



March 5, 2009

Neil M. Barofsky
Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue, Suite 1064
Washington, D.C. 20220

Re: Greer Bancshares, Incorporated
Greer, SC

Dear Mr. Barofsky:

This letter shall serve as a response to your letter to me dated February 6, 2009, in which your office requested certain information as it relates to our intended use of TARP proceeds, and our intent to comply with general conditions of the TARP program.

We made application for funding under the TARP program with the primary aim of restoring our risk based capital ratio to a "well-capitalized" level, after having been negatively impacted by actions associated with the Treasury's conservatorship action with respect to Fannie Mae. As a result of the precipitous decline in the market value of Fannie Mae perpetual preferred stock, our company reported an OTTI write-down of \$7,734,400, which led to our risk based capital ratio falling below the 10% level required to be considered "well-capitalized" per regulatory guidelines. Receipt of these proceeds, in the form of preferred stock in our company, has thereby restored risk based capital to a level necessary to be considered "well-capitalized." With this capital restoration (total risk-based capital ratio of 11.66% at 1/31/09), we are able to continue to operate effectively to meet local loan demand in one of the healthier markets within the Southeast.

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Our company received a wire representing TARP proceeds of \$9,993,000 on January 30, 2009. We segregated \$993,000 of these funds to be temporarily housed at the holding company level, and invested these monies in local certificates of deposit, in increments covered by the existing FDIC guaranty

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threshold of \$250,000. The balance of the TARP proceeds were directed to the Bank level (Greer State Bank), where they have since been invested in GNMA securities. This low risk deployment and investment of these funds will provide cash flow and liquidity necessary to meet loan demand, and serve to act as collateral for Federal Home Loan Bank borrowings.

Since the date of receipt of TARP funds through the writing of this letter, our company has originated 72 new commercial and retail loans in the face amount of \$4,567,331, representing current principal outstandings of \$2,937,478. We have additionally originated 16 new mortgage loans totaling \$2,943,734 through our investor mortgage program.

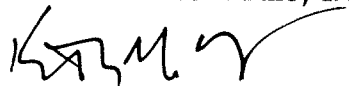
In so far as your request for our specific plans for addressing executive compensation requirements related to TARP, and having had constructive receipt of TARP capital for less than 30 days, I submit to you that we are taking steps to ensure that we keep abreast of continued changes in the Treasury's regulations, and operate within such. We believe that we are substantially in compliance with US Treasury compensation guidelines. Executive officers of the company were required to sign necessary waivers related to compensation matters as a part of the TARP application process. As an institution receiving less than \$25,000,000 in TARP capital, I as Chief Executive Officer, am aware of certain compensation restrictions including the payment of cash bonus awards. I accepted no bonus compensation for 2008.

We will meet as a compensation committee with our chief risk officer within the current 90-day guideline (from receipt of TARP funding) to review executive compensation plans, and ensure compliance with US Treasury guidelines.

I, as President and Chief Executive Officer of Greer Bancshares, Incorporated, hereby certify the accuracy of all statements, representations and supporting information provided within this response, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,

