affiliates; and
- insurance company portfolio investments.

To qualify to become a financial holding company, the Bank and any other depository institution subsidiary that we may own at the time must be well capitalized and well managed and must have a Community Reinvestment Act rating of at least "satisfactory." Additionally, we must file an election with the Federal Reserve to become a financial holding company and must provide the Federal Reserve with 30 days' written notice prior to engaging in a permitted financial activity. A bank holding company that falls out of compliance with these requirements may be required to cease engaging in some of its activities. The Federal Reserve serves as the primary "umbrella" regulator of financial holding companies, with supervisory authority over each parent company and limited authority over its subsidiaries. Expanded financial activities of financial holding companies generally will be regulated according to the type of such financial activity: banking activities by banking regulators, securities activities by securities regulators, and insurance activities by insurance regulators.

Sound Banking practice. Bank holding companies are not permitted to engage in unsound banking practices. For example, the Federal Reserve Board's Regulation Y requires a holding company to give the Federal Reserve prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. As another example, a holding company could not impair its subsidiary bank's soundness by causing it to make funds available to non-banking subsidiaries or their customers if the Federal Reserve believed it not prudent to do so.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 expanded the Federal Reserve's authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. The Financial Institutions Reform, Recovery and Enforcement Act increased the amount of civil money penalties which the Federal Reserve can assess for activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1,000,000 for each day the activity continues. The Financial Institutions Reform, Recovery and Enforcement Act also expanded the scope of individuals and entities against which such penalties may be assessed.

Anti-tying restrictions. Bank holding companies and affiliates are prohibited from tying the provision of services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Dividends. Consistent with its policy that bank holding companies should serve as a source of financial strength for their subsidiary banks, the Federal Reserve has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of distributions to shareholders unless its available net income has been sufficient to fully fund the distributions, and the prospective rate of earnings retention appears consistent with the bank holding company's capital needs, asset quality, and overall financial condition. In addition, we are subject to certain restrictions on the making of distributions as a result of the requirement that the Bank maintain an adequate level of capital as described below. As a Texas corporation, we are restricted under the Texas Business Corporation Act from paying dividends under certain conditions. Under Texas law, we cannot pay dividends to shareholders if the dividends exceed our surplus or if after giving effect to the dividends, we would be insolvent.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the "SOX Act") represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. Among other requirements, the SOX Act, along with related SEC rules and regulations, established: (i) new requirements for audit committees of public companies, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the chief executive officers and chief financial officers of reporting companies; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for reporting companies regarding various matters relating to corporate governance; (v) new and increased civil and criminal penalties for violation of the securities laws; and (vi) the issuance of management's assessments and auditors' reports on reporting companies' internal controls.

The Bank

The Bank is subject to various requirements and restrictions under the laws of the United States and the State of Texas, and to regulation, supervision, and regular examination by the Texas Department of Banking and the Federal Deposit Insurance Corporation. The Texas Department of Banking and the Federal Deposit Insurance Corporation have the power to enforce compliance with applicable banking statutes and regulations. These requirements and restrictions include requirements to maintain reserves, restrictions on the nature and amount of loans that may be made and the interest that may be charged thereon, and restrictions relating to investments and other activities of the Bank.

Regulation of lending activities. Loans made by the Bank are subject to numerous federal and state laws and regulations, including the Truth-In-Lending Act, the Texas Finance Code, the Texas Consumer Credit Code, the Texas Consumer Protection Code, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, and adjustable rate mortgage disclosure requirements. Remedies to the borrower or consumer and penalties to the Bank are provided if the Bank fails to comply with these laws and regulations. The scope and requirements of these laws and regulations have expanded significantly in recent years.

Dividends. All dividends paid by the Bank are paid to us, as the sole shareholder of the Bank. The general dividend policy of the Bank is to pay dividends at levels consistent with maintaining its liquidity and preserving applicable capital ratios and servicing obligations. The dividend policy of the Bank is subject to the discretion of the Board of Directors of the Bank and will depend upon such factors as future earnings, financial conditions, cash needs, capital adequacy, compliance with applicable statutory and regulatory requirements, and general business conditions.

The ability of the Bank, as a Texas banking association, to pay dividends is restricted under applicable law and regulations. Except in certain circumstances, the Bank generally may not pay a dividend reducing its capital and surplus without the prior approval of the Texas Banking Commissioner. All dividends must be paid out of net profits then on hand, after deducting expenses, including losses and provisions for loan losses. The Federal Deposit Insurance Corporation has the right to prohibit the payment of dividends by the Bank where the payment is deemed to be an unsafe and unsound banking practice. The Bank is also subject to certain restrictions on the payment of dividends as a result of the requirements that it maintain an adequate level of capital in accordance with guidelines promulgated from time to time by the Federal Deposit Insurance Corporation.

The exact amount of future dividends on the stock of the Bank will be a function of the profitability of the Bank in general, applicable tax rates in effect from year to year, and the discretion of the Board of Directors of the Bank. The Bank's ability to pay dividends in the future will directly depend on the Bank's future profitability, which cannot be accurately estimated or assured.

Capital adequacy. Federal banking regulators have adopted capital adequacy regulations to which all national and state banks, such as the Bank, are subject. At September 30, 2007, Treaty Oak Bank was "well-capitalized" (as defined below) and had a total risk-based capital ratio of 10.61%, a Tier I risk-based capital ratio of 9.76%, and a leverage capital ratio of 8.78%.

Prompt Corrective Action. Banks are subject to restrictions on their activities depending on their level of capital. The Federal Deposit Insurance Corporation's "prompt corrective action" regulations divide banks into five different categories, depending on their level of capital. Under these regulations, a bank is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10% or more, a core capital ratio of 6% or more, and a leverage ratio of 5% or more, and if the bank is not subject to an order or capital directive to meet and maintain a certain capital level. Under these regulations, a bank is deemed to be "adequately capitalized" if it has a total risk-based capital ratio of 8% or more, a core capital ratio of 4% or more, and a leverage ratio of 4% or more (unless it receives the highest composite rating at its most recent examination and is not experiencing or anticipating significant growth, in which instance it must maintain a leverage ratio of 3% or more). Under these regulations, a bank is deemed to be "undercapitalized" if it has a total risk-based capital ratio of less than 8%, a core capital ratio of less than 4%, or a leverage ratio of less than 4%. Under these regulations, a bank is deemed to be "significantly undercapitalized" if it has a risk-based capital ratio of less than 6%, a core capital ratio of less than 3%, and a leverage ratio of less than 3%. Under such regulations, a bank is deemed to be "critically undercapitalized" if it has a leverage ratio of less than or equal to 2%. In addition, the Federal Deposit Insurance Corporation has the ability to downgrade a bank's classification (but not to "critically undercapitalized") based on other considerations even if the bank meets the capital guidelines. Based on the foregoing classifications, the Bank was "well-capitalized" at September 30, 2007.

If a state nonmember bank, such as the Bank, is classified as undercapitalized, the bank is required to submit a capital restoration plan to the Federal Deposit Insurance Corporation. An undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the Federal Deposit Insurance Corporation of a capital restoration plan for the bank.

If a state nonmember bank is classified as undercapitalized, the Federal Deposit Insurance Corporation may take certain actions to correct the capital position of the bank. If a bank is classified as significantly undercapitalized, the Federal Deposit Insurance Corporation would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital, improvements in management, limits on interest rates paid, prohibitions on transactions with affiliates, termination of certain risky activities, and restrictions on

compensation paid to executive officers. If a bank is classified as critically undercapitalized, the bank must be placed into conservatorship or receivership within 90 days, unless the Federal Deposit Insurance Corporation determines otherwise.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities, and affects the deposit insurance premiums paid by the bank. The Federal Deposit Insurance Corporation is required to conduct a full-scope, on-site examination of every bank at least once every 18 months.

Banks also may be restricted in their ability to accept brokered deposits, depending on their capital classification. "Well capitalized" banks are permitted to accept brokered deposits, but all banks that are not well capitalized are not permitted to accept such deposits without prior written regulatory approval. The Federal Deposit Insurance Corporation may permit, on a case-by-case basis, banks that are adequately capitalized to accept brokered deposits if the Federal Deposit Insurance Corporation determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank.

Community Reinvestment Act. Under the Community Reinvestment Act, the Bank has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the needs of its entire community, including low- and moderate-income neighborhoods served by the Bank. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit the Bank's discretion to develop the types of products and services that it believes are best suited to its particular community. On a periodic basis, the Federal Deposit Insurance Corporation is charged with preparing a written evaluation of the Bank's record of meeting the credit needs of the entire community and assigning a rating. The bank regulatory agencies will take that record into account in their evaluation of any application made by the Bank or the Company for, among other things, approval of the acquisition or establishment of a branch or other deposit facility, an office relocation, a merger or the acquisition of shares of capital stock of another financial institution. An "unsatisfactory" Community Reinvestment Act rating may be used as the basis to deny an application. In addition, as discussed above, a bank holding company may not become a financial holding company unless each of its subsidiary banks has a Community Reinvestment Act rating of at least "satisfactory". Treaty Oak Bank was last examined for compliance with the Community Reinvestment Act on May 3, 2005, and received a rating of "satisfactory."

Deposit Insurance. The Bank's deposits are insured up to $100,000 per depositor per insured bank by the Bank Insurance Fund and certain retirement accounts are insured up to $250,000 per depositor per insured bank. As insurer, the Federal Deposit Insurance Corporation imposes deposit premiums and is authorized to conduct examinations of and to require reporting by the Bank. The Federal Deposit Insurance Corporation assesses insurance premiums on a bank's deposits at a variable rate depending on the probability that the deposit insurance fund will incur a loss with respect to the bank. The Federal Deposit Insurance Corporation determines the deposit insurance assessment rates on the basis of the Bank's capital classification and supervisory evaluations. The Bank's deposits insurance assessments may increase or decrease depending upon the risk assessment classification to which the Bank is assigned by the Federal Deposit Insurance Corporation. Any increase in insurance assessments could have an adverse effect on the Bank's earnings.

USA PATRIOT Act. On October 26, 2001, President Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 in response to the terrorist events of September 11, 2001. Also known as the "USA PATRIOT Act," the law enhances the powers of the federal government and law enforcement organizations to combat terrorism, organized crime, and money laundering. The USA PATRIOT Act significantly amends and expands the application of the Bank Secrecy Act, including enhanced measures regarding customer identity, new suspicious activity reporting rules, and enhanced anti-money

laundering programs. Under the Act, each financial institution is required to establish and maintain anti-money laundering compliance and due diligence programs, which include, at a minimum, the development of internal policies, procedures, and controls; the designation of a compliance officer; an ongoing employee training program; and an independent audit function to test programs. In addition, the Act requires the bank regulatory agencies to consider the record of a bank or bank holding company in combating money laundering activities in their evaluation of bank and bank holding company merger or acquisition transactions. On April 24, 2002, the Treasury Department issued regulations under the USA PATRIOT Act.

The Bank amended its Bank Secrecy Act Policy to include the provisions of the USA PATRIOT Act, including specific steps employed to properly identify individual customers and an enhanced due diligence program to identify suspicious activity of individual customers. Separate files are maintained to segregate identification records from other banking information. In addition, the Bank uses ancillary products to its core processing system that permit the identity of new customers to be immediately verified at account opening, as well as compare the new customer's information against lists of known terrorist or money laundering individuals and organizations. The policy also includes procedures to be followed should a match occur in comparing customers with lists of known terrorist organizations or individuals. The funding of transactions is prohibited unless certain procedures for identification have been fulfilled. The policy also includes provisions for training and periodic audit.

Transactions with affiliates. Transactions between the Bank and any of its affiliates (including Treaty Oak Bancorp) are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by, or is under common control with the bank. A subsidiary of a bank that is not also a depository institution is not treated as an affiliate of a bank for purposes of Sections 23A and 23B unless it engages in activities not permissible for a national bank to engage in directly. Generally, Sections 23A and 23B (1) limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and limit such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (2) require that all such transactions be on terms that are consistent with safe and sound banking practices. The term "covered transaction" includes the making of loans to an affiliate, the purchase of or investment in securities issued by an affiliate, the purchase of assets from an affiliate, the issuance of a guarantee for the benefit of an affiliate, and similar transactions. Most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amount, depending on the nature of the collateral. In addition, any covered transaction by a bank with an affiliate and any sale of assets or provision of services to an affiliate must be on terms that are substantially the same, or at least as favorable, to the bank as those prevailing at the time for comparable transactions with nonaffiliated companies. The Bank is also restricted in the loans that it may make to its executive officers and directors, the executive officers and directors of the Company, any owner of 10% or more of its stock or the stock of the Company, and certain entities affiliated with any such person.

On October 31, 2002, the Federal Reserve issued a new regulation, Regulation W, effective April 1, 2003, that comprehensively implements sections 23A and 23B of the Federal Reserve Act, which are intended to protect insured depository institutions from suffering losses arising from transactions with affiliates. The regulation unifies and updates staff interpretations issued over the years, incorporates several new interpretative proposals (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate), and addresses new issues arising as a result of the expanded scope of non-banking activities engaged in by bank and bank holding companies in recent years and authorized for financial holding companies under the Gramm-Leach-Bliley Act.

Branch Banking. Pursuant to the Texas Finance Code, all banks located in Texas are authorized to branch statewide. Accordingly, a bank located anywhere in Texas has the ability, subject to regulatory approval, to establish branch facilities near any of our facilities and within our market area. If other

banks were to establish branch facilities near our facilities, it is uncertain whether these branch facilities would have a material adverse effect on the business of the Bank.

In 1994 Congress adopted the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. That statute provides for nationwide interstate banking and branching, subject to certain aging and deposit concentration limits that may be imposed under applicable state laws. Texas law permits interstate branching in two manners, with certain exceptions. First, a financial institution with its main office outside of Texas may establish a branch in the State of Texas by acquiring a financial institution located in Texas that is at least five years old, so long as the resulting institution and its affiliates would not hold more than 20% of the total deposits in the state after the acquisition. In addition, a financial institution with its main office outside of Texas generally may establish a branch in the State of Texas on a *de novo* basis if the financial institution's main office is located in a state that would permit Texas institutions to establish a branch on a *de novo* basis in that state.

The Federal Deposit Insurance Corporation has adopted regulations under the Riegle-Neal Act to prohibit an out-of-state bank from using the interstate branching authority primarily for the purpose of deposit production. These regulations include guidelines to insure that interstate branches operated by an out-of-state bank in a host state are reasonably helping to meet the credit needs of the communities served by the out-of-state bank.

Enforcement authority. The federal banking laws also contain civil and criminal penalties available for use by the appropriate regulatory agency against a bank or certain "institution-affiliated parties" primarily including management, employees, and agents of a financial institution, as well as independent contractors such as attorneys, accountants, and others who participate in the conduct of the financial institution's affairs and who caused or are likely to cause more than minimum financial loss to or a significant adverse affect on the institution, who knowingly or recklessly violate a law or regulation, breach a fiduciary duty, or engage in unsafe or unsound practices. These practices can include the failure of an institution to timely file required reports or the submission of inaccurate reports. These laws authorize the appropriate banking agency to issue cease and desist orders that may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnification, or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, or take other action as determined by the ordering agency to be appropriate.

Governmental monetary policies. The commercial banking business is affected not only by general economic conditions but also by the monetary policies of the Federal Reserve. Changes in the discount rate on member bank borrowings, control of borrowings, open market operations, the imposition of and changes in reserve requirements against member banks, deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates, and the placing of limits on interest rates which member Banks may pay on time and savings deposits are some of the instruments of monetary policy available to the Federal Reserve. Those monetary policies influence to a significant extent the overall growth of all bank loans, investments and deposits and the interest rates charged on loans or paid on time and savings deposits. The nature of future monetary policies and the effect of such policies on the future business and earnings of the Company, therefore, cannot be predicted accurately.

All of the above laws and regulations add to the cost of our operations and thus have a negative impact on profitability. You should note that there has been a tremendous expansion experienced in recent years by financial service providers that are not subject to the same rules and regulations as are applicable to the Company and the Bank. These institutions, because they are not so highly regulated, have a competitive advantage over us and may continue to draw large amounts of funds away from traditional banking institutions, with a continuing adverse effect on the banking industry in general.

Risk Factors

If any of the following risks actually occurs, our business, financial condition, or operating results could be materially adversely affected.

We face intense competition from a variety of competitors.

The banking business in our markets and the surrounding areas has become increasingly competitive over the past several years, and the level of competition continues to increase. In our primary operating area of West Lake Hills, Texas, a suburb of Austin, Texas, there are 21 different banks operating from 16 different locations. The profitability of the Bank (and thus our profitability) depends in large part on the Bank's ability to compete effectively in our banking markets.

Many non-bank competitors are not subject to the same degree of regulation as we are, have advantages over us in providing some services, and may be able to offer more favorable financing alternatives than the Bank. Many competitors are larger than we are and have greater access to capital and other resources. The Bank also competes with companies located outside of our banking markets that provide financial services to persons within our banking markets.

If this competition forces us to offer aggressive loan and deposit rates, the Bank's net interest margin will be diminished. This may decrease net interest income and adversely affect our financial performance and results of operations. Many of our competitors have established customer bases and offer services, such as extensive and established branch networks and trust services.

Though we believe that our approach to providing services allows us to be a successful competitor in the area's financial services market, there is no assurance that we will be able to compete successfully with other financial service providers serving our banking markets. Our inability to compete effectively could have a material adverse effect on our growth and profitability.

We could be affected adversely by lending activities.

The Bank's loan portfolio and investments in marketable securities could subject us to a concentration of credit risk. Inherent risks in lending include the inability to compete with other lenders, lack of control over fluctuations in interest rates, and economic downturns. We use high credit standards to reduce the risk of uncollectible loans and variable interest loans to offset the risk of interest rate fluctuations, have developed attractive loan products, and take other measures to reduce inherent lending risks. During its initial years of operations, the Bank's legally mandated lending limits has been lower than those of many of our competitors because we have had less capital than many of our competitors. Our lower lending limits may discourage potential borrowers who have lending needs that exceed our limits, which may restrict our ability to establish relationships with larger businesses in our area. We plan to serve the needs of these borrowers by selling loan participations to other institutions where appropriate and acceptable to the clients. The Bank maintains reserves against loan losses and periodically reevaluates its credit standards, but its lending activities may have an adverse impact on our profitability.

Interest rate fluctuations may affect us negatively.

The Bank's operations could be affected adversely due to interest rate movement. The Bank's profitability (and, therefore, our profitability) depends, in part, on its net interest income, which is the difference between the income that the Bank earns on its interest-earning assets, such as loans, and the expenses that the Bank incurs in connection with its interest-bearing liabilities, such as checking or savings deposits or certificates of deposit.

Changes in the general level of interest rates and other economic factors can affect the Bank's net interest income by affecting the spread between interest-earning assets and interest-bearing liabilities. Interest rate risk arises in part from mismatches between the dollar amount of repricing or maturing

assets and liabilities. More assets than liabilities repricing or maturing over a given time frame is considered asset-sensitive, and more liabilities than assets repricing or maturing over a given time frame is considered liability-sensitive. A liability-sensitive position will generally enhance earnings in a falling interest rate environment and reduce earnings in a rising interest rate environment, while an asset-sensitive position will generally enhance earnings in a rising interest rate environment and will reduce earnings in a falling interest rate environment.

Changes in the general level of interest rates also affect, among other things, the Bank's ability to make new loans, the value of interest-earning assets and the Bank's ability to realize gains from the sale of such assets, the average life of interest-earning assets, and the Bank's ability to obtain deposits in competition with other available investment alternatives. Interest rates are highly sensitive to many factors beyond the Bank's control, including government monetary policies and domestic and international conditions, both economic and political.

We believe that the Bank is no more or less interest rate sensitive than other commercial banks, generally. We will attempt to maintain a favorable match between maturities or "repricing dates" of our interest earning assets and interest bearing liabilities. However, we cannot assure you that the Bank will achieve positive net interest income.

An economic downturn, especially one affecting our primary service area, may have an adverse effect on our financial performance.

As a holding company for a community bank, our success depends on the general economic condition of the regions in which we operate, which we cannot forecast with certainty. Unlike many of our larger competitors, the majority of our borrowers and depositors are individuals and small-to medium-sized businesses located or doing business in our local banking markets. As a result, our operations and profitability may be more adversely affected by a local economic downturn than those of our larger, more geographically diverse competitors. Factors that adversely affect the economy in our local banking markets could reduce our deposit base and the demand for our products and services, which may decrease our earnings.

Our growth plans and strategies associated with strategic alliances may lead to inefficiencies.

We may enter into strategic alliances with third parties. Risks common to these alliances include:

- difficulty in assimilation of the operations, technology, and personnel of the combined companies;
- disruption of ongoing business;
- inability to retain key personnel;
- inability to integrate acquired businesses successfully;
- additional expenses associated with the impairment of goodwill and the amortization of purchased intangible assets;
- additional operating losses and expenses associated with the acquired businesses;
- maintenance of uniform standards, controls, and policies; and
- possible impairment of relationships with existing employees and customers.

In addition, increases in our client base produce increased demands on sales, marketing, administrative, and client service resources. Our inability to generate satisfactory revenues from expanded services and products to offset the cost of developing and implementing them could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Monetary policy and other economic factors could affect our profitability adversely.

The following factors will affect the demand for loans and the ability of the Bank and other banks to attract deposits:

- changes in governmental economic and monetary policies;
- the Internal Revenue Code and banking and credit regulations;
- national, state, and local economic growth rates;
- employment rates; and
- population trends.

The success of the Bank depends in significant part upon its ability to maintain a sufficiently large interest margin between the rates of interest it receives on loans and other investments and the rates it pays out on deposits and other liabilities. The monetary and economic factors listed above, and the need to pay rates sufficient to attract deposits, may adversely affect the ability of the Bank to maintain an interest margin sufficient to result in operating profits. Please refer to Part I, Item 1 "Supervision and Regulation" above for additional information.

We are subject to extensive regulatory oversight, which could restrain our growth and profitability.

Federal and state regulation of the banking industry, along with tax and accounting laws, regulations, rules, and standards, may limit our operations significantly and control the methods by which we conduct business, as they do those of other banking organizations. Many of these regulations are intended to protect depositors, the public, or the FDIC insurance funds, not shareholders. Regulatory requirements affect our lending practices, capital structure, investment practices, dividend policy and many other aspects of our business. These requirements may constrain our operations, and the adoption of new laws and changes to or repeal of existing laws may have a further impact on our business, results of operations, and financial condition. Also, the burden imposed by those federal and state regulations may place banks in general, and Treaty Oak Bank in particular, at a competitive disadvantage compared to less regulated competitors. Any failure to comply with these laws, regulations, rules, and standards could lead to termination or suspension of licenses, rights of rescission for borrowers, class action lawsuits, and administrative enforcement actions, any of which could have a material adverse impact on the our financial condition and results of operations. Please refer to Part I, Item 1 "Supervision and Regulation" above for additional information concerning the regulation of the banking industry applicable to our business.

We are also subject to requirements with respect to the confidentiality of information obtained from clients concerning their identity, business and personal financial information, employment, and other matters. The Bank's personnel are required to keep all such information confidential. Failure to comply with confidentiality requirements could result in material liability to us and adversely affect our business.

We may be required to provide capital resources support to the Bank.

The Board of Governors of the Federal Reserve System requires a bank holding company to act as a source of financial and managerial strength to its subsidiary bank. The Federal Reserve Board may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to do so. We used a portion of the proceeds of our initial public offering to, among other things, make capital injections into the Bank and fund business operations in Austin. We may be required in the future to make further capital injections into the Bank under this policy.

Departures of our key personnel or directors may impair our operations.

Our performance depends on the services and performance of senior management and other key personnel, and our ability to attract and retain highly qualified senior management experienced in banking and financial services will influence our success. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy.

In particular, we believe Jeffrey L. Nash, Coralie S. Pledger, and Charles T. Meeks are important to our success. Jeff Nash has been instrumental in our organization and is our chief executive officer. Coralie Pledger is our chief financial officer and is responsible for all accounting and financial performance measurement tracking activities. Charles Meeks has over 40 years of banking experience and serves as our and the Bank's chairman of the board of directors. If any of these individuals leaves his or her respective position, our financial condition and results of operations may suffer.

Additionally, if the services of any of our other key personnel should become unavailable for any reason, we would be required to employ other persons to help manage and operate our business, and we cannot assure you that we would be able to employ qualified persons on terms acceptable to us. Additionally, our directors' and senior management's community involvement, diverse backgrounds, and extensive local business relationships are important to our success. If the composition of our management team changes materially, our business may suffer.

Goodwill from the Texline State Bank acquisition.

We accounted for our acquisition of Texline State Bank as a purchase transaction in accordance with GAAP. Under this accounting treatment, and in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations, the purchase price was assigned to the fair value of the net tangible and intangible assets acquired, and the amount in excess thereof ($1,161,000) was assigned to "goodwill." In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, qualifying intangibles, such as core deposit intangibles, are to be amortized by charges to future earnings over their expected useful lives. Amortization of core deposit intangibles is non-deductible for tax purposes. The remaining goodwill was capitalized and will be evaluated for impairment (diminished value) on an annual basis or if circumstances arise in which it is more likely than not that the fair market value of the related reporting unit has been reduced. If such goodwill were to be deemed impaired, that impairment would be measured, and any such amount would be charged against current earnings.

Our ability to pay dividends is limited.

Our ability to pay dividends to our shareholders depends in large part on the Bank's ability to pay dividends to us. The board of directors of the Bank intends to retain earnings to promote growth, build capital, and recover any losses incurred in prior periods. Accordingly, we do not expect to receive dividends from the Bank in the foreseeable future. In addition, banks and bank holding companies are both subject to certain regulatory restrictions on the payment of cash dividends. Please refer to Part I, Item 1 "Supervision and Regulation" above for additional information.

Provisions in our charter documents limit your ability to approve or deny matters affecting our operations and could delay or prevent a change in corporate control.

Under our charter documents, our Board of Directors and officers have broad powers to make most of the decisions affecting our operation without further shareholder approval. Those powers include the authority to issue preferred stock in one or more series, to fix the rights, designations, preferences, privileges, qualifications, and restrictions of the preferred stock, and, to the extent hereafter permitted by law, to amend our articles of incorporation to fix the voting rights of any unissued or treasury shares of any class of preferred stock. Additionally, our Board of Directors,

without shareholder approval, may issue shares of preferred stock with conversion, voting, and other rights that could affect the rights of our common shareholders adversely. These provisions have the effect of limiting your ability as a shareholder to approve or deny matters affecting our operations.

In addition, certain provisions of our amended and restated articles of incorporation and bylaws may be deemed to have anti-takeover effects and may delay, prevent, or make more difficult unsolicited tender offers or takeover attempts that a shareholder may consider to be in his or her best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders. These provisions may also have the effect of making it more difficult for third parties to cause the replacement of current management. These provisions include the classification of our Board of Directors and certain provisions regarding shareholders' ability to bring matters before a meeting of shareholders and to attempt to obtain control of our company.

There is limited trading in our common stock.

Our shares of common stock are traded on the Over-the Counter Bulletin Board. In the event you want to dispose of your common stock, you may not be able to find a buyer willing to pay the price that you paid per share or within an anticipated timeframe.

If we are not profitable, you may lose part or all of your investment.

Our profitability depends in large part on the Bank's profitability. We can give no assurance whether the Bank will continue to operate profitably. If the Bank is ultimately unsuccessful, you may lose part or all of your investment in our common stock. Your investment is not insured by the FDIC.

We may not be able to raise additional capital on terms favorable to us.

In the future, if we need additional capital to support our business, expand our operations, or maintain our minimum capital requirements, we may not be able to raise additional funds through the issuance of additional shares of common stock or other securities. Even if we are able to obtain capital through the issuance of additional shares of common stock or other securities, the sale of these additional shares could significantly dilute your ownership interest.

Your shares are not an insured deposit.

Your investment in our common stock is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Your investment is subject to investment risk.

Forward Looking Statements

This report contains various "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements about us and our subsidiaries are subject to risks and uncertainties. These statements include discussions of our business strategy, future financial performance, projected plans, and objectives. Information about markets for our products and services and trends in sales, as well as statements preceded by, followed by, or that otherwise include the words "anticipates," "believes," "estimates," "expects," "intends," "plans," "may increase," "may fluctuate," and similar expressions of future or conditional verbs such as "will," "should," "would," and "could" are generally forward-looking in nature and not historical facts. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. You should understand that the following important factors, in addition to those discussed elsewhere in this report and our other filings

with the Securities and Exchange Commission, could affect our future results and could cause results to differ materially from those expected in the forward-looking statements:

- effects of economic conditions and interest rates on a local, state, or national basis;
- performance of the Bank;
- competitive pressures in the financial services industry;
- financial resources of, and products available to, competitors;
- changes in the interest rate environment;
- changes in laws and regulations to which Treaty Oak Bancorp, the Bank, our customers, competitors, and potential competitors are subject, including those related to banking, tax, securities, insurance, and labor; and
- the loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels.

The forward-looking statements involve risks and uncertainties in addition to the risk factors described above. We cannot foresee or identify all of these factors. Except for any ongoing obligations to disclose material information under federal or state securities laws, we do not undertake any obligations to update any forward-looking statement, or to disclose any facts, events, or circumstances after the date of this report that may affect the accuracy of any forward-looking statement.

Available Information

We file annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 (the "Exchange Act"). You may read and copy any materials that we file with the SEC at the SEC's public reference room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains a website that contains these SEC filings. You can obtain these filings at the SEC's website at http://www.sec.gov.

We also make available free of charge on or through our website (http://www.treatyoakbank.com) our Annual Report on Form 10-KSB, Quarterly Reports on Form 10-QSB, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Item 2. ***Description of Property***

Our principal offices and the main location of the Bank are located at 101 Westlake Drive, Austin, Texas 78746 in a building of 15,851 square feet. Approximately 3,000 square feet of the building is leased to an unrelated association. The property is subject to a mortgage secured under a deed of trust with Prudential Mortgage Capital Company, LLC in the principal amount of $2.6 million.

The Bank's Texline branch, Texline State Bank, is located at 111 N. 2nd Street, Texline, Texas 79087. The Bank owns the 2,817 square foot building in which our Texline branch is located. The Bank leases its facilities in Marble Falls and at Barton Creek, which leases expire in November 2017 and January 2023, respectively.

We believe our properties are suitable for their purposes and adequate for our business as currently conducted.

Item 3. ***Legal Proceedings***

NONE.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2007.

Part II

Item 5. *Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities*

General

Our common stock is traded on the OTC Bulletin Board, under the symbol "TOAK." The shares have been traded since October 1, 2004, though to date trading activity has been limited with the most recent transaction selling at $10.00 per share on December 17, 2007. The initial public offering of our stock that closed September 30, 2004, priced our common stock at that time at $8.33 per share. The following table sets forth, for the periods indicated, the high and low sales prices for the common stock since October 1, 2005:

	High	Low
2006		
First Quarter ended December 31, 2005	$ 8.50	$ 8.50
Second Quarter ended March 31, 2006	$ 8.50	$ 8.35
Third Quarter ended June 30, 2006	$ 8.70	$ 8.35
Fourth Quarter ended September 30, 2006	$ 9.00	$ 8.50
2007		
First Quarter ended December 31, 2006	$ 9.00	$ 8.00
Second Quarter ended March 31, 2007	$12.00	$ 8.50
Third Quarter ended June 30, 2007	$11.50	$10.00
Fourth Quarter ended September 30, 2007	$10.50	$10.00
2008		
First Quarter ending December 31, 2007(1)	$10.50	$ 9.75

(1) Through December 17, 2007

The quotations reflect inter-dealer prices without retail markups, markdowns or commissions and do not necessarily represent actual transactions. The quotations were derived from the Electronic Quotation and Trading System for OTC Securities; the OTC Bulletin Board.

On December 17, 2007, the last reported sales price for the common stock on the OTC Bulletin Board was $10.00 per share. As of December 17, 2007, we had 593 holders of record of our common stock.

The Company's registrar and transfer agent is Continental Stock Transfer & Trust Company, 17 Battery Place, New York, New York 10004.

Dividends

We have never declared or paid any dividends on our capital stock. We expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon regulatory requirements, and our results of operations, financial condition, and capital requirements, among other factors. We expect initially to have no material source of income other than dividends that we receive from the Bank. Therefore, our ability to pay dividends to our shareholders will depend on the Bank's ability to pay dividends to us. The Board of Directors of the Bank intends to retain earnings to promote growth and build capital and recover any losses incurred in prior periods. Accordingly, we do not expect to receive dividends from the Bank in the foreseeable future. In addition, banks and bank holding companies are

both subject to certain regulatory restrictions on the payment of cash dividends, and the Bank is currently restricted from paying dividends for at least three years from the date of acquisition of Texline State Bank, which was completed on November 2003, as a condition of our regulatory approval.

Use of Proceeds from Sales of Registered Securities

On May 7, 2004, the Securities and Exchange Commission declared our Registration Statement on Form SB-2 (File No. 333-112325) related to our initial public offering effective. In addition, on October 22, 2004, we filed a Form SB-2MEF under Rule 462 registering additional shares of our common stock, of which 324,000 shares are issuable under registered common stock warrants. We accepted subscriptions for 1,582,987 shares of our common stock under the offering and have received net offering proceeds (after deducting offering expenses) of approximately $11.9 million.

From the offering proceeds, we paid our organizing shareholder and affiliate, Treaty Oak Holdings, for reimbursement of expenses and advances on our behalf in connection with our offering and repayment of the amount due under a convertible promissory note. Treaty Oak Holdings owned approximately 39% of our common stock, but was acquired by us in a transaction that closed on November 15, 2006. We contributed to the capital of the Bank and paid operating expenses including repayment of certain costs previously paid by Treaty Oak Holdings. We also repaid principal and interest under unsecured promissory notes issued in connection with the purchase price of the Bank, and have paid ongoing operating expenses. These payments are summarized in the table below:

	As of September 30, 2007
Gross proceeds from sale of shares	$13,276,271
Amounts receivable as of December 31, 2004	—
Repayment of offering and start-up costs under Expense Reimbursement Agreement to Treaty Oak Holdings, Inc., including offering costs of $500,000 and pre-opening expenses of $275,000	(775,000)
Repayment of note payable to Treaty Oak Holdings, Inc., including accrued interest of approximately $7,000	(507,302)
Repayment of notes payable for the acquisition of Texline State Bank including accrued interest of approximately $29,000	(1,015,332)
Contribution to the capital of the Bank	(7,500,000)
Payments to directors and officers (bonuses and directors' fees)	(207,368)
Payments to officers (salary and benefits)	(348,108)
Other payments to affiliates for services	(149,057)
Limited partnership investment in affiliated limited partnership	(1,030,000)
Loan to affiliated company	(46,037)
Repurchase of shares issued	(50,005)
Payment of additional operating expenses (estimated)	(1,030,900)
Remaining net proceeds	$ 617,162

Equity Compensation Plan

On January 19, 2004, the 2004 Stock Incentive Plan (the "Plan") was adopted by our Board of Directors for the purpose of providing eligible persons in our service with the opportunity to acquire or increase their proprietary interest in us as an incentive for them to remain in such service. The Plan initially set aside 500,000 shares of our common stock. The number of shares of common stock available for issuance under the Plan automatically increases on the first business day of January each calendar year during the term of the Plan by an amount equal to two percent (2%) of the total number

of shares of Common Stock outstanding on the last business day in December of the immediately preceding calendar year, but in no event shall any such annual increase exceed 100,000 shares. At September 30, 2007 there were a total of 433,300 options outstanding, 49,507 restricted stock shares issued and outstanding, 659,376 total shares issuable under the Plan and 176,569 shares available for issuance.