GREER BANCSHARES, INCORPORATED



Kenneth M. Harper
President and Chief Executive Officer

Schedule RC-R—Regulatory Capital January 31, 2009

		Dollar Amounts in Thousands		RCON	Bill Mil Thou	
Tier 1 capital						
1.	Total equity capital (from Schedule RC, item 28)	3210	36,796			1
2.	LESS: Net unrealized gains (losses) on available-for-sale securities (1) (if a gain, report as a positive value; if a loss, report as a negative value)	8434	161			2
3.	LESS: Net unrealized loss on available-for-sale EQUITY securities (1) (report loss as a positive value)	A221	346			3
4.	LESS: Accumulated net gains (losses) on cash flow hedges (1) (if a gain, report as a positive value; if a loss, report as a negative value)	4336	0			4
5.	LESS: Nonqualifying perpetual preferred stock	B588	0			5
6.	Qualifying minority interests in consolidated subsidiaries	B589	0			6
7.a	LESS: Disallowed goodwill and other disallowed intangible assets	B590	0			7.a
b.	LESS: Cumulative change in fair value of all financial liabilities accounted for under a fair value option that is included in retained earnings and is attributable to changes in the bank's own creditworthiness (if a net gain, report as a positive value; if a net loss, report as a negative value)	F264	0			7.b
8.	Subtotal (sum of items 1 and 6, less items 2, 3, 4, 5, 7.a, and 7.b)	C227	36,289			8
9.a	LESS: Disallowed servicing assets and purchased credit card relationships	B591	0			9.a
b.	LESS: Disallowed deferred tax assets	5610	0			9.b
10.	Other additions to (deductions from) Tier 1 capital	B592	0			10
11.	Tier 1 capital (sum of items 8 and 10, less items 9.a and 9.b)	8274	36,289			11
Tier 2 capital						
12.	Qualifying subordinated debt and redeemable preferred stock	5306	0			12
13.	Cumulative perpetual preferred stock includible in Tier 2 capital	B593	0			13
14.	Allowance for loan and lease losses includible in Tier 2 capital	5310	4,378			14
15.	Unrealized gains on available-for-sale equity securities includible in Tier 2 capital	2221	0			15
16.	Other Tier 2 capital components	B594	0			16
17.	Tier 2 capital (sum of items 12 through 16)	5311	4,378			17
18.	Allowable Tier 2 capital (lesser of item 11 or 17)	8275	4,378			18
19.	Tier 3 capital allocated for market risk	1395	0			19
20.	LESS: Deductions for total risk-based capital	B595	0			20
21.	Total risk-based capital (sum of items 11, 18, and 19, less item 20)	3792	40,667			21
Total assets for leverage ratio						
22.	Average total assets (from Schedule RC-K, item 9)	3368	437,012			22
23.	LESS: Disallowed goodwill and other disallowed intangible assets (from item 7.a above)	B590	0			23
24.	LESS: Disallowed servicing assets and purchased credit card relationships (from item 9.a above)	B591	0			24
25.	LESS: Disallowed deferred tax assets (from item 9.b above)	5610	0			25
26.	LESS: Other deductions from assets for leverage capital purposes	B596	0			26
27.	Average total assets for leverage capital purposes (item 22 less items 23 through 26)	A224	437,012			27
Adjustments for financial subsidiaries						
28. a.	Adjustment to Tier 1 capital reported in item 11	C228	0			28.a
b.	Adjustment to total risk-based capital reported in item 21	B503	0			28.b
29.	Adjustment to risk-weighted assets reported in item 62	B504	0			29
30.	Adjustment to average total assets reported in item 27	B505	0			30
Capital ratios						
(Column B is to be completed by all banks. Column A is to be completed by banks with financial subsidiaries.)						
31.	Tier 1 leverage ratio (2)	7273	0.00%	7204	8.30%	31
32.	Tier 1 risk-based capital ratio (3)	7274	0.00%	7206	10.41%	32
33.	Total risk-based capital ratio (4)	7275	0.00%	7205	11.66%	33

(1) Report amount included in Schedule RC, item 26.b, "Accumulated other comprehensive income."
 (2) The ratio for column B is item 11 divided by item 27. The ratio for column A is item 11 minus item 28.a divided by (item 27 minus item 30).
 (3) The ratio for column B is item 11 divided by item 62. The ratio for column A is item 11 minus item 28.a divided by (item 62 minus item 29).
 (4) The ratio for column B is item 21 divided by item 62. The ratio for column A is item 21 minus item 28.b divided by (item 62 minus item 29).

Schedule RC-R—Regulatory Capital December 31, 2008

Dollar Amounts in Thousands

	RCON	Bl Mil Thou	
Tier 1 capital			
1. Total equity capital (from Schedule RC, item 28)	3210	28,043	1
2. LESS: Net unrealized gains (losses) on available-for-sale securities (1) (if a gain, report as a positive value; if a loss, report as a negative value)	8434	(115)	2
3. LESS: Net unrealized loss on available-for-sale EQUITY securities (1) (report loss as a positive value)	A221	432	3
4. LESS: Accumulated net gains (losses) on cash flow hedges (1) (if a gain, report as a positive value; if a loss, report as a negative value)	4336	0	4
5. LESS: Nonqualifying perpetual preferred stock	B588	0	5
6. Qualifying minority interests in consolidated subsidiaries	B589	0	6
7.a LESS: Disallowed goodwill and other disallowed intangible assets	B590	0	7.a
b. LESS: Cumulative change in fair value of all financial liabilities accounted for under a fair value option that is included in retained earnings and is attributable to changes in the bank's own creditworthiness (if a net gain, report as a positive value; if a net loss, report as a negative value)	F264	0	7.b
8. Subtotal (sum of items 1 and 6, less items 2, 3, 4, 5, 7.a, and 7.b)	C227	27,726	8
9.a. LESS: Disallowed servicing assets and purchased credit card relationships	B591	0	9.a
b. LESS: Disallowed deferred tax assets	5610	0	9.b
10. Other additions to (deductions from) Tier 1 capital	B592	0	10
11. Tier 1 capital (sum of items 8 and 10, less items 9.a and 9.b)	8274	27,726	11
Tier 2 capital			
12. Qualifying subordinated debt and redeemable preferred stock	5306	0	12
13. Cumulative perpetual preferred stock includible in Tier 2 capital	B593	0	13
14. Allowance for loan and lease losses includible in Tier 2 capital	5310	4,569	14
15. Unrealized gains on available-for-sale equity securities includible in Tier 2 capital	2221	0	15
16. Other Tier 2 capital components	B594	0	16
17. Tier 2 capital (sum of items 12 through 16)	5311	4,569	17
18. Allowable Tier 2 capital (lesser of item 11 or 17)	8275	4,569	18
19. Tier 3 capital allocated for market risk	1395	0	19
20. LESS: Deductions for total risk-based capital	B595	0	20
21. Total risk-based capital (sum of items 11, 18, and 19, less item 20)	3792	32,295	21
Total assets for leverage ratio			
22. Average total assets (from Schedule RC-K, item 9)	3368	428,933	22
23. LESS: Disallowed goodwill and other disallowed intangible assets (from item 7.a above)	B590	0	23
24. LESS: Disallowed servicing assets and purchased credit card relationships (from item 9.a above)	B591	0	24
25. LESS: Disallowed deferred tax assets (from item 9.b above)	5610	0	25
26. LESS: Other deductions from assets for leverage capital purposes	B596	0	26
27. Average total assets for leverage capital purposes (item 22 less items 23 through 26)	A224	428,933	27
Adjustments for financial subsidiaries			
28. a. Adjustment to Tier 1 capital reported in item 11	C228	0	28.a
b. Adjustment to total risk-based capital reported in item 21	B503	0	28.b
29. Adjustment to risk-weighted assets reported in item 62	B504	0	29
30. Adjustment to average total assets reported in item 27	B505	0	30