EQUITY COMPENSATION PLAN INFORMATION

The Plan, and all amendments thereto, had been approved by our shareholders. The following table sets forth certain information as of September 30, 2007 about our equity compensation plans:

	(a)	(b)	(c)
Plan Category	Number of shares of our common stock to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares of our common stock remaining available for future issuance under equity compensation plans (exceeding securities reflected in column (a))
2004 Amended and Restated Stock Incentive Plan	482,807	$8.74	176,569
Other equity compensation plans approved by our security holders	N/A	N/A	N/A
Equity compensation plans not approved by our security holders	N/A	N/A	N/A

Recent Sales of Unregistered Securities

Pursuant to the Agreement and Plan of Merger, dated as of October 3, 2006, between us and Treaty Oak Holdings, Inc., we issued 1,094,163 shares of our common stock in exchange for 1,110,082 shares of Treaty Oak Holdings, Inc. common stock, which represented all of the issued and outstanding shares of Treaty Oak Holdings, Inc. We also issued warrants to acquire a total of 450,000 shares of our common stock to existing warrantholders of Treaty Oak Holdings, Inc., which warrants have an exercise price equal to the greater of (i) $6.67 per share or (ii) the book value per share of common stock and which are exercisable until November 15, 2011. We issued the shares and warrants in a private transaction without registration in reliance upon an exemption from registration provided by Section 4(2) of the Securities Act. No broker was involved and no commissions were paid on the transaction.

Item 6. ***Management's Discussion and Analysis or Plan of Operation***

Introduction

We are a bank holding company headquartered in Austin, Texas. We own all of the outstanding shares of Treaty Oak Bank (the "Bank"), which was acquired on March 9, 2004. Treaty Oak Bancorp, Inc. acquired a Class D limited partnership interest in PGI Equity Partners, LP on December 30, 2004. For comparative purposes, for the year ended September 30, 2005, results of operations include activity for PGI Equity Partners, LP for the period beginning December 31, 2004 and ending September 30, 2005. The Bank acquired a 50% membership interest in Treaty Oak Mortgage, LLC on June 27, 2005, which is accounted for on the equity method of accounting. The Bank acquired a 50% interest in Treaty Oak Commercial Group, LLC ("TOCG") on June 29, 2006 for a purchase price of $100,000, which is accounted for on the equity method of accounting. Aside from its initial investment, the Company has no risk associated with operating expenditures or other liabilities of TOCG.

Recent Developments

On November 13, 2007 our Board of Directors appointed Marvin Bendele as a Class I director of our Board of Directors. Mr. Bendele was appointed to fill the vacancy created after the passing of William T. Willis on September 29, 2007. Mr. Bendele was also appointed as a member of our Audit Committee.

Also on November 13, 2007, our Board of Directors approved a plan to deregister our common stock under the Securities Exchange Act of 1934 and, therefore, terminate our obligations to file reports with the Securities and Exchange Commission. This "going private" transaction would be accomplished through an amendment (the "Amendment") to our Articles of Incorporation, which would (1) authorize 2,500,000 shares of a new Series A Preferred Stock and (2) effect a reclassification of all shares of our common stock held by record shareholders owning less than 2,500 shares of our common stock into shares of our Series A Preferred Stock on a one-for-one basis (the "Reclassification"). Shares of common stock held by record shareholders owning 2,500 or more shares will remain outstanding and will be unaffected by the Reclassification.

The Amendment and Reclassification are subject to approval by the holders of two-thirds (⅔) of the outstanding shares of our common stock. Shareholders will be asked to approve the Amendment and Reclassification at our 2008 annual shareholders meeting.

If the Amendment is approved by our shareholders and, after completion of the Reclassification, we have fewer than 300 shareholders of record of our common stock, we intend to terminate the registration of our common stock under the Securities Exchange Act of 1934 and become a non-reporting company. If that occurs, we will no longer file periodic reports with the Securities and Exchange Commission, including annual reports on Form 10-KSB and quarterly reports on Form 10-QSB.

Those shareholders receiving shares of our Series A Preferred Stock in the Reclassification will have the option to sell those shares to us at any time during the 30 day period following the Reclassification at a cash price equal to $11.00 per share (the "Put Price").

Our Board of Directors received a fairness opinion from our financial advisor, Fowler Valuation Services, LC, that the Put Price to be paid following the Reclassification is fair, from a financial perspective, to all of our shareholders.

Plan of Operation

General

In Austin, given its greater growth potential, we are focusing the majority of our efforts on growing a community-oriented bank out of our headquarters in the 15,851 square foot facility that we occupy at 101 Westlake Drive (at Bee Cave Road), Austin, Texas 78746. Our locations serve two disparate markets. In Texline, Texas the majority of business is agricultural and agriculturally related. The primary focus of our operations is in Central Texas, including our new branches in Marble Falls and the Barton Creek community, however, we continue to service the Texline community and anticipate that activity in Texline will remain relatively constant. We have a total of 38 full time employees. Of those, 27 are employed at the Austin headquarters; five are employed in Texline, Texas, five in Marble Falls, Texas, and one in Barton Creek, Texas.

Where required in the preparation of our financial statements in accordance with generally accepted accounting principles, estimates are made by management to present fairly our financial condition. The notes to our Consolidated Financial Statements, included herein, describe our significant accounting policies including the use of estimates by noting that the preparation of our financial statements, in conformity with accounting principles generally accepted in the United States of

America, requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period. Accordingly, actual results could differ from those estimates.

Estimates made in preparation of the financial statements included herein are the estimates of management including management of the Bank. We use estimates to record items such as prepaid expenses, accrued expenses, accrued taxes and similar items. Although we believe that the estimates used lead to the fair presentation, in all material respects, of the financial statements for the Company, accounting estimates could have a material effect on our financial results.

Our critical estimates are centered in three areas: the treatment of certain loans, the allowance for loan losses, and goodwill and other intangibles. Each of these estimates generally relates to the operations of the Bank.

Estimates as they relate to loans

When a loan is considered to be "impaired," management has concluded that based upon current information and events, we will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Management's conclusions regarding the status of a loan are estimates. Management then chooses the method by which this loan will be accounted for from one of three methods: (1) The loan is accounted for at the net present value of expected future cash flows, discounted at the loan's effective interest rate, (2) the observable market price of the loan or (3) at the fair value of the collateral if the loan is collateral dependent. The impact of such method and the underlying estimate of classification varies, dependent upon which of these approaches is deemed to be appropriate for the loan. Each of these methods essentially revalues the underlying loan and the difference between the carrying value and the calculated loan value is included in the Allowance for Loan Losses. Depending upon the number of loans subject to revaluing and the amount charged-off, this could create a material additional charge to the Provision for Loan Loss expense. In each case, management uses its best efforts to evaluate problem loans and provide adequately for their collectibility based on all the facts available. However, the under or over valuing of loans could materially affect our performance and financial condition. The actual results of collection efforts, regardless of the method selected, could vary significantly, thereby impacting reported earnings, reserves and asset values.

Estimates as they relate to the allowance for loan losses

The "allowance for loan losses" is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount that management, in its best estimate, believes will be adequate to absorb estimated losses inherent in the loan portfolio. There are generally two components utilized to determine the allowance for loan losses. The first is a specific allocation determined in the evaluation of criticized loans identified by management and deemed to be "impaired" or "troubled." The second component is a general allocation based upon the perceived risk associated with the individual loan, changes in economic conditions, collateral valuations, or other factors that could impact a borrower's ability to repay, or the underlying value of collateral securing loans, might result in actual losses that could be greater or less than the allowance for losses established by management, in turn resulting in additional charges against earnings or a recovery that would positively impact earnings.

Failure of management to adequately reserve against future losses could materially affect the Bank's financial condition and performance and, therefore, our financial condition and performance. Likewise, an excessive reserve could also materially affect our performance and condition.

Estimates as they relate to goodwill

In addition to the two critical estimates discussed above, we also used estimates in evaluating certain intangible assets including goodwill. Management periodically reviews goodwill (and other similar intangibles) to determine whether a decline in value exists which requires a charge to earnings and a reduction to the net goodwill reflected on the statement of financial condition. Under SFAS 142, goodwill is tested for impairment at least annually and more frequently if circumstances indicate that the asset could be impaired. To test for impairment, the fair value of the asset is compared to its carrying amount and if the fair value is less than its carrying value, we will recognize an impairment loss. If the fair value exceeds the carrying amount, no increase in the carrying amount is recorded. In addition, if following the recognition of impairment loss, the fair value increases back to or in excess of the carrying amount prior to the recognition of the loss, no reversal of the impairment is recorded.

A two-step impairment test is normally used to identify potential goodwill impairment. The first step compares the fair value of the acquired net assets with its carrying amount, including goodwill. If the fair value of the acquired net assets exceeds its carrying amount, goodwill is considered not impaired, thus the second step of the impairment test is unnecessary. The fair value of the acquired net assets refers to the amount at which the net assets as a whole could be bought or sold in a current transaction between willing parties.

We completed our annual impairment test in September 2007 and management has determined that no impairment to goodwill has occurred as of September 30, 2007.

Results of Operations

General

The following discussion analyzes the results of our operations for the years ended September 30, 2007, and September 30, 2006. For the fiscal years ended September 30, 2007 and 2006, results of operations includes the accounts of the Company, the Bank and PGI Equity Partners, LP. For the fiscal year ended September 30, 2007, results of operations additionally include the accounts of wholly-owned subsidiaries PGI Capital, Inc. and Treaty Oak Financial Holdings, Inc., entities which were acquired by us in connection with our merger with Treaty Oak Holdings, Inc. on November 15, 2006.

Net Income—General

Our fiscal year ends on September 30. Net income for the year ended September 30, 2007, was $265,000, compared to $195,000 for the fiscal year ended September 30, 2006. This improvement is due to earnings generated at the Austin and Texline branches as a result of growth experienced at the Austin branch net of start-up branch costs for the new Marble Falls branch which opened in July 2007.

Our profitability depends primarily on net interest income, which is defined as the difference between total interest earned on interest earning assets (investments and loans) and total interest paid on interest bearing liabilities (deposits, borrowed funds). Our net income is affected by our provision for loan losses, as well as other income and other expenses. The provision for loan losses reflects the amount considered to be adequate to cover probable credit losses in the loan portfolio. Non-interest income or other income consists of service charges on deposits, gain on sale of loans, and other operating income. Other expenses include salaries and employee benefits, occupancy expenses, data processing expenses, marketing, supplies, and other operating expenses.

Net interest income is affected by changes in the volume and mix of interest earning assets, the level of interest rates earned on those assets, the volume and mix of interest bearing liabilities, and the level of interest rates paid on those interest bearing liabilities. The provision for loan losses is dependent upon changes in the loan portfolio and management's assessment of the collectibility of the loan portfolio, as well as economic and market conditions. Other income and other expenses are impacted by growth of operations and growth in the number of accounts through both acquisitions and core banking business growth. Growth in operations affects other expenses as a result of additional employees, branch facilities, and promotional marketing expense. Growth in the number of accounts affects other income including service fees, as well as other expenses such as computer services, supplies, postage, telecommunications, and other miscellaneous expenses.

Net Interest Income

For the fiscal year ended September 30, 2007, our net interest income was $4,815,000 compared to $3,508,000 for the fiscal year ended September 30, 2006. Net interest income for the fiscal years ended September 30, 2007 and 2006 was impacted by the amortization of direct loan origination costs of approximately $56,000 and $55,000, respectively.

For the comparative years ended September 30, 2006, and September 30, 2007, the average rate on interest-bearing liabilities increased 112 basis points, from 3.42% to 4.54%, while the average rate on interest bearing assets increased 83 basis points from 7.69% to 8.52% during the same period. The decrease in the net interest spread of 29 basis points, from 4.27% for the fiscal year ended September 30, 2006 to 3.98% for the fiscal year ended September 30, 2007 and the decrease in net interest margin of 24 basis points from 5.73% for the fiscal year ended September 30, 2006, to 5.49% for the fiscal year ended September 30, 2007, is primarily a result of the increased competition for deposits to fund growing loan demand and the increase in interest-bearing deposit accounts relative to non-interest bearing deposit accounts. The average loan portfolio increased from $48,804,000 for the fiscal year ended September 30, 2006 to $73,165,000 for the fiscal year ended September 30, 2007, or an increase of 49.9%. For the same period, our average non-interest bearing demand deposits increased from $23,135,000 to $24,859,000, or an increase of 7.5%.

The following table presents, for the periods indicated, the total dollar amount of interest income from average interest earning assets, and the resultant yields, as well as the interest expense on average interest bearing liabilities, and the resultant costs, expressed both in dollars and rates. The averages are computed using the daily averages for each item noted. Yields are reflected on an annualized basis.

	Fiscal Year September 30, 2007			Fiscal Year September 30, 2006			Fiscal Year September 30, 2005		
	Average Balance	Interest (2)	Yield/ Rate	Average Balance	Interest (2)	Yield/ Rate	Average Balance	Interest (2)	Yield/ Rate
Interest Earning Assets:									
Loans(1)	$73,165,000	6,757,000	9.24%	48,804,000	4,184,000	8.57%	18,281,000	1,700,000	9.30%
Taxable investment securities	1,511,000	67,000	4.43%	3,045,000	93,000	3.05%	3,797,000	131,000	3.45%
Federal funds sold	12,642,000	647,000	5.12%	7,186,000	340,000	4.73%	7,997,000	160,000	2.00%
Interest bearing deposits with other Banks	5,000	—	0.00%	1,898,000	86,000	4.53%	2,659,000	63,000	2.37%
Federal Home Loan Bank Stock	326,000	—	0.00%	323,000	7,000	2.17%	212,000	7,000	3.30%
Total interest earning assets	87,649,000	7,471,000	8.52%	61,256,000	4,710,000	7.69%	32,946,000	2,061,000	6.25%
Non-interest earning assets	10,107,000			9,262,000			9,571,000		
Total assets	$97,756,000			70,518,000			42,517,000		
Interest Bearing Liabilities:									
Deposits:									
NOW and money market deposits	$28,721,000	1,089,000	3.79%	17,245,000	438,000	2.54%	11,928,000	184,000	1.54%
Savings deposits	525,000	10,000	1.90%	451,000	4,000	0.89%	461,000	3,000	0.65%
Time deposits	26,322,000	1,372,000	5.21%	14,395,000	577,000	4.01%	9,437,000	295,000	3.12%
Short-term borrowings	290,000	26,000	8.97%	474,000	22,000	4.64%	44,000	2,000	4.54%
Property mortgage and long term Borrowings	2,633,000	159,000	6.04%	2,695,000	161,000	5.97%	2,776,000	144,000	5.19%
Total interest bearing liabilities	58,491,000	2,656,000	4.54%	35,260,000	1,202,000	3.42%	24,646,000	628,000	2.55%
Demand deposits— non-interest bearing	24,859,000			23,135,000			6,320,000		
Other non-interest bearing liabilities	617,000			1,064,000					
Shareholders' equity	13,789,000			11,059,000			11,551,000		
Total liabilities and shareholders' equity	$97,756,000			70,518,000			42,517,000		
Net interest income		4,815,000			3,508,000			1,433,000	
Interest rate spread(3)			3.98%			4.27%			3.70%
Net interest margin(4)			5.49%			5.73%			3.12%

(1) Non-accrual loans are included in average loans.

(2) Interest income includes loan fees of $239,000 for the fiscal year ended September 30, 2007, $128,000 for the fiscal year ended September 30, 2006 and $93,000 for the fiscal year ended September 30, 2005.

(3) Interest rate spread represents the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest earning assets.

Volume, Mix and Rate Analysis of Net Interest Income

The following table presents the extent to which changes in volume, changes in interest rates, and changes in the interest rates times the changes in volume of interest earning assets and interest bearing liabilities affected the Bank's interest income and interest expense during the periods indicated. Information is provided on changes in each category due to (1) changes attributable to changes in volume (change in volume times the prior period interest rate), (2) changes attributable to changes in interest rate (changes in rate times the prior period volume), and (3) changes attributable to changes in rate/volume (changes in interest rate times changes in volume). Changes attributable to the combined impact of volume and rate have been allocated proportionally to the changes due to volume and the changes due to rate:

	Fiscal Year Ended September 30, 2007 Compared to Fiscal Year Ended September 30, 2006		
	Change Due to Volume	Change Due to Rate	Total Change
Interest Earning Assets:			
Loans	$2,250,000	$323,000	$2,573,000
Taxable investment securities	(68,000)	42,000	(26,000)
Federal funds sold	279,000	28,000	307,000
Interest bearing deposits in banks	(102,000)	9,000	(93,000)
Federal Home Loan Bank stock and other assets	—	—	—
Increase in interest income	2,359,000	402,000	2,761,000
Interest Bearing Liabilities:			
NOW and money market deposit accounts	$ 435,000	$216,000	$ 651,000
Savings deposits	1,000	5,000	6,000
Time deposits	622,000	173,000	795,000
Short-term borrowings	(17,000)	20	4,000
Long term borrowings	(3,000)	2,000	(2,000)
Increase in interest expense	1,038,000	416,000	1,454,000
Increase (decrease) in net interest income	$1,322,000	$(13,000)	$1,307,000

	Fiscal Year Ended September 30, 2006 Compared to Fiscal Year Ended September 30, 2005		
	Change Due to Volume	Change Due to Rate	Total Change
Interest Earning Assets:			
Loans	$2,616,000	$(132,000)	$2,484,000
Taxable investment securities	(23,000)	(15,000)	(38,000)
Federal funds sold	(38,000)	218,000	180,000
Interest bearing deposits in banks	(34,000)	57,000	23,000
Federal Home Loan Bank Stock and other assets	—	—	—
Increase in interest income	2,521,000	128,000	2,649,000
Interest Bearing Liabilities:			
NOW and money market deposit accounts	$ 135,000	$ 119,000	$ 254,000
Savings deposits	—	1,000	1,000
Time deposits	199,000	83,000	282,000
Short-term borrowings	16,000	—	16,000
Long term borrowings	(5,000)	26,000	21,000
Increase in interest expense	345,000	229,000	574,000
Increase in net interest income	$2,176,000	$(101,000)	$2,075,000

Other Income

For the fiscal year ended September 30, 2007, other income decreased $139,000 from $517,000 recorded for fiscal year ended September 30, 2006, to $378,000. The majority of the decrease for the fiscal year ended September 30, 2007 related to the decrease in sublease rental income at our corporate building.

Provision for Loan Losses

The provision for loan losses is an expense determined by management as the amount necessary to increase the allowance for loan losses after net charge-offs have been deducted to a level that, in management's best estimate, is necessary to absorb probable losses in the loan portfolio. The amount of the provision is based on management's review of the loan portfolio and consideration of such factors as historical loss experience, general prevailing economic conditions, changes in the size and composition of the loan portfolio and specific borrower considerations, including the ability of the borrower to repay the loan and the estimated value of the underlying collateral. The provision is calculated monthly and a charge to expense is made, as required, to increase the allowance to the calculated level.

For the fiscal year ended September 30, 2007, the provision for loan losses was $295,000, compared to $295,000 for the fiscal year ended September 30, 2006. For the fiscal year ended September 30, 2007, we charged off $63,000 in commercial and consumer loans and had recoveries of loans previously charged off of $7,000 for net charge-offs of $56,000. For the fiscal year ended September 30, 2006, we charged off $29,000 in commercial and consumer loans and had recoveries of loans previously charged-off of $7,000 for net charge-offs of $22,000. Given the short history and limited losses in our loan portfolio since the acquisition of Texline State Bank, we have little historical charge-off experience on which to base our Allowance for Loan Losses. Nevertheless, the net increase in the Allowance for Loan Losses for the 2007 fiscal year is a result of management's recognition of the fact that (1) the average loan balance in our portfolio has grown significantly with the growth in the Austin branch; (2) this allowance is comparable with other public reporting banks in the Texas market; and (3) losses inherent in the portfolio due to economic conditions.

Non-Interest Expenses

For the fiscal year ended September 30, 2007, salaries and employee benefits were $2,494,000 compared to $1,728,000 at September 30, 2006. The increase in salaries and employee benefits was primarily the result of growth at the Company's headquarters and the addition of personnel at the Marble Falls branch which opened in July 2007. Bank salaries and benefits for fiscal 2007 and 2006 include credit adjustments for compensation relating to the costs of loan origination of approximately $87,000 and $69,000, respectively. In addition, the Company awarded bonuses to employees for fiscal 2007 and 2006 in the amounts of $200,000 and $140,000, respectively. Stock based compensation recognized in fiscal year 2007 and 2006 was approximately $249,000 and $25,000, respectively, related to the recognition of expense from options issued to employees and non-employees and stock grants to employees and $23,000 and $0 related to services provided to us by non-employees. Occupancy and equipment expenses for the 2007 fiscal year were $431,000 as compared to $398,000 for the 2006 fiscal year. Professional fees paid for accounting and legal services, including regulatory filings and audit services, totaled $247,000 and $294,000, respectively, for the fiscal years ended September 30, 2007 and 2006.

Other non-interest expenses for the fiscal year ended September 30, 2007 and 2006, were $1,468,000 and $1,089,000 respectively, and included marketing and promotional costs for fiscal year ended September 30, 2007, of approximately $202,000, director and committee fees of $92,000, $215,000 of data processing expense and IT security and software maintenance of $89,000. Depreciation and amortization expense of $385,000 combined with other operating expenses of $485,000 accounted for the other non-interest expenses for the fiscal year ended September 30, 2007. Other non-interest expenses for the fiscal year ended September 30, 2006, included marketing and promotional expenses of $118,000, director and committee fees of $49,000, $160,000 of data processing expense and IT security and software maintenance of $73,000. Depreciation and amortization expense of $362,000 combined with other non-interest expenses of $327,000 accounted for the other operating expenses for the fiscal year ended September 30, 2006.

Income Taxes

No federal tax expense has been recorded for the fiscal years ended September 30, 2007 and September 30, 2006, based upon net operating losses incurred and carried forward from prior years. Although we were profitable for the fiscal years ended September 30, 2007 and 2006, we have fully reserved against the deferred tax benefit accumulated through September 30, 2007, based upon our projected financial results for the fiscal year ending September 30, 2008 and other factors including our limited operating history.

Cumulative net operating losses available to carry forward for tax purposes as of September 30, 2007, are approximately $3,770,000. As of September 30, 2006, we had approximately $3,400,000 in net operating loss carryforwards. On November 15, 2006, we acquired through our merger with Treaty Oak Holdings, Inc., additional loss carryforwards of approximately $1,300,000. Our ability to utilize these losses may be limited by statutory restrictions on the use of acquired losses.

For the fiscal year ended September 30, 2007, we had recorded Texas margin tax expense of $24,000, based upon the revised tax system enacted effective for the current tax year. The tax is based on 1% of our gross margin; which is gross receipts less the greater of compensation expense or cost of goods sold. For purposes of calculating cost of goods sold, we treat interest expense on deposits as cost of goods sold. For the fiscal year ended September 30, 2006, we recorded Texas franchise tax expense of $29,000, based on the previous tax structure which provided for a tax on capital at 0.25%. Net operating losses carried forward to the fiscal year ended September 30, 2006, fully offset the income for the period ended September 30, 2006. Under the revised tax structure, we will receive a credit against the margin tax in each of the next 20 years based upon a defined calculation. The benefit for the fiscal year ended September 30, 2007 is approximately $4,700. Texas franchise taxes and margin taxes are included in other operating expenses.

Financial Condition

Loan Portfolio

Net loans increased $23,713,000 to $83,333,000 from $59,620,000, an increase of 28.5%, between September 30, 2007, and September 30, 2006. The increase was due primarily to the planned growth in the loan portfolio following the opening of the Austin, Texas main office. The concentration within the portfolio has shifted in accordance with our business plan from a concentration of agricultural loans to a more diverse portfolio of commercial, residential and construction real estate and commercial loans, while still maintaining the level of agricultural lending at the Texline, Texas location.

Loan Portfolio Mix

The following tables set forth the composition of the loan portfolio:

	As of September 30 2007		As of September 30, 2006		As of September 30, 2005	
	Amount	Percent	Amount	Percent	Amount	Percent
Agriculture	$ 3,932,000	4.7%	$ 2,989,000	5.0%	$ 3,261,000	9.0%
Commercial	29,502,000	35.1%	19,068,000	31.7%	12,887,000	35.8%
Commercial real estate	21,015,000	25.0%	18,582,000	30.9%	8,619,000	24.0%
Residential real estate	9,061,000	10.8%	8,221,000	13.6%	4,524,000	12.6%
Construction real estate	14,108,000	16.8%	4,329,000	7.2%	4,152,000	11.6%
Consumer and other	6,504,000	7.6%	6,981,000	11.6%	2,517,000	7.0%
Total Loans	84,122,000	100.0%	60,170,000	100.0%	35,960,000	100.0%
Allowance for Loan Losses	(789,000)		(550,000)		(277,000)	
Net Loans	$83,333,000		$59,620,000		$35,683,000	

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions.

For the fiscal year ended September 30, 2007, the majority of new loan growth came from the Austin market reflecting a broader, more diverse mix of industries and borrowers. Management may renew loans at maturity when requested by a customer whose financial strength appears to support such a renewal or when such a renewal appears to be in the best interest of the Bank. The Bank requires payment of accrued interest in such instances and may adjust the rate of interest, require a principal reduction, or modify other terms of the loan at the time of renewal.

Loan Maturities

The following table presents the contractual maturity ranges for agricultural, commercial, and real estate loans outstanding at September 30, 2007, and at September 30, 2006, and also presents for each maturity range the portion of loans that have fixed interest rates or interest rates that fluctuate over

the life of the loan in accordance with changes in the interest rate environment as represented by the base rate:

September 30, 2007	Due in One Year or Less		Due after One Year Through Five Years		Due after Five Years		Total
	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	
Agriculture	$ 38,000	$ 2,731,000	$ —	$ 676,000	$ —	$ 487,000	$ 3,932,000
Commercial	2,106,000	18,477,000	1,026,000	7,772,000	—	121,000	29,502,000
Commercial real estate	230,000	9,771,000	732,000	10,282,000	—	—	21,015,000
Residential real estate	1,542,000	2,354,000	1,959,000	2,542,000	664,000	—	9,061,000
Construction real estate	825,000	3,915,000	174,000	7,418,000	—	1,776,000	14,108,000
Consumer and other	480,000	4,368,000	566,000	1,0900,000	—	—	6,504,000
Total	$5,221,000	$41,616,000	$4,457,000	$29,780,000	$664,000	$2,384,000	$84,122,000

At September 30, 2007, 55.68% of the loan portfolio, or $46,837,000 matured or re-priced within one year or less and $41,616,000 of these loans were variable rate loans. As of September 30, 2006, 46.31% of the loan portfolio, or $27,866,000 matured or re-priced within one year or less and $25,593,000 of these loans were variable rate loans.

Investment Securities

The primary purposes of the investment portfolio are to provide a source of earnings for liquidity management purposes, to provide collateral to pledge against public deposits, and to control interest rate risk. In managing the portfolio, we seek to attain the objectives of safety of principal, liquidity, diversification, and maximized return on investment.

The following tables set forth the amortized cost and fair value of our securities portfolio by accounting classification category and by type of security as indicated:

	As of September 30, 2007		As of September 30, 2006		As of September 30, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities Available for Sale:						
U.S. Government sponsored agencies	$ 5,000	$ 5,000	$ 14,000	$ 14,000	$ 401,000	$ 396,000
Other mortgage backed securities	2,000	2,000	2,000	2,000	30,000	31,000
Total Securities Available for Sale	$ 7,000	$ 7,000	$ 16,000	$ 16,000	$ 431,000	$ 427,000
Securities Held to Maturity:						
U.S. Government sponsored agencies	$ —	$ —	$2,000,000	$1,996,000	$3,495,000	$3,467,000
Other mortgage backed securities	5,000	4,000	6,000	5,000	6,000	5,000
U.S. Treasury securities	349,000	350,000	—	—	—	—
Total Securities Held to Maturity	$354,000	$354,000	$2,006,000	$2,001,000	$3,501,000	$3,472,000

U.S. Treasury securities and securities of U.S. Government sponsored agencies generally consist of fixed rate securities with maturities of three months to five years. Other mortgage backed securities consists of fixed rate mortgage pass-through securities with a maturity of five to fifteen years.

The following table sets forth certain information regarding contractual maturities and the book yields of the Bank's securities portfolio as of September 30, 2007 (in thousands). Held to maturity securities are listed at amortized cost and available for sale securities are listed at fair value.

	As of September 30, 2007							
	Due in One Year or Less		Due after One Year through Five Years		Due after Five Years through 10 Years		Due after 10 Years or no Stated Maturity	
	Balance	Book Yield	Balance	Book Yield	Balance	Book Yield	Balance	Book Yield
Securities Available for Sale:								
U.S. Government Sponsored Agencies	$ 5	5.17%	$—	—	$—	—	$—	—
Other mortgage backed securities	—	—	—	—	2	5.63%	—	—
Total Securities Available for Sale	$ 5	5.17%	$—	—	$ 2	5.63%	$—	—
Securities Held to Maturity								
U.S. Government Sponsored Agencies	$ —	—	$—	—	$—	—	$—	—
Other mortgage backed securities	—	—	—	—	5	8.88%	—	—
U.S. Treasury securities	349	4.85%						
Total Securities Held to Maturity	$349	4.85%	$—	—	$ 5	8.88%	$—	—

We have minimal investment in our securities portfolio and little exposure to loss on such investments. Yields have minimal effect on the income statement due to the small volume of investments. We do not currently own any tax exempt securities, but should we acquire any in the future, the yields on those securities would be computed on a tax equivalent basis.

We provide general commercial lending services for business clients as a part of our efforts to serve the local communities in which we operate. Certain risks are involved in granting loans, primarily related to the borrower's ability and willingness to repay the debt. Before extending a new loan to a customer, these risks are assessed through a review of the borrower's past and current credit history, the collateral being used to secure the transaction in the event the customer does not repay the debt, the borrower's character, and other factors. Once the decision has been made to extend credit, these factors are monitored throughout the life of the loan. Any loan identified as a problem credit by management during the internal loan review process or otherwise is assigned to the Bank's "watch" loan list and is subject to ongoing monitoring to ensure appropriate action is taken if and when deterioration occurs.

Asset Quality

The following table sets forth the amount of non-performing loans and non-performing assets at the dates indicated:

	As of September 30, 2007	As of September 30, 2006	As of September 30, 2005
Non-accruing loans	$204,000	$123,000	$ 85,000
Loans 90 days or more past due, still accruing interest	—	—	6,000
Total non-performing loans	204,000	123,000	91,000
Other real estate owned	50,000	41,000	—
Other repossessed assets	0	5,000	15,000
Total non-performing assets	$254,000	$169,000	$106.000
Total non-performing loans to total loans	0.30%	0.20%	0.25%
Allowance for loan losses to non-performing loans	311%	447%	304%
Total non-performing assets to total assets	0.22%	0.17%	0.17%

Non-performing Loans

Non-performing loans include (1) loans accounted for on a non-accrual basis, (2) accruing loans contractually past due 90 days or more as to interest and principal, and (3) troubled debt restructurings. Management reviews the loan portfolio for problem loans on an ongoing basis.

During the ordinary course of business, management becomes aware of borrowers that may not be able to meet the contractual requirements of loan agreements. Such loans are placed under close supervision with consideration given to placing the loan on a non-accrual status, increasing the allowance for loan losses, and (if appropriate) partial or full charge-off. After a loan is placed on non-accrual status, any current year interest previously accrued but not yet collected is reversed against current income. When payments are received on non-accrual loans, such payments are applied to principal and not taken into income. Loans are not placed back on accrual status unless all back interest and principal payments are made. If interest on non-accrual loans had been accrued, such income would have amounted to approximately $10,000 and $9,000, respectively, for the fiscal years ended September 30, 2007 and 2006. This amount was not included in interest income during this period.

Under Federal and Texas law, any loan 90 or more days past due is required to be placed on non-accrual basis unless specifically identified mitigating circumstances exist. Our policy is to place loans 90 days past due on non-accrual status. An exception is made when management believes the loan is fully secured and in process of collection. Non-accrual loans are further classified as impaired when underlying collateral is not sufficient to cover the loan balance and it is probable that we will not fully collect all principal and interest. As of September 30, 2007 and September 30, 2006, we had $204,000 and $123,000 in non-accrual loans, respectively. Loans contractually past due over 90 days which continued to accrue interest totaled $0 on September 30, 2007 and $0 on September 30, 2006, based upon specific information available at that time to management. In compliance with these statutes we have developed pro forma financial statements assuming that no loans will continue to accrue interest if they become 90 days past due, and instead transfer all such loans to non-accrual status.

A "troubled debt restructuring" is a restructured loan upon which interest accrues at a below market rate or upon which certain principal has been forgiven so as to aid the borrower in the final repayment of the loan, with any interest previously accrued, but not yet collected, being reversed against current income. Interest is accrued based upon the new loan terms. There were no troubled debt restructurings outstanding as of September 30, 2007 and September 30, 2006.

Non-performing assets also consist of other repossessed assets and other real estate owned ("OREO"). OREO represents properties acquired through foreclosure or other proceedings and is recorded at the lower of cost or fair market value less the estimated cost of disposal. OREO is evaluated regularly to ensure that the recorded amount is supported by its current fair market value. Valuation allowances to reduce the carrying amount to fair market value less estimated costs of disposal are recorded as necessary. Revenues and expenses from the operations of OREO and changes in the valuation are included in other income and other expenses on the income statement. For the fiscal year ended September 30, 2007 and 2006, we acquired $0 and $41,000, respectively, of other real estate owned through foreclosure. During the year ended September 30, 2007, we disposed of OREO at a gross sales price of $34,000 and a net profit of $7,000. No OREO was disposed of during the year ended September 30, 2006. As of September 30, 2007, we had $50,000 of other real estate owned, and no acquisitions during the fiscal year. Repossessed assets totaled $0 and $5,000 at September 30, 2007 and 2006, respectively.

Allowance for Loan Losses

The allowance for loan losses is a reserve against losses in the loan portfolio that is calculated monthly based upon a specific reserve and a general allocation as described herein. Increases to the allowance are made by charging the expense, Provision for Loan Losses. Please refer to "—Results of Operations—Provision for Loan Losses" above for more information. We believe the accounting policies governing the allowance for loan losses are critical to the portrayal and understanding of the Bank's and our financial condition and results of operations.

Loans subject to specific allocations to the allowance for loan losses are loans that have generally first been placed on the Bank's "Watch List." The fact that a loan is placed on the Watch List does not necessarily indicate that the Bank has experienced a problem with the loan but indicates that the Bank has had some indication that the loan may become a problem loan. The Bank and the regulators each, independently, perform a review of the Bank's loans. The regulators (the Texas Department of Banking and the FDIC) will generally specifically review each loan on the Bank's Watch List and a random sampling of other loans as well. As a result of these examinations, the regulators may place additional loans on the Watch List. There are a variety of factors influencing our decision to place a loan on the Watch List. Factors other than a failure to make one or more payments, which may result in a loan being included on the Watch List, include a general economic trend impacting a concentration of loans such as adverse trends in agriculture, a declining trend in a particular banking customer's deposits, or negative trends in financial statements which are provided on a routine basis for business loans. In the personal banking relationship model established in Austin and in a rural community such as Texline, Texas, personal knowledge of the existence of a financial hardship to a customer by one of the Bank's officers is not uncommon. Thus to some degree, a category of loans, such as agricultural loans, may be separately reviewed based upon known additional risks to which the category may be subject. Placement of a loan on the Watch List from any of these factors may be the result of a determination by the board of directors, bank management, the servicing officer, or by the banking regulators during their periodic examinations of the Bank.

Through this process the Bank addresses the particular risks inherent in different concentrations of loans. Historically, the Bank's allowance has been adequate to absorb the losses experienced by the Bank.

Once a loan is placed on the Watch List it may be classified as "Watch," "OAEM, "Substandard," "Doubtful," or "Loss." These classifications are also based on numerous factors but these are general groupings of the loans that receive different levels of scrutiny and have different methods for determining whether a specific reserve should be made for each loan applied to them. If a loan is classified as a "Watch" or OAEM," then it merely indicates that circumstances exist that may, but have not yet, jeopardized the collection of the loan. Loans classified as "Watch" or "OAEM" generally do not have a specific reserve charged against them but are instead subject to the historical loss percentage discussed below.

Substandard and doubtful loans are those loans that are considered to have some deficiency relative to loans generally considered to be of acceptable loan quality (be it cash flow, collateral value, or otherwise). Each such loan is considered separately. Factors such as collectibility, collateral values, borrower strength, and past due status may influence the amount of reserve to be specifically allocated. A 0% specific reserve may occur when a loan is classified as substandard but is fully collateralized with collateral such as a certificate of deposit held by the Bank.

As of September 30, 2007, we had $462,000 in Substandard or Doubtful loans with specific reserves of $25,000. As of September 30, 2006, we had $318,000 in Substandard or Doubtful loans with specific reserves of $86,000. Loss loans were $0 as of September 30, 2007 and as of September 30, 2006. Loans classified as "loss" would have specific allocations of 100% of loan principal balance.

During the fiscal year ended September 30, 2005, management refined the method of determining the reserve requirement. The percentage used to calculate the reserve requirement is based on historical losses adjusted for economic and risk-based qualitative factors and varies based upon the risk grade assigned to the particular credit when the loan is made or when the loan is reviewed by an internal or external loan review process. The revised loan grades and definitions are:

Grade 1—HIGHEST QUALITY—Loans secured by liquid collateral and governmental guarantees. No risk-based general allocation is assessed on these loans, based upon the nature of the collateral and management's assessment of the underlying risk.

Grade 2—EXCELLENT QUALITY—These loans are characterized by the strong credit standing of the borrower and/or guarantor, and should rarely experience losses. A risk-based general allocation of 0.25% was assessed, based upon management's estimate of the risk inherent in the portfolio.

Grade 3—GOOD QUALITY—Such loans are extended to well established borrowers with strong balance sheets and cash flows. A risk-based general allocation of 0.50% was assessed, based upon management's estimate of the risk inherent in the portfolio.

Grade 4—ACCEPTABLE QUALITY—Grade 4 loans are reflective of most borrowers that have capacity to service all obligations. A risk-based general allocation factor of 1% is assigned these credits based primarily upon the three year average of peer group banks plus additional factors such as Texline's loss history and the untested nature of the new branch portfolio.

Grade 5—PROBLEM POTENTIAL—Loans in this category demonstrate specific signs of weaknesses including sporadic profitability, slow payment history, or collateral documentation deficiencies, even though the credit is well secured and collection does not appear to be in question. These loans are separately reviewed for specific reserves.

Grade 6—SUBSTANDARD—IDENTIFIED PROBLEM—These loans contain inherent weaknesses due to the borrower's inability to service the debt even though the credit is perceived to be adequately secured, and may have accrual or non-accrual status. These loans are separately reviewed for specific reserves.

Grade 7—DOUBTFUL—Grade 7 loans contain all of the inherit weaknesses of those classified as Substandard, but with identified loss exposure, which makes collection in full questionable; these are the loans for which we identify specific reserves for the potential loss exposure. These loans are separately reviewed for specific reserves.

Grade 8—LOSS—These loans are considered uncollectible and as such are no longer recognized as a bankable asset. The loss associated with such loans is recorded in the period it becomes uncollectible. These loans are charged off in their entirety.

After the required reserve has been calculated by adding together the specific reserves, and the general allocations, the current balance in the allowance for loan losses is compared to the calculated required allowance and to the extent an addition is necessary, the allowance is increased by a charge to expense through the provision for loan losses. The following table shows the calculation for the allowance for loan losses as applied on September 30, 2007. All amounts are approximate and are rounded. The revised method of calculating as noted above has been employed:

	Balance	Allocation %	As of September 30, 2007
Gross Loans	$84,122,000		
Loans Graded 1	1,569,000	0.00%	$ 0
Loans Graded 2	3,605,000	0.25%	9,000
Loans Graded 3	10,046,000	0.50%	51,000
Seasoned Houston Mortgage Loans	734,000	0.50%	4,000
Loans Graded 4	67,145,000	1.00%	644,000
Criticized Loans (Grades 5-8)	1,023,000	Specific Reserve	81,000
Total Allowance			$789,000

The amount of the allowance represents the cumulative total of the provisions made from time to time, reduced by loan charge-offs and increased by recoveries of loans previously charged-off. The allowance was $789,000, or 0.94%, of gross loans at September 30, 2007 and $550,000, or 0.91%, of gross loans at September 30, 2006.

Credit and loan decisions are made by the Bank's management and board of directors in conformity with loan policies established by the board of directors. Our practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or other reasons. For the fiscal year ended September 30, 2007, we charged off $63,000 in commercial and consumer loans. Recoveries totaled $7,000 for the fiscal year. We charged off $29,000 in commercial and consumer loans during the fiscal year ended September 30, 2006. Recoveries totaled $7,000 for that fiscal year.

The following table presents an analysis of the allowance for loan losses for the periods presented:

	Year Ended September 30, 2007	Year Ended September 30, 2006	Year Ended September 30, 2005
Balance at beginning of period	$ 550,000	$ 277,000	$ 217,000
Provision for loan losses	295,000	295,000	130,000
Charge-offs:			
Agricultural	—	—	—
Commercial	—	—	65,000
Commercial Real Estate	—	—	—
Residential Real Estate	—	25,000	16,000
Consumer and other	63,000	4,000	4,000
Total Charge-offs	63,000	29,000	85,000
Recoveries			
Agricultural	—	—	—
Commercial	6,000	6,000	12,000
Commercial Real Estate	—	—	—
Residential Real Estate	—	—	—
Consumer and other	1,000	1,000	3,000
Total Recoveries	7,000	7,000	15,000
Net Charge-offs	(56,000)	(22,000)	(70,000)
Balance at end of period	$ 789,000	$ 550,000	$ 277,000
Gross Loans at end of period	$84,122,000	$60,170,000	$35,960,000
Ratio of loan loss allowance to gross loans	0.94%	0.91%	0.77%
Ratio of net charge-offs to gross loans	0.07%	0.04%	0.19%

The following table sets forth the specific allocation of the allowance for loan losses for the fiscal years presented and the percentage of allocated possible loan losses in each category to total gross loans. An allocation for a loan classification is only for internal analysis of the adequacy of the allowance and is not an indication of expected or anticipated losses. Specifically allocated reserves by loan type represent categories of loans that have been identified on the Bank's internal Watch List and the corresponding allocations assigned.

	As of September 30, 2007		As of September 30, 2006		As of September 30, 2005	
	Amount	Percent	Amount	Percent	Amount	Percent
Agricultural	$ 58,500	0.07%	$ 39,900	0.07%	$ 30,000	0.08%
Commercial	291,600	0.35%	165,500	0.27%	82,000	0.23%
Commercial Real Estate	176,300	0.21%	115,600	0.19%	57,000	0.16%
Construction Real Estate	120,700	0.14%	74,000	0.12%	—	0.00%
Residential Real Estate	78,800	0.09%	51,300	0.09%	16,000	0.04%
Installment and Other	63,100	0.08%	103,700	0.17%	92,000	0.26%
Total	$789,000	0.94%	$550,000	0.91%	$277,000	0.77%

We maintain the allowance for loan losses at a level that management believes will be adequate to absorb probable losses on existing loans based on an evaluation of the collectibility of loans and prior loss experience. Three methods are used to evaluate the adequacy of the allowance for loan losses: (1) historical loss experience, of this and other banks of similar size and experience; (2) specific identification, based upon management's assessment of loans and the probability that a charge-off will

occur in the upcoming quarter; and (3) loan concentrations, based upon current economic factors in the geographic and industry sectors where management believes the Bank may eventually experience some loan losses.

Additions to the allowance for loan losses, which are charged to earnings through the provision for loan losses, are determined based upon a variety of factors, as indicated above. Although management believes the allowance for loan losses is sufficient to cover probable losses inherent in the loan portfolio, there can be no assurance that the allowance will prove sufficient to cover actual future loan losses.

Potential Problem Loans

The Bank utilizes an internal asset classification system as a means of reporting problem and potential problem assets. At scheduled Bank board of directors meetings each month, a "watch" list is presented, showing all loans listed as Graded 5 through 8. An asset is classified Grade 6 if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Grade 6 assets include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets classified as Grade 7 have all the weaknesses inherent in those classified Grade 6, with the added characteristic that the weaknesses present make collection or liquidation in full highly unlikely on the basis of currently existing facts, conditions, and values. Assets classified as Grade 8 are those considered uncollectible and viewed as non-bankable assets, worthy of charge-off. Assets that do not currently expose the Bank to sufficient risk to warrant classification into one of the aforementioned categories but possess weaknesses that may or may not be within the control of the customer, are deemed to be a Grade 5.

Our determination as to the classification of the Bank's assets and the amount of the valuation allowance is subject to review by its primary regulator(s), which can order the establishment of additional general or specific loss allowances. The FDIC, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan losses. The policy statement provides guidance for financial institutions on the responsibilities of management for the assessment and establishment of adequate allowances and for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that (a) institutions have effective systems and controls to identify, monitor, and address asset quality problems; (b) management analyze all significant factors that affect the collectibility of the portfolio in a reasonable manner; and (c) management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Management believes it has established an adequate allowance for probable loan losses. The Bank analyzes its processes regularly, with modifications made if needed, and reports those results monthly at the Bank's board of directors meetings. However, there can be no assurance that regulators, in reviewing our loan portfolio, will not request us to materially increase our allowance for loan losses at the time. Although management believes that adequate specific, general, and special contingency loan loss allowances have been established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may become necessary.

The aggregate principal amounts of potential problem or problem loans as of September 30, 2007, and September 30, 2006, were approximately $1,023,000 and $800,000 respectively. Included in these loan totals are non-accrual, Watch or Special Mention, Substandard, and Doubtful classifications, which comprise the watch list presented monthly to the Bank's board of directors. All loans classified as Loss have been charged-off. Loans in this category generally include loans that were classified for risk management and regulatory purposes. It should be noted, however, that the inclusion of loans categorized as "Grade 5" in the total amount of problem loans is a more conservative approach than that required by federal regulations. Only "Grade 6" and "Grade 7" classifications are deemed to be

"problem loans" for regulatory reporting purposes. At September 30, 2007 and September 30, 2006, these classifications totaled $462,000 and $318,000 respectively.

Loan Origination Fees and Costs

We defer and amortize loan origination fees and costs as an adjustment to yield. Certain costs are associated with loan origination, including compensation costs of staff that evaluate credit worthiness, handle loan applications, or negotiate loan terms; and other costs, such as obtaining credit reports on loan applicants. These loan origination costs are capitalized and offset to compensation costs. For the fiscal year ended September 30, 2007 capitalized costs for loan originations were approximately $87,000. The portion of capitalized costs amortized for fiscal year 2007 totaled $56,000. The remainder of capitalized costs will be amortized over the average maturity of the portfolio of loans originated.

Liquidity

Liquidity is the measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain the ability to meet loan commitments, purchase investments, meet deposit withdrawals and pay other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity management is guided by policies developed and monitored by the bank's asset/liability committee, which is comprised of members of our senior management and directors and by its board of directors. These policies take into account the marketability of assets, the sources and stability of funding and the amount of loan commitments. For the years ended September 30, 2007 and 2006, a significant source of funding has been from our deposits, both community banking and brokered.

We also utilize wholesale and brokered deposits and will continue to utilize these sources for deposits when they can be cost-effective. Brokered deposits, which are more sensitive to changes in interest rates than are community banking deposits, constituted approximately 17.9% of our total deposits at September 30, 2007. Brokered deposits are priced based on the current general level of interest rates and, unlike retail deposits, do not take into account regional pricing. Our ability to continue to acquire brokered deposits is subject to our ability to price these deposits at competitive levels, which may substantially increase our funding costs.

Although other borrowing sources and access to purchased funds from correspondent banks is available and has been utilized on occasion to take advantage of investment opportunities, the Company does not generally rely on these external funding sources. The cash and federal funds sold position, supplemented by amortizing investment and loan portfolios, have generally created an adequate liquidity position.

We had $617,000 of proceeds remaining from the initial common stock offering in 2004 which are invested in interest-bearing accounts and $1,786,000 of proceeds from the exercise of our common stock warrants, for total capital resources of $2,403,000. The Bank's primary sources of funds are retail and commercial deposits, loan and securities repayments, other short-term borrowings, and other funds provided by operations. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan prepayments are more influenced by interest rates, general economic conditions, and competition. We will maintain investments in liquid assets based upon management's assessment of (1) the need for funds, (2) expected deposit flows, (3) yields available on short-term liquid assets, and (4) objectives of the asset/liability management program. We no longer rely on borrowed funds, but may utilize available lines of credit should the need arise for short term cash requirements.

As described under "—Recent Developments" above, our Board of Directors has approved an amendment to our Articles of Incorporation to effect the Reclassification, which Amendment will be subject to approval of our shareholders. We anticipate paying all costs associated with the Reclassification from available cash, although we do anticipate obtaining a back-up credit facility to ensure that our liquidity position remains healthy in light of the Reclassification. We are currently in negotiations with a lender to enter into a promissory note to borrow up to $1.5 million for purposes of having a back-up credit facility. If we have to pay more than $1.8 million to our Series A preferred shareholders who have exercised their put right, we intend to borrow funds under this facility to pay such excess amount. We expect this promissory note to contain covenants and default provisions customary for similar credit facilities. We anticipate repaying any amounts borrowed under this promissory note from cash generated by our operations. If all shares of our Series A preferred stock were sold to us at the Put Price in connection with the Reclassification, our cash and cash equivalents would be reduced by approximately $3,275,700, plus an estimated additional $161,700 for expenses of the Reclassification.

We retained the facility in Texline, Texas, as a branch of Treaty Oak Bank. Because this facility has both a concentration and an expertise in agricultural lending, we continue to service the existing loans and make new agricultural loans when possible in the Texline market.

Greater loan demand has resulted in greater pressure on our liquidity; however, it is our intention to maintain a conservative loan to deposit ratio in the range of 80% - 90% over time. Given this goal, we do not intend to pursue lending opportunities if sufficient funding sources (i.e. deposits, Federal Funds, etc.) are not available, we utilize the wholesale funding market to supplement core deposit market growth and we maintain borrowing lines of credit with several large correspondent banks. As of September 30, 2007 and September 30, 2006, the loans to deposits ratios were 84.82% and 73.97%, respectively. In the event that additional short-term liquidity is needed, the Bank will retain established relationships with several large correspondent banks.

The Bank had cash and cash equivalents totaling $22,329,000 and $26,354,000, or 20.19% and 20.85% of total Bank assets, at September 30, 2007, and September 30, 2006, respectively. The Bank had available $99.3 million and $80.5 million of rate-sensitive assets which mature or adjust within one year or less as of September 30, 2007 and September 30, 2006, respectively.

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies, which could affect its ability to pay dividends to us. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on our financial statements. The minimum ratios required for the Bank to be considered "well capitalized" for regulatory purposes, and therefore eligible to consider the payment of dividends to us, will be 10% total capital to risk weighted assets, 6% tier 1 capital to risk weighted assets and 5% tier 1 capital to average assets. At September 30, 2007 and at September 30, 2006, the Bank was considered "well capitalized" by regulatory standards.

Interest Rate Analysis

The purpose of the interest rate shock analysis, as required by regulatory authorities, is to ensure that the Bank's management is aware of and is appropriately managing the structure of its interest sensitive assets and liabilities.

The tables below reflect the balance sheet and interest rate "shock" analysis as of September 30, 2007 and September 30, 2006, respectively.

The columns titled "Normal Income/Expense Decrease per 1% Decrease" and "Normal Income/Expense Increase per 1% Increase" measure the dollar impact of rates moving up or down under

"normal" circumstances, meaning no other factors (e.g. deposits might be withdrawn and invested in alternative investments when interest rates decline), except for interest rates, are changed.

Shock Effect of Interest Rate Changes

	As of September 30, 2007		
	Balance	Normal Income/Expense decrease per 1% Decrease	Normal Income/Expense increase per 1% Increase
Assets			
Federal Funds and Due From Time Deposits	$ 19,422,000	$(104,000)	$104,000
Investment Securities	361,000	(1,000)	(1,000)
Loans	84,122,000	(383,000)	381,000
	$103,905,000	$(488,000)	$486,000
Liabilities			
Deposits	$ 69,198,000	(99,000)	153,000
	$ 69,198,000	$(389,000)	$333,000

Actual Rate Change Effect on Interest Income and Interest Expense

Percentage Change	Change in Interest Income One Year	Change in Interest Expense One Year	Change in Net Interest Income One Year
+1%	$ 486,000	$ 153,000	$ 333,000
+2%	972,000	307,000	665,000
+3%	1,458,000	461,000	997,000
-1%	(488,000)	(99,000)	(389,000)
-2%	(978,000)	(199,000)	(779,000)
-3%	(1,468,000)	(299,000)	(1,169,000)

Shock Effect of Interest Rate Changes

	As of September 30, 2006		
	Balance	Normal Income/Expense decrease per 1% Decrease	Normal Income/Expense increase per 1% Increase
Assets			
Federal Funds	$23,775,000	$(237,750)	$237,750
Loans			
Fixed Rate Loans	9,352,000	(93,520)	93,520
Floating Rate Loans	50,818,000	(508,180)	508,180
Total	$83,945,000	$(839,450)	$839,450
Liabilities			
NOW Accounts			
Money Market Demand Accounts	$ 8,663,000	$ (86,630)	$ 86,630
Savings Accounts	23,557,000	(235,570)	235,570
CDs< $100,000	446,000	(4,460)	4,460
CDs> $100,000	11,538,000	(115,380)	115,380
	8,989,000	(89,890)	89,890
	$53,193,000	$(531,930)	$531,930

Actual Rate Change Effect on Interest Income and Interest Expense

Percentage Change	Change in Interest Income One Year	Change in Interest Expense One Year	Change in Net Interest Income One Year
+1%	$ 491,840	$102,635	$ 389,205
+2%	1,237,770	426,290	811,480
+3%	1,983,700	692,255	1,291,445
-1%	(491,840)	368,600	(123,240)
-2%	(953,989)	573,870	(380,119)
-3%	(1,431,482)	779,140	(652,342)

The "shock effect of interest rate changes" table illustrates a method that banks may use to test the balance sheet for the effects of sudden interest rate increases or decreases, and the effect of those sudden rate changes on interest income and interest expense over a one year period. This table assumes that the Bank's interest rates change by the same percent as the market interest rates change (1%, 2% and 3%) and excludes interest earning assets and liabilities of the Company, PGI Equity Partners, LP and other subsidiaries

Rate shock refers to the impact of a sudden change up or down in interest rates. In the shock table, when calculating the effect of changes in interest rates on the value of our interest earning assets and interest paying liabilities the liabilities are assumed to be replaced upon maturity with new balances at the forecasted rates. Thus, the "Shock Effect of Interest Rates" table for September 30, 2007, reflects that based upon our then existing asset and liability mixes, a 1% decrease in the interest rates would result in a decrease in interest income of $488,000 and a decrease in interest expense of $99,000 for an approximate decrease in net interest income of $389,000. At September 30, 2006, the "Shock Effect of Interest Rates" table illustrates that, based on the then existing asset and liability mixes, a 1%

decrease in the interest rates would result in a decrease in interest income of $491,840, along with a decrease in interest expense of $368,600 for a resulting decrease in net interest income of $123,240.

The "Actual Rate Change Effect" table illustrates how the Bank's net interest income would actually respond to prevailing market rate changes. The change in net interest income for a one year period is calculated by multiplying the percentage of rate increase that we intend to use if market interest rates increase/decrease by 1%, 2% or 3%. The columns labeled "Change in Interest Income One Year" and "Change in Interest Expense One Year" reflect the dollar amount by which actual interest income or expense is expected to increase or decrease (decreases are presented in parentheses) based on the stated increase or decrease in interest rates, reflected on an annual basis.

"Change in Interest Expense One Year" shows a much lower relative change in interest expense at a 1% change in prevailing rates because we do not intend to increase the rates paid on deposits by 1% if market rates increase 1%. Since some of the rates paid on certain certificates of deposit are in excess of the market rates, reductions are calculated at 2% for both a 1% and 2% prevailing rate reduction. As of September 30, 2007 and September 30, 2006, the rates paid on deposits were as follows:

	As of September 30, 2007	As of September 30, 2006
Savings accounts	1.15%	1.50%
NOW accounts	1.6%	1.20% - 4.35%
Money market accounts range	2.10% - 4.00%	2.40% - 4.20%

Sources of Funds

General

Deposits, short-term and long-term borrowings, loan and investment security repayments and prepayments, proceeds from the sale of securities, and cash flows generated from operations are the primary sources of our funds for lending, investing, and other general purposes. Loan repayments are a relatively predictable source of funds except during periods of significant interest rate declines, while deposit flows tend to fluctuate with prevailing interests rates, money markets conditions, general economic conditions, and competition.

Deposits

We offer a variety of deposit accounts with a range of interest rates and terms. Core deposits consist of checking accounts (non-interest bearing), "NOW" accounts, savings accounts, and non-public certificates of deposit. These deposits, along with public fund deposits and short-term borrowings, are used to support our asset base. Deposits are obtained predominantly from the geographic trade areas surrounding our office locations. We rely primarily on customer service and long-standing relationships with customers to attract and retain deposits; however, market interest rates and rates offered by competing financial institutions significantly affect our ability to attract and retain deposits.

The following table sets forth the maturities of time deposits as of September 30, 2007:

Year Ending September 30,	As of September 30, 2007
2008	$29,889,000
2009	299,000
Total	$30,188,000

The following table sets forth the maturities of time deposits over $100,000 as of September 30, 2007:

	As of September 30, 2007
Time deposits $100,000 and over:	
Maturing within three months	$ 2,898,000
After three months but within six months	2,814,000
After six months but within 12 months	7,453,000
After 12 months	305,000
Total time deposits $100,000 and over	$13,470,000

Return on Equity and Assets

The following table sets forth certain information regarding our return on equity and assets for the periods indicated:

	Year Ended September 30, 2007	Year Ended September 30, 2006	Year Ended September 30, 2005
Return on assets	.20%	.20%	-2.86%
Return on equity	1.73%	1.73%	-15.75%
Dividend payout ratio	0%	0%	0%
Equity to assets ratio	13.28%	11.38%	18.16%

Borrowings

We have access to a variety of borrowing sources and occasionally may use short-term borrowings to support the Bank's asset base. Short-term borrowings include federal funds purchased and advances from the Federal Home Loan Bank with remaining maturities less than one year. For the fiscal year ended September 30, 2007, long-term borrowings includes the mortgage on the real estate owned by PGI Equity Partners, LP of $2,604,000.

For the fiscal year ended September 30, 2006, short-term borrowings including Federal Home Loan Bank borrowings and a $2,425,000 loan from a third party bank, which was incurred to facilitate Treaty Oak Holdings, Inc.'s redemption of its shares from certain of its shareholders. We had a corresponding note receivable from Treaty Oak Holdings, Inc. for an equivalent amount. The loan from the third party bank was paid off on November 15, 2006. For the fiscal year ended September 30, 2006, long-term borrowings included the mortgage on the real estate owned by PGI Equity Partners, LP of $2,667,000, and a related note payable incurred by PGI Equity Partners, LP in conjunction with the refinancing of $58,000.

For the fiscal year ended September 30, 2007, short-term borrowings included the $2,425,000 loan from a third party bank, which was incurred to facilitate Treaty Oak Holdings, Inc.'s redemption of its shares from certain of its shareholders, until its pay-off on November 15, 2006. For the fiscal year ended September 30, 2007, long-term borrowings includes the mortgage on the real estate owned by PGI Equity Partners, LP of $2,604,000, and a related note payable incurred by PGI Equity Partners, LP in conjunction with the refinancing of $58,000 until its pay-off on November 15, 2006.

The following table sets forth certain information regarding our borrowings for the periods indicated:

	As of September 30, 2007	As of September 30, 2006	As of September 30, 2005
Other Short-term Borrowings and Notes Payable:			
Average balance outstanding	$ 290,000	$ 409,000	$ 29,000
Maximum outstanding at any month-end during the period	2,425,000	2,425,000	250,000
Balance outstanding at end of period	0	2,425,000	0
Average interest rate during the period	8.97%	4.64%	3.45%
Mortgages and Notes Payable:			
Average balance outstanding	2,633,000	2,760,000	2,145,000
Maximum outstanding at any month-end during the period	2,718,000	2,794,000	2,919,000
Balance outstanding at end of period	2,604,000	2,725,000	2,801,000
Average interest rate during the period	6.04%	5.97%	6.71%

As described under "—Recent Developments" above, our Board of Directors has approved an amendment to our Articles of Incorporation to effect the Reclassification, which Amendment will be subject to approval of our shareholders. We anticipate paying all costs associated with the Reclassification from available cash, although we do anticipate obtaining a back-up credit facility to ensure that our liquidity position remains healthy in light of the Reclassification. We are currently in negotiations with a lender to enter into a promissory note to borrow up to $1.5 million for purposes of having a back-up credit facility. If we have to pay more than $1.8 million to our Series A preferred shareholders who have exercised their put right, we intend to borrow funds under this facility to pay such excess amount. We expect this promissory note to contain covenants and default provisions customary for similar credit facilities. We anticipate repaying any amounts borrowed under this promissory note from cash generated by our operations. If all shares of our Series A preferred stock were sold to us at the Put Price in connection with the Reclassification, our cash and cash equivalents would be reduced by approximately $3,275,700, plus an estimated additional $161,700 for expenses of the Reclassification.

Commitments and Contingencies

We are subject to contractual commitments to extend credit that may not be recorded on our balance sheets.

At September 30, 2007, we had outstanding loan origination commitments and unused commercial and retail lines of credit of $20,786,000 and standby letters of credit of $2,251,000. At September 30, 2006, we had outstanding loan origination commitments and unused commercial and retail lines of credit of $22,923,000 and standby letters of credit of $1,935,000. Management believes we have sufficient funds available to meet current origination and other lending commitments. Certificates of deposit that are scheduled to mature within one year totaled $23,507,000 at September 30, 2007 and $20,197,000 at September 30, 2006.

The following table presents a summary of non-cancelable future operating lease commitments as of September 30, 2007 (dollars in thousands):

2008	$ 124,620
2009	165,130
2010	173,925
2011	174,654
2012	178,301
Thereafter	1,669,152
Total	$2,485,782

Capital Resources

As of September 30, 2007, and September 30, 2006, shareholder's equity was $15,308,000 and $11,272,000, respectively, or 13.28% and 11.38% of total assets. The change in equity results primarily from $265,000 of net income for the fiscal year plus an increase of $1,786,000 from shares issued upon the exercise of our common stock warrants and the granting of stock based compensation of $272,000. Total equity also increased during the fiscal year ended September 30, 2007 as a result of our merger with Treaty Oak Holdings, Inc. on November 15, 2006. The net effect of the issuance of shares of our common stock in exchange for the retirement of company shares owned by TOHI and the contribution of assets by TOHI to us resulted in a net increase to equity of $1,715,000. Our total assets increased from $99,091,000 at September 30, 2006, to $115,286,000 at September 30, 2007, for an increase of 16.3% over the period, resulting primarily from growth in the Bank's loan portfolio.

The risk-based capital regulations established and administered by the banking regulatory agencies discussed previously are applicable to the Bank. Risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under the regulations, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk weighted assets and off-balance sheet items. Under the prompt corrective action regulations, to be adequately capitalized a bank must maintain minimum ratios of total capital to risk-weighted assets of 8.00%, Tier 1 capital to risk-weighted assets of 4.00%, and Tier 1 capital to total assets of 4.00%. Failure to meet these 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.

As of September 30, 2007 and as of September 30, 2006, the most recent notifications from the federal Banking regulators categorized the Bank as well-capitalized. A well-capitalized institution must maintain a minimum ratio of total capital to risk-weighted assets of at least 10.00%, a minimum ratio of Tier 1 capital to risk weighted assets of at least 6.00%, and a minimum ratio of Tier 1 capital to

total assets of at least 5.00% and must not be subject to any written order, agreement, or directive requiring it to meet or maintain a specific capital level. There are no conditions or events since that notification that the Bank's management believes have changed the capital classification.

The Bank was in full compliance with all applicable capital adequacy requirements as of September 30, 2007 and September 30, 2006. The required and actual amounts and ratios for the Bank as of September 30, 2007 and 2006, are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2007						
Tier 1 capital (to average assets)	$9,079,000	8.78%	$4,243,000	4%	5,303,000	5%
Tier 1 capital (to risk-weighted assets) . .	9,079,000	9.76%	3,726,000	4%	5,589,000	6%
Total Capital (to risk-weighted assets) . .	9,868,000	10.61%	7,451,000	8%	9,314,000	10%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of September 30, 2006						
Tier 1 capital (to average assets)	$8,213,000	11.07%	$2,967,000	4%	3,709,000	5%
Tier 1 capital (to risk-weighted assets) . .	8,213,000	11.39%	2,885,000	4%	4,328,000	6%
Total Capital (to risk-weighted assets) . .	8,763,000	12.15%	5,771,000	8%	7,213,000	10%

Statement of Cash Flows

Cash and cash equivalents for the fiscal year ended September 30, 2007 decreased $4,025,000 to $22,329,000 from $26,354,000 as of September 30, 2006. Net increases in deposits and the exercise of warrants by shareholders were the primary sources of cash for the fiscal year ending September 30, 2007. Cash was primarily used to fund loans during the fiscal year ended September 30, 2007. Net increases in deposits were the primary sources of cash for the fiscal year ending September 30, 2006 while cash was primarily used to fund loans and purchase federal funds.

Our cash flow statement is composed of three classifications: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. Net cash provided by operating activities was $803,000 for the fiscal year ended September 30, 2007 and $908,000 for the fiscal year ended September 30, 2006. The decrease in cash flow from operating activities was due to the earnings generated at the Bank as a result of growth experienced at the Austin branch.

Net cash used in investing activities for the fiscal year ended September 30, 2007 totaled $19,767,000 primarily due to the funding of loans totaling $23,941,000. Maturities of investment securities provided $3,095,000 of cash for the fiscal year ended September 30, 2007, while purchases of investment securities totaling $1,443,000. Net cash used in investing activities for the fiscal year ended September 30, 2006 totaled $25,497,000, due primarily to increases in loan fundings of $24,273,000.

Net cash provided by financing activities for the fiscal year ended September 30, 2007 of $14,939,000 were primarily from the net increase in deposits of $15,699,000. For fiscal year ended September 30, 2006, increases in deposits of $35,472,000 was the primary reason for the $37,836,000 of net cash provided by financing activities.

Item 7. *Financial Statements*

Reference is made to the financial statements, the report thereon, and the notes thereto commencing at page F-1 of this Form 10-KSB, which financial statements, report and notes are included herein.

Item 8. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

NONE.

Item 8A. *Controls and Procedures*

With the participation of management, our chief executive officer and chief financial officer reviewed and evaluated our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, the chief executive officer and chief financial officer concluded that, as of September 30,2007, our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

Item 8B. *Other Information*

NONE.

PART III.

Item 9. ***Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act.***

The information required by this item will be contained in our definitive proxy statement to be filed in connection with our 2008 annual meeting of stockholders. The information required by this item contained in our definitive proxy statement is incorporated herein by reference.

Item 10. ***Executive Compensation***

The information required by this item will be contained in our definitive proxy statement to be filed in connection with our 2008 annual meeting of stockholders and is incorporated herein by reference.

Item 11. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item will be contained in our definitive proxy statement to be filed in connection with our 2008 annual meeting of stockholders and is incorporated herein by reference.

Item 12. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item will be contained in our definitive proxy statement to be filed in connection with our 2008 annual meeting of stockholders and is incorporated herein by reference.

Item 13. ***Exhibits***

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the SEC.

Exhibit Number	Exhibit Title
2.1(1)	Agreement and Plan of Merger, dated October 3, 2006, between Treaty Oak Holdings, Inc. and the Company
3.1(2)	Amended and Restated Articles of Incorporation
3.2(3)	By-laws
4.1(3)	Specimen Common Stock Certificate, $.01 par value per share
4.2(3)	See Exhibits 3.1 and 3.2 for provisions of the Articles of Incorporation and By-laws defining rights of holders of Common Stock
10.1(3)	Amended and Restated Building Lease between PGI Equity Partners, L.P. and Treaty Oak Bank
10.2(3)	Form of Promotional Shares Lock-In Agreement
10.3(2)*	Treaty Oak Bancorp, Inc. 2004 Stock Incentive Plan (amended and restated as of May 20, 2004)
10.4(3)*	Form of Indemnification Agreement between Treaty Oak Bancorp, Inc. and its directors and officers, and those of the Bank

Exhibit Number	Exhibit Title
10.5(4)*	Employment Agreement, dated September 27, 2006, between Treaty Oak Bancorp, Inc. and Jeffrey L. Nash
10.6(5)	Form of Warrant
10.7(5)	Form of Registration Rights Agreement with former shareholders of Treaty Oak Holdings, Inc.
10.8(5)	Form of Registration Rights Agreement with former warrantholders of Treaty Oak Holdings, Inc.
10.9**	Promissory Note of PGI Equity Partners, L.P. dated March 15, 2005 payable to Prudential Mortgage Capital Company, LLC
21**	Subsidiaries
23.1**	Consent of McGladrey & Pullen LLP
31.1**	Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act
31.2**	Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002

* Indicates management contract or compensatory plan or arrangement.

(1) Incorporated by reference to the Company's Current Report on Form 8-K filed October 10, 2006.

(2) Incorporated by reference to the Company's Registration Statement on Form S-8 filed October 22, 2004.

(3) Incorporated by reference to the same numbered exhibit to the Company's Registration Statement on Form SB-2.

(4) Incorporated by reference to the Company's Current Report on Form 8-K filed November 1, 2006.

(5) Incorporated by reference to the same numbered exhibit to the Company's Form 10-KSB for the year ended September 30, 2006 filed December 29, 2006.

** Filed herewith.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item will be contained in our definitive proxy statement to be filed in connection with our 2008 annual meeting of stockholders and is incorporated herein by reference.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TREATY OAK BANCORP, INC.

Dated: December 31, 2007

By: /s/ JEFFREY L. NASH
Jeffrey L. Nash,
President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ CHARLES T. MEEKS Charles T. Meeks	Chairman of the Board	December 31, 2007
/s/ JEFFREY L. NASH Jeffrey L. Nash	Chief Executive Officer, President, and Director (Principal Executive Officer)	December 31, 2007
/s/ CORALIE S. PLEDGER Coralie S. Pledger	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	December 31, 2007
/s/ ELIAS F. URBINA Elias F. "Lee" Urbina	Director	December 31, 2007
/s/ CARL J. STOLLE Carl J. Stolle	Director	December 31, 2007
/s/ MARVIN L. SCHRAGER Marvin L. Schrager	Director	December 31, 2007
/s/ HAYDEN D. WATSON Hayden D. Watson	Director	December 31, 2007
/s/ MARVIN J. BENDELE Marvin J. Bendele	Director	December 31, 2007
/s/ BILL F. SCHNEIDER Bill F. Schneider	Director	December 31, 2007

Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Treaty Oak Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Treaty Oak Bancorp, Inc. and Subsidiaries (the Company) as of September 30, 2007, and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Treaty Oak Bancorp, Inc. and Subsidiaries as of September 30, 2007, and 2006, and the results of their operations and their cash flows for the years then ended, in conformity U.S. generally accepted accounting principles.

As described in Note 2 to the financial statements, effective October 1, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123(R), "Share-Based Payments".

/s/ McGladrey & Pullen, LLP
Dallas, Texas
December 31, 2007

Treaty Oak Bancorp, Inc.

Consolidated Balance Sheets

September 30, 2007 and 2006

(Dollars In Thousands, Except Shares and Par Value Amounts)

	September 30, 2007	September 30, 2006
ASSETS		
Cash and cash items	$ 435	$ 267
Due from banks	2,670	2,312
Federal funds sold	19,224	23,775
Total cash and cash equivalents	22,329	26,354
Securities available for sale	7	16
Securities held to maturity, fair value of $354 and $2,001, respectively	354	2,006
Investment in Federal Home Loan Bank stock, at cost	224	224
Investment in Independent Banker's Financial Corporation stock, at cost	102	102
Due from time deposits	198	—
Loans, net	83,333	59,620
Premises and equipment, net	6,044	5,593
Note receivable from affiliate	—	2,821
Accrued interest receivable	686	484
Due from affiliates	—	192
Goodwill and other intangibles, net	1,195	1,205
Other assets	814	474
Total assets	$115,286	$99,091
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	$ 30,158	$28,091
NOW, money market and savings	36,371	32,401
Time deposits	30,188	20,526
Total deposits	96,717	81,018
Accounts payable and accrued expenses	413	352
Accrued interest payable	214	160
Notes payable	2,604	5,150
Minority interest—PGI Equity Partners, LP	—	1,106
Other liabilities	28	33
Total liabilities	99,976	87,819
Shareholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 20,000,000 shares authorized; 2,962,484 and 2,640,226, respectively, issued	30	26
Paid-in capital	18,758	14,989
Accumulated deficit	(3,428)	(3,693)
Less shares held in treasury, at cost (6,003 shares)	(50)	(50)
Total shareholders' equity	15,310	11,272
Total liabilities and shareholders' equity	$115,286	$99,091

See Notes to Consolidated Financial Statements

Treaty Oak Bancorp, Inc.

Consolidated Statements of Income

Year Ended September 30, 2007 and 2006

(Dollars In Thousands, Except Shares and Per Share Amounts)

	Year Ended September 30, 2007	Year Ended September 30, 2006
Interest income:		
Loans, including fees	$ 6,757	$ 4,184
Taxable securities	67	93
Interest on deposits with other banks	—	93
Federal funds sold	647	340
Total interest income	7,471	4,710
Interest expense:		
Deposits	2,471	1,019
Other borrowings	185	183
Total interest expense	2,656	1,202
Net interest income	4,815	3,508
Provision for loan losses	295	295
Net interest income after provision for loan losses	4,520	3,213
Noninterest income:		
Service charges on deposit accounts	189	103
Other noninterest income	189	414
Total noninterest income	378	517
Noninterest expense:		
Salaries and employee benefits	2,494	1,728
Occupancy and equipment expenses	431	398
Accounting and other professional fees	247	294
Other noninterest expense	1,461	1,115
Total noninterest expense	4,633	3,535
Net income	$ 265	$ 195
Earnings per common share—basic	$ 0.09	$ 0.07
Earnings per common share—diluted	$ 0.09	$ 0.07
Weighted average shares outstanding—basic	2,809,101	2,726,174
Weighted average shares outstanding—diluted	3,016,017	2,927,716

See Notes to Consolidated Financial Statements

Treaty Oak Bancorp, Inc.

Consolidated Statements of Changes In Shareholders' Equity

Year Ended September 30, 2007 and 2006

(Dollars In Thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balances at October 1, 2005	2,635,746	$ 26	$14,949	$(3,888)	$(4)	$(50)	$11,033
Shares issued through the exercise of common stock warrants	1,480	—	15	—	—	—	15
Shares issued through the grant of common stock	3,000	—	25	—	—	—	25
Comprehensive income:	—	—	—	—	—	—	—
Net income	—	—	—	195	—	—	195
Change in unrealized appreciation on securities available for sale	—	—	—	—	4	—	4
Total comprehensive income	—	—	—	—	—	—	199
Balances at September 30, 2006	2,640,226	26	14,989	(3,693)	—	(50)	11,272
Shares issued from Treaty Oak Holdings merger	1,094,163	11	9,082	—	—	—	9,093
Shares retired from Treaty Oak Holdings merger	(1,000,000)	(10)	(8,300)	—	—	—	(8,310)
Warrants and options issued from Treaty Oak Holdings merger	—	—	932	—	—	—	932
Shares issued through the exercise of common stock warrants	178,588	3	1,783	—	—	—	1,786
Non-cash stock based compensation	49,507	—	272	—	—	—	272
Net income	—	—	—	265	—	—	265
Balances at September 30, 2007	2,962,484	$ 30	$18,758	$(3,428)	$—	$(50)	$15,310

See Notes to Consolidated Financial Statements

Treaty Oak Bancorp, Inc.

Consolidated Statements of Cash Flows

Years Ended September 30, 2007 and 2006

(Dollars In Thousands)

	Year Ended September 30, 2007	Year Ended September 30, 2006
Cash flows from operating activities:		
Net income	$ 265	$ 195
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	295	295
Non-cash stock based compensation	272	25
Depreciation and amortization	385	362
Other	(7)	26
Changes in other operating assets and liabilities:		
Accrued interest receivable	(159)	(136)
Other assets	(277)	(144)
Accrued interest payable	53	44
Other liabilities	(24)	241
Net cash provided by operating activities	803	908
Cash flows from investing activities:		
Proceeds from maturities and principal repayments on securities—available for sale	9	416
Proceeds from maturities and principal repayments on securities—held to maturity	3,095	1,490
Purchases of securities—held to maturity	(1,443)	—
Purchase of time deposits	(198)	—
Acquistion of interest in PGI Equity Partners, LP	—	(80)
Purchases of correspondent bank stock	—	(7)
Net increase in loans	(23,941)	(24,273)
Cash received from the acquistion of Treaty Oak Holdings, Inc.	515	—
(Advances to) repayments from affiliates	192	(158)
Collection of notes receivable from affiliates	2,821	—
Notes receivable from affiliates	—	(2,821)
Purchases of premises and equipment	(817)	(64)
Net cash used in investing activities	(19,767)	(25,497)
Cash flows from financing activities:		
Net increase in deposits	15,699	35,472
Payments of principal on mortgage	(63)	(60)
Borrowings (payments) of principal on notes payable	(2,483)	2,409
Proceeds from exercise of warrants	1,786	15
Net cash provided by financing activities	14,939	37,836
Net increase (decrease) in cash and cash equivalents	(4,025)	13,247
Cash and cash equivalents at beginning of period	26,354	13,107
Cash and cash equivalents at end of period	$ 22,329	$ 26,354

See Notes to Consolidated Financial Statements

Treaty Oak Bancorp, Inc.

Consolidated Statements of Cash Flows

Years Ended September 30, 2007 and 2006

(Dollars In Thousands)

	Year Ended September 30, 2007	Year Ended September 30, 2006
Supplemental disclosures of cash flow information:		
Non-cash investing and financing information:		
Cash interest received	$ 7,269	$4,574
Cash interest paid	$ 2,602	$1,158
Assets acquired through foreclosure	$ —	$ 41
Acquisition of Treaty Oak Holdings, Inc.		
Assets acquired, excluding cash acquired	$ 1,280	
Liabilities assumed	(80)	
Issuance of common stock	(9,093)	
Retirement of comon stock	8,310	
Issuance of warrants and assumption of options	(932)	
Net cash acquired	$ (515)	

See Notes to Consolidated Financial Statements

Note 1. Organization and Nature of Operation

Treaty Oak Bancorp, Inc. (the "Company") is a bank holding company incorporated on November 18, 2003, and organized December 8, 2003 for the purpose of holding the common stock of Treaty Oak Bank (formerly Texline State Bank, the "Bank"). The Company acquired the Bank on March 9, 2004, and began conducting banking operations in Texline, Texas. The Bank commenced operations in Austin, Texas, on September 10, 2004. Prior to the commencement of operations in Austin, the Company was considered to be in the development stage. Since opening the Austin, Texas offices, the Company has pursued its business model of movement toward a more diversified lending strategy with an emphasis on commercial and real estate lending. The Company, through Treaty Oak Bank, provides a full range of commercial and consumer banking services to individuals and businesses in the commercial sector in Austin, Texas, and in the agriculture, cattle and commercial sectors in the community of Texline, Texas. The Company opened a branch in Marble Falls, Texas in July 2006.

The Company acquired a 47.5% interest in PGI Equity Partners, LP (the "Partnership") on December 30, 2004. The Partnership owns and operates the building in which the Company offices. On February 23, 2006, the Company acquired additional 2.5% Class A and 1.25% Class B interests in the Partnership from the sole remaining minority shareholder for $80,000 cash, bringing the Company's total ownership interest in the Partnership to 51.25% at September 30, 2006. As of November 15, 2006, following the Company's merger with Treaty Oak Holdings, Inc., the Company now controls 100% of the limited partnership interests in the Partnership as well as the 5.5% interest held by PGI Capital, Inc., the Partnership's general partner. The Partnership has been consolidated in the Company's financial statements since December 31, 2004.

The Company (through its Bank subsidiary) acquired a 50% interest in Treaty Oak Mortgage, LLC, on June 27, 2005 for $1,000. Treaty Oak Mortgage provides mortgage brokerage services in 38 states. The Company does not have a controlling financial interest in Treaty Oak Mortgage, LLC.

On June 29, 2006, the Company (through its Bank subsidiary) acquired a 50% interest in Treaty Oak Commercial Group, LLC ("TOCG") for $100,000. The Company does not have a controlling interest in TOCG and it is accounted for on the equity method of accounting. TOCG is a commercial real estate brokerage firm providing medium and long term mortgages on commercial real estate. Aside from its initial investment, the Company has no risk associated with operating expenditures or other liabilities of TOCG.

Note 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows. The accounting principles followed and the methods of applying them are in conformity with both accounting principles generally accepted in the United States of America and prevailing practices of the Banking industry.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts and operations of the Company, its wholly owned subsidiary, the Bank, entities that it owns more than a 50% interest and entities in which

Note 2. Summary of Significant Accounting Policies (Continued)

it has a controlling financial interest. Significant inter-company accounts and transactions have been eliminated. The investment in PGI Equity Partners, LP, in which it has been determined that the Company exerts significant influence, is also consolidated under Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" ("FIN 46"). FIN 46 was adopted by the Company for the quarter ended December 31, 2004. Since November 15, 2006, the consolidated financial statements also included the accounts of PGI Capital, Inc. and Treaty Oak Financial Holdings, Inc.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Federal funds are normally sold for one-day periods. The Company normally considers all highly liquid investments with an initial maturity of less than ninety days to be cash equivalents. Cash flows from loans, due from time deposits and deposits are reported net.

Securities

Securities classified as available for sale are those that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are reported at fair value with unrealized gains or losses reported as a separate component of other comprehensive income, net of income taxes. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. Declines in the fair market value of individual securities to below cost result in the write-down to fair market value. Securities classified as held to maturity are those that the Company has the ability and intent to hold until the instrument matures under the terms of its issuance and are reported at amortized cost. Management determines the appropriate classification of securities at the time of purchase.

Interest income includes amortization of purchase premiums and discounts. Gains and losses on sales of securities are recorded on the trade date and are determined using the specific identification method. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of

Note 2. Summary of Significant Accounting Policies (Continued)

the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance adjusted for the allowance for loan losses. Interest is accrued daily on the outstanding balances.

A loan is considered impaired when it is probable, based upon current information and events, the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are accounted for at the net present value of expected future cash flows, discounted at the loan's effective interest rate, the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Loan fees and direct loan origination costs are capitalized and amortized over the expected life of the loan.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing loans, based on an evaluation of the collectibility of loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

Premises and Equipment

Land is carried at cost. Buildings, leasehold improvements, furniture and equipment are carried at cost, less accumulated depreciation which is computed on the straight line method over the following estimated useful lives:

Building and improvements	10 - 25 years
Furniture and equipment	2 - 10 years

Note 2. Summary of Significant Accounting Policies (Continued)

Leasehold improvements are amortized over the shorter of the lease term or their useful life.

Other Real Estate and Repossessed Assets

Assets acquired through or instead of loan foreclosures are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Comprehensive Income (Loss)

Comprehensive income (loss) is included in the consolidated statement of changes in shareholders' equity and reported for all periods. Comprehensive income (loss) includes both net income (loss) and other comprehensive income (loss), which includes the change in unrealized gains and losses on securities available for sale.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Goodwill, Intangibles and Other Assets

Goodwill is not amortized but is instead reviewed at least annually for impairment, and more often when impairment indicators are present. The Company completed a test for impairment of its goodwill based upon the measurement of its fair value as provided under Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangibles" in September 2007. The Company has determined that its goodwill is not impaired.

Core deposit intangibles are amortized using the straight-line method, which approximates the interest method, over seven years, the estimated life of the related deposits.

Impairment of Long-Lived Assets

The Company evaluates and recognizes impairment of long-lived assets under the provisions of SFAS No. 144, "Accounting for the impairment of Long-Lived Assets." The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flow is less than the carrying amount of the asset, in which case, a write-down is recorded to reduce the related asset to its estimated fair value.

Note 2. Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

The Company adopted Financial Accounting Standards Board Statement No. 123(R), "Share-Based Payment", ("Statement 123R") on October 1, 2006. Under Statement 123R, the cost of employee services received in exchange for an award of equity instruments is based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). The Company adopted Statement 123R using the modified prospective application, which was required for public companies. Under the modified prospective application, Statement 123R applies to new awards and to awards modified, repurchased, or cancelled after October 1, 2006. Additionally, compensation cost for the portion of awards for which the requisite service had not been rendered that are outstanding as of October 1, 2006 will be recognized as the requisite service is rendered subsequent to October 1, 2006.

Prior to October 1, 2006, the Company accounted for stock-based compensation to employees using the intrinsic value method. Accordingly, compensation costs for employee stock options was measured as the excess, if any, of the fair value of the Company's common stock at date of grant over the exercise price.

The Company accounts for stock-based compensation to non-employees at fair value.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted-average number of common shares outstanding for the year. Diluted earnings (loss) per share is computed using the weighted-average number of common shares outstanding plus the number of additional common shares that would have been outstanding if dilutive common shares had been issued. For the year ended September 30, 2007, all potentially dilutive securities, except for stock options to purchase 31,600 shares of the Company's common stock at exercise prices ranging from $10.26 to $10.50 per share were dilutive. For the year ended September 30, 2006, all potentially dilutive securities, except for stock options to purchase 250,100 shares of the Company's common stock at exercise prices ranging from $8.33 to $8.50 per share were anti-dilutive.

Statement of Cash Flows

The Company has chosen to report on a net basis its cash receipts and cash payments for time deposits and loans.

Note 2. Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

The Company provides disclosures regarding financial instruments as prescribed by accounting principles generally accepted in the United States of America. These disclosures do not purport to represent the aggregate net fair value of the Company. Further, the fair value estimates are based on various assumptions, methodologies and subjective considerations which vary widely among different financial institutions and which are subject to change. With the exception of the financial instruments described below, the estimated fair values of financial instruments approximate their carrying amounts. The following methods and assumptions were used by the Company in estimating financial instruments' fair values:

Loans: The fair values estimated for fixed-rate loans are estimated using a discounted cash flow calculation based on the interest rates currently being charged compared to average market rates being charged for loans of similar amounts and maturities.

Securities: The fair value of investment securities, excluding FHLB and IBFC stock, are the quoted market value for those securities on the balance sheet date.

Deposits: The fair values estimated for demand deposits (interest and non-interest bearing accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). Fair values of fixed rate certificates of deposit are estimated using a discounted cash flow calculation based on interest rates currently being offered.

Notes Payable: The fair values for notes payable are estimated using discounted cash flow calculation based on the interest rates currently being charged in the market compared to similar types of borrowings.

New Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). Fin 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company is currently evaluating the impact of FIN 48 and does not believe the adoption of FIN 48 will have a significant impact on its financial position, results of operations or cash flows. The Company will adopt this Interpretation in the first quarter of fiscal 2008.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The new standard is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. The provisions of the new standard are to be applied prospectively for most financial statements and retrospectively for others as of the beginning of the fiscal year in which the standard is initially applied. The Company will be required to adopt this new standard in the first quarter of its fiscal year ending September 30, 2009. The Company is currently evaluating the requirements of SFAS No. 157 and has not yet determined the impact on its financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115," which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 also includes an amendment to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" which applies to all entities with available-for-sale and trading securities. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is assessing the impact of SFAS No. 159 and has not yet determined the impact on its financial statements.

Note 3. Common Stock Offering

The Company issued 1,582,987 shares of its common stock at $8.33 per share, resulting in gross proceeds of approximately $13,186,282 and incurred offering costs of $910,000 in an offering that closed on September 30, 2004. In addition, the Company issued warrants to purchase one share of common stock for every five shares of common stock purchased, up to a maximum of 280,000 warrants. This amount was increased to approximately 318,000 warrants in conjunction with the over-subscription of the offering. The warrants had an exercise price of $10.00 per share and were exercisable at any time prior to June 30, 2007, subject to certain corporate transactions. During the fiscal year ended September 30, 2007, 178,588 of warrants were exercised generating total proceeds of $1,786,000. The remaining warrants expired on June 30, 2007.

Note 4. Securities

Securities consisted of the following (in thousands):

	As of September 30, 2007		As of September 30, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities Available for Sale:				
U.S. Government Sponsored Agencies	$ 5	$ 5	$ 14	$ 14
Other mortgage backed securities	2	2	2	2
Total Securities Available for Sale	$ 7	$ 7	$ 16	$ 16
Securities Held to Maturity:				
U.S. Government Sponsored Agencies	$ —	$ —	$2,000	$1,996
Other mortgage backed securities	5	4	6	5
U.S. Treasury securities	349	350	—	—
Total Securities Held to Maturity	$354	$354	$2,006	$2,001

At September 30, 2007, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of shareholders' equity.

Mortgage-backed securities are backed by pools of mortgages that are insured or guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA) or the Government National Mortgage Association (GNMA).

Note 4. Securities (Continued)

There were no available-for-sale securities in an unrealized loss position for a period less than one year as of September 30, 2007 or 2006. For securities which were in an unrealized loss position for a period greater than one year as of September 30, 2007, the unrealized losses were less than $1,000 at September 30, 2007. For those securities with unrealized losses at September 30, 2007, the losses are generally due to changes in interest rates and, as such, are considered by management to be temporary.

The table below reflects the securities which were in a loss position on September 30, 2006, and the length of time they have been so positioned (in thousands).

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for more than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Held to Maturity:						
Agency notes and bonds	$1,996	$4	$—	$—	$1,996	$4
Other mortgage backed securities	—	—	2	1	2	1
Total	$1,996	$4	$ 2	$ 1	$1,998	$5

The amortized cost and estimated fair value of securities at September 30, 2007, by contractual maturity, are shown below (in thousands). Expected maturities for mortgage backed securities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown separately since they are not due at a single maturity date.

September 30, 2007	Amortized Cost	Fair Value
Available for Sale		
Due in one year or less	$ 5	$ 5
Due from one year to five years	—	—
Mortgage-backed securities	2	2
	$ 7	$ 7
Held to Maturity		
Due in one year or less	$349	$350
Due from one year to five years	—	—
Mortgage-backed securities	5	4
	$354	$354

At September 30, 2007, $360,000 of the Company's securities were pledged to Texline Independent School District ($8,000) and to the City of Texline ($101,000). At September 30, 2006, $2,016,000 of the Company's securities were pledged to the State of Texas ($200,000), Texline Independent School District ($1,014,000) and to the City of Texline ($802,000).

Note 5. Loans and Allowance for Loan Losses

The Company grants real estate, commercial and agribusiness loans to customers primarily in the Austin and Northwest Texas markets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their obligations is dependent upon the general economic conditions of the area.

Loans at September 30, 2007 and 2006, were as follows (in thousands):

	As of September 30, 2007	As of September 30, 2006
Agriculture	$ 3,932	$ 2,989
Commercial	29,502	19,068
Commercial real estate	21,015	18,582
Residential real estate	9,061	8,221
Construction real estate	14,108	4,329
Consumer and other	6,504	6,981
Gross Loans	84,122	60,170
Less: allowance for loan losses	(789)	(550)
Net Loans	$83,333	$59,620

Activity in the allowance for loan losses for the years ended September 30, 2007 and 2006, was as follows (in thousands):

	As of September 30, 2007	As of September 30, 2006
Balance at beginning of period	$550	$277
Provisions for loan losses	295	295
Loans charged off	(63)	(29)
Recoveries on loans previously charged off	7	7
Balance at end of period	$789	$550

The Company had no impaired loans at September 30, 2007, or September 30, 2006. At September 30, 2007 and September 30, 2006, the Company had approximately $204,000 and $123,000, respectively, in nonaccruing loans. If interest on non-accrual loans had been accrued, such income would have amounted to approximately $10,000 and $9,000 for the years ended September 30, 2007 and 2006, respectively.

Note 6. Premises and Equipment

Premises and equipment at September 30, 2007 and 2006, were as follows (in thousands):

	As of September 30, 2007	As of September 30, 2006
Land	$ 959	$ 959
Building and leasehold improvements	4,929	4,568
Furniture, fixtures and equipment	1,233	778
	7,121	6,305
Less accumulated depreciation and amortization	(1,077)	(712)
Total	$ 6,044	$5,593

Note 7. Notes Payable

On September 30, 2007, the Company had notes payable of $2,604,000 which represented the mortgage on the premises. The property mortgage bears interest at 5.92% and is due in 8 years. A schedule of contractual maturities of this note as of September 30, 2007, is as follows (in thousands):

	As of September 30, 2007
Years Ending September 30,	
2008	$ 67
2009	71
2010	75
2011	80
2012	85
Thereafter	2,226
	$2,604

On September 30, 2006, the Company had notes payable of $5,150,000 which included the mortgage on the premises of $2,667,000, a note payable to a third party bank of $2,425,000 and other notes payable of $58,000. The property mortgage bears interest at 5.92% and is due in 9 years. The $2,425,000 note payable bore interest at the prime rate (8.25% at September 30, 2006) and was paid in full on November 15, 2006.

Note 8. Deposits

Time deposits of $100,000 or more totaled $13,470,000 and $8,989,000 at September 30, 2007 and at September 30, 2006, respectively. At September 30, 2007, the scheduled maturities of time deposits were as follows (in thousands):

Years Ending September 30,	
2008	$29,889
2009	299
	$30,188

Note 9. Goodwill and Other Intangibles

In conjunction with the acquisition of Texline State Bank, the Company recorded Goodwill of $1,161,000 and core deposit intangibles of $70,000. The following table reflects the net carrying amount of core deposit intangibles at September 30, 2007 and 2006 (in thousands).

	As of September 30, 2007	As of September 30, 2006
Gross core deposit intangibles	$ 70	$ 70
Less accumulated amortization	(36)	(26)
Net core deposit intangibles	$ 34	$ 44

Core deposit intangibles will continue to be amortized over the next four (4) years at the rate of approximately $10,000 per year.

Note 10. Stock Based Compensation and 2004 Stock Incentive Plan

On January 19, 2004, the Company and its shareholders approved the Company's 2004 Stock Incentive Plan (the "Plan"). The Plan authorizes incentive stock option grants, non-statutory stock option grants, direct stock issuances, stock appreciation rights, salary investment option grants, and director fee option grants. Eligible participants are employees, non-employee board members, and independent consultants or advisors. 500,000 shares of common stock were initially reserved under the Plan, and the share reserve increases on the 1st business day in January each year (beginning in 2005) by an amount equal to 2% of the number of outstanding shares of the Company on the last business day in December of the preceding year, subject to a maximum annual increase of 100,000 shares. For the year ending September 30, 2007, the increase in the number of shares available to the plan was 54,604. No person may receive stock option grants, stock issuances, or stock appreciation rights for more than 100,000 shares in the aggregate in any calendar year under the Plan.

Note 10. Stock Based Compensation and 2004 Stock Incentive Plan (Continued)

The following table illustrates the stock compensation expense recognized during the fiscal year ended September 30, 2007:

	Year Ended September 30, 2007
Stock options for employees and directors	$ 67
Stock grants for services provided	23
Restricted stock grants	182
	$272

For the year ended September 30, 2006, the expense related to stock option compensation included in the determination of net income was less than that which would have been recognized if the fair value method had been applied. The Company's net income and earnings per share would have been adjusted to the proforma amounts indicated below for the year ended September 30, 2006, assuming the Company had expensed the fair value of the options (in thousands, except per share amounts):

	Year Ended September 30, 2006
Net income—as reported	$ 195
Net income—pro forma	$ 30
Earnings per share—as reported	
Basic	$0.07
Diluted	$0.07
Earnings per share—pro forma	
Basic	$0.01
Diluted	$0.01

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions. The Company continues to assess the assumptions and methodologies used to calculate the estimated fair value of the stock-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies. The risk-free rate for periods within the expected life of the options is based on the U.S. Treasury yield in effect at the time of the grant. The expected life of the options is estimated based on the vesting life and contractual life of the options. Volatility in the Black-Scholes model is based on historical volatility for comparable publicly-traded banks and the Company's historical stock prices since inception.

The fair value of restricted common stock granted under the Plan is estimated using the most recently traded market price of the Company's common stock at the time of the grant.

Note 10. Stock Based Compensation and 2004 Stock Incentive Plan (Continued)

The weighted average fair value of the options granted during the years ended September 30, 2007 and 2006, has been estimated using the Black-Scholes option pricing model with the following assumptions:

	Years Ended	
	September 30, 2007	September 30, 2006
Dividend yield	0%	0%
Risk-free interest rate	4.13 - 4.97%	4.25 - 5.15%
Expected volatility	5.19%	22%
Expected life in years	4.0 Years	6.85 Years

As of September 30, 2007, there were outstanding options under the Company's Stock Incentive Plan to purchase an aggregate of 433,300 shares of the Company's common stock. Each option has an exercise price of between $8.00 and $10.95 per share and may be exercised in three equal annual installments for each year of service measured from the grant date. As of September 30, 2007, 49,507 shares of common stock had been issued under the Company's Stock Incentive Plan, 47,106 of which vest in four equal annual installments for each year of service measured from the grant date.

The table below presents the summary of stock option and restricted stock activity for the Plan during the year ended September 30, 2007.

	Year Ended September 30, 2007					
	Restricted Stock		Options			
	Shares	Weighted Average Remaining Contractual Term in Years	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding, beginning of the period	—		301,350	$8.38		
Granted	52,407		145,350	9.27		
Forfeited/expired	(2,900)		(13,400)	8.41		
Outstanding, end of the period	49,507	3.0	433,300	$8.74	8.0	$762,863
Exercisable at the end of the period	2,401	—	204,183	$8.43	7.0	$423,374

Note 10. Stock Based Compensation and 2004 Stock Incentive Plan (Continued)

A summary of shares of our common stock subject to our nonvested shares and options as of September 30, 2007 and changes during the year ended September 30, 2007 is presented below:

	Year Ended September 30, 2007			
	Restricted Stock		Options	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of the period	—	$ —	180,400	$1.84
Granted	52,407	8.26	145,350	1.60
Vested	(2,401)	(8.73)	(83,233)	1.79
Forfeited/expired	(2,900)	(8.00)	(13,400)	1.80
Nonvested, end of the period	47,106	$ 8.25	229,117	$1.70

As of September 30, 2007, there was $598,755 of total unrecognized compensation costs related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.65 years. No options were exercised during the year ended September 30, 2007.

A summary of our common stock purchase warrant activity and related information for the years ended September 30, 2007 and 2006 is presented below:

	Year Ended September 30,			
	2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding—beginning of the year	311,944	$10.00	313,424	$10.00
Issued	450,000	6.67	—	—
Exercised	178,588	10.00	1,480	10.00
Forfeited/expired	133,356	10.00	—	—
Outstanding—end of the year	450,000	$ 6.67	311,944	$10.00

Note 11. Merger with Organizing Shareholder

On November 15, 2006, the Company completed the acquisition of Treaty Oak Holdings, Inc. ("TOHI") pursuant to the Agreement and Plan of Merger, dated October 3, 2006. TOHI was one of the five organizing shareholders of the Company and operated as a bank holding company and significant shareholder of the Company, but otherwise had no active operations. The primary purpose of the merger was to achieve certain operational efficiencies for the Company and its affiliates. The merger was approved by the Company's Board of Directors and also by the Company's shareholders at a Special Meeting of Shareholders held on October 24, 2006. Prior to the consummation of the merger, TOHI held approximately 38% of the issued and outstanding shares of the Company's common stock.

Note 11. Merger with Organizing Shareholder (Continued)

Pursuant to the Merger Agreement (1) each issued and outstanding share of TOHI common stock, par value $0.01 per share, was converted into the right to receive 0.8121 shares of the Company's common stock, par value $0.01 per share, and (2) each issued and outstanding share of TOHI preferred stock, par value $10.00 per share, was converted into the right to receive 1.2034 shares of the Company's common stock.

TOHI had issued options to acquire shares of common stock to various individuals, 40,000 of which were outstanding as of the date of the merger. These options were assumed by the Company and, pursuant to the conversion ratio, now represent options to acquire 32,484 shares of the Company's common stock. The options were fully vested at the merger date. Also, at the closing of the merger, certain TOHI warrantholders were issued new warrants to acquire, in the aggregate, 450,000 shares of the Company's common stock. The warrants were exercisable when issued. The Company granted the TOHI shareholders certain limited registration rights pursuant to a Registration Rights Agreement executed at the closing of the merger. Pursuant to the Registration Rights Agreement these former TOHI shareholders can request that the Company register their shares of the Company's common stock on a Registration Statement on Form S-3 if such form is available for use by the Company, but only once during any 12-month period. The former TOHI warrantholders were also granted similar S-3 registration rights.

The TOHI shareholders contributed certain assets and liabilities to the Company in connection with the merger. As of November 15, 2006, the assets and liabilities contributed by TOHI were as follows (in thousands):

	As of November 15, 2006
Cash	$ 441
Subscriptions receivable	72
Notes receivable	100
Accrued interest receivable	5
Investment in PGI Equity Partnership, LP	875
Investment in PGI Capital, Inc.(1)	54
Investment in Treaty Oak Financial Holdings, Inc.(2)	248
	1,795
Accrued expenses	(80)
Net assets contributed by TOHI	$1,715

(1) PGI Capital, Inc.'s assets were comprised of $31,000 in cash and $224,000 of general and limited partnership interests in PGI Equity Partners LP. PGI Capital, Inc.'s liabilities included a note payable to the Bank of $200,000 plus accrued interest of $1,000.

(2) Treaty Oak Financial Holdings' assets were comprised of $43,000 in cash, a $166,500 note receivable and related accrued interest of $38,000.

A majority of the directors of the Company also served on TOHI's board of directors and were shareholders of both entities. TOHI also owned 1,000,000 shares of the Company's common stock,

Note 11. Merger with Organizing Shareholder (Continued)

representing approximately 38% of the Company shares then outstanding. Because of these relationships between the Company and TOHI, purchase accounting was not applied to the merger. Instead the net assets contributed by TOHI were recorded at their predecessor basis. The 1,000,000 shares of Company common stock owned by TOHI were cancelled by the Company and recorded as a reduction of its common stock accounts (par value and paid in capital) at their fair market value, as determined by an independent appraisal, of $8.31 per share, or $8,310,000 in the aggregate. The 1,094,163 new shares of Company common stock issued to the TOHI shareholders were also recorded at the fair market value price of $8.31 per share, or $9,093,000 in the aggregate. The warrants issued by the Company in exchange for the TOHI warrants and the TOHI options assumed by the Company were valued and recorded at their fair value using a Black-Scholes pricing model. The net effect of the contribution of assets and the capital stock transactions was a $1,715,000 increase to the Company's equity and a 94,163 net increase in the number of Company shares issued.

Note 12. Other Non-interest Expense

The following table represents major categories of other non-interest expense for the fiscal years ended September 30, 2007 and 2006 (in thousands):

	Years Ended	
	September 30, 2007	September 30, 2006
Data processing, IT security and software maintenance	$ 304	$ 233
Depreciation and amortization	385	362
Advertising, marketing, business development	202	118
Director and committee fees	92	49
Other operating expenses	478	353
	$1,461	$1,115

Note 13. Federal Income Taxes

	As of September 30, 2007	As of September 30, 2006
Deferred tax assets:		
Net operating loss carryforward	$ 1,281	$ 1,088
Other	328	92
	1,609	1,180
Less valuation allowance	(1,609)	(1,180)
	$ —	$ —

At September 30, 2007, the Company had approximately $3,770,000 in net operating loss carry-forwards which expire in 2022 to 2026.

Note 13. Federal Income Taxes (Continued)

Although the Company was profitable for the fiscal years ended September 30, 2007 and 2006, the Company has fully reserved against the deferred tax benefit accumulated through September 30, 2007, based upon its projected financial results for the fiscal year ending September 30, 2008 and other factors including its limited operating history.

A reconciliation of the income tax benefit at the U.S. federal statutory income tax rate of 34% to actual income tax benefit for the years presented is as follows (in thousands):

	Years Ended	
	September 30, 2007	September 30, 2006
Income tax expense at statutory rate	$ 90	$ 66
Net operating losses acquired	(436)	—
Increase (decrease) in valuation allowance	429	(71)
Other	(83)	5
	$ —	$ —

For the year ended September 30, 2007, the Company acquired approximately $1,300,000 in net operating loss carry-forwards in conjunction with its merger with Treaty Oak Holdings, Inc.

For the years ended September 30, 2007 and 2006, other consists of items not deductible for tax purposes of $14,000 and $5,000, respectively.

Note 14. Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers, through the use of commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

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

The following table summarizes the Company's off-balance sheet financial instruments as of September 30, 2007 and 2006 (in thousands):

	As of September 30, 2007	As of September 30, 2006
Commitments to extend credit	$20,786	$22,923
Standby letters of credit	$ 2,251	$ 1,935

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

Note 14. Financial Instruments with Off-Balance Sheet Risk (Continued)

dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of September 30, 2007 and at September 30, 2006, no amounts had been recorded as liabilities for the Bank's potential obligations under these guarantees.

Note 15. Fair Value of Financial Instruments

	As of September 30, 2007		As of September 30, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$22,329	$22,329	$26,354	$26,354
Securities available for sale	7	7	16	16
Securities held to maturity	354	354	2,006	2,001
Investment in Federal Home Loan Bank stock	224	224	224	224
Investment in Independent Banker's Financial Corporation stock	102	102	102	102
Loans, net	83,333	83,304	59,620	59,362
Notes receivable from affiliate	—	—	2,821	2,821
Accrued interest receivable	686	686	484	484
Financial Liabilities:				
Deposits	96,719	96,796	81,018	81,064
Accrued interest payable	214	214	160	160
Notes payable	2,604	2,555	5,150	5,150

Note 16. Fair Value of Financial Instruments

	As of September 30, 2008		As of September 30, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 11,076	$ 11,076	$ 22,329	$ 22,329
Securities available for sale	2	2	7	7
Securities held to maturity	1,087	1,085	354	354
Investment in Federal Home Loan Bank stock	363	363	224	224
Investment in Independent Banker's Financial Corporation stock	104	104	102	102
Due from time deposits	2,699	2,702	198	198
Loans, net	102,839	103,075	83,333	83,304
Accrued interest receivable	572	572	686	686
Financial Liabilities:				
Deposits	107,014	107,101	96,717	96,719
Accrued interest payable	196	196	214	214
FHLB advances	3,000	2,995	-	-
Notes payable	2,538	2,326	2,604	2,555
Indentured notes payable	600	600	-	-

Note 17. Commitments and Contingencies

The following table presents a summary of non-cancelable future operating lease commitments as of September 30, 2008:

2009	$ 165,130
2010	173,925
2011	174,654
2012	178,301
2013	189,442
Thereafter	1,479,710
Total	$ 2,361,163

Note 18. Dividend Restrictions and Regulatory Matters

Banks are subject to regulatory capital requirements administered by state and federal Banking regulatory agencies. Capital adequacy guidelines and, additionally for Banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors. Failure to meet capital requirements can initiate regulatory action. As of September 30, 2008, and at September 30, 2007, management believes the Bank is in compliance with all regulatory capital requirements to which it is subject.

The following table sets forth the capital levels for the Bank in addition to the requirements under prompt corrective action regulations (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2008						
Tier 1 capital (to average assets)	$10,655	8.84%	$4,822	4%	6,027	5%
Tier 1 capital (to risk-weighted assets)	10,655	9.62%	4,429	4%	6,644	6%
Total Capital (to risk-weighted assets)	11,842	10.70%	8,858	8%	11,073	10%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of September 30, 2007						
Tier 1 capital (to average assets)	$9,079	8.78%	$4,243	4%	5,303	5%
Tier 1 capital (to risk-weighted assets)	9,079	9.76%	3,726	4%	5,589	6%
Total Capital (to risk-weighted assets)	9,868	10.61%	7,451	8%	9,314	10%

As of September 30, 2008 and September 30, 2007, the Bank met the level of capital required to be categorized as "well capitalized" under prompt corrective action regulations. Management is not aware of any conditions subsequent to September 30, 2008 that would change the Bank's capital category.

The Bank is a state chartered Banking association and is subject to regulation, supervision and examination by the Texas Department of Banking (TDB) and the Federal Deposit Insurance Corporation (FDIC). In addition, upon making certain determinations with respect to the condition of any insured Bank, the FDIC may begin proceedings to terminate a Bank's federal deposit insurance.

Certain restrictions exist regarding the ability of the Bank to pay cash dividends. Regulatory approval is required in order to pay dividends until such time as the accumulated deficit is eliminated and certain other conditions are met.