Capital ratios

(Column B is to be completed by all banks. Column A is to be completed by banks with financial subsidiaries.)

	(Column A)		(Column B)		
	RCON	Percentage	RCON	Percentage	
31. Tier 1 leverage ratio (2)	7273	0.00%	7204	6.46%	31
32. Tier 1 risk-based capital ratio (3)	7274	0.00%	7206	7.97%	32
33. Total risk-based capital ratio (4)	7275	0.00%	7205	9.28%	33

(1) Report amount included in Schedule RC, item 26.b, "Accumulated other comprehensive income."

(2) The ratio for column B is item 11 divided by item 27. The ratio for column A is item 11 minus item 28.a divided by (item 27 minus item 30).

(3) The ratio for column B is item 11 divided by item 62. The ratio for column A is item 11 minus item 28.a divided by (item 62 minus item 29).

(4) The ratio for column B is item 21 divided by item 62. The ratio for column A is item 21 minus item 28.b divided by (item 62 minus item 29).



Balance Sheet

	Actual Feb 09	Actual Jan 09	\$ Change	% Change
Assets				
Cash and due from banks	8,212,238	10,645,252	(2,433,014)	(22.9)
Fed funds sold & repos	-	8,475,000	(8,475,000)	(100.0)
Interest bearing deposits with banks	1,148,284	436,725	711,559	162.9
Investment Securities - Taxable	90,375,818	79,863,041	10,512,777	13.2
Investment Securities - Tax-exempt	20,452,926	20,605,822	(152,897)	(0.7)
Loans, net of unearned income	316,030,493	312,167,216	3,863,276	1.2
Less: Allowance for loan losses	(5,143,435)	(5,169,679)	26,244	0.5
Premises and equipment, net	6,238,040	6,260,177	(22,137)	(0.4)
Accrued interest receivable	1,876,593	1,919,240	(42,647)	(2.2)
Other assets	14,913,652	14,376,424	537,228	3.7
Total Assets	454,104,609	449,579,219	4,525,390	1.0
Liabilities				
Non-Interest Bearing Deposits	29,889,298	36,410,943	(6,521,645)	(17.9)
Interest bearing demand deposits	60,311,044	59,918,952	392,092	0.7
Savings and Money Market Deposits	24,842,518	21,633,062	3,209,456	14.8
Time Deposits - Retail	133,010,477	127,148,924	5,861,552	4.6
Time Deposits - Wholesale	48,435,220	47,258,911	1,176,309	2.5
Total Deposits	296,488,557	292,370,793	4,117,765	1.4
Accrued expenses and other liabilities	3,025,658	2,933,450	92,208	3.1
FHLB Advances	92,000,000	100,000,000	(8,000,000)	(8.0)
Other Borrowings	23,000,000	15,000,000	8,000,000	53.3
Trust Preferred Securities	11,341,000	11,341,000	-	-
Total Liabilities	425,855,216	421,645,242	4,209,973	1.0
Equity				
Preferred Stock	9,993,000	9,993,000	-	-
Common stock	12,433,460	12,433,460	-	-
Capital surplus	3,426,682	3,426,682	-	-
Retained earnings	1,826,930	1,826,930	-	-
Accumulated other comprehensive income (loss)	161,810	161,810	-	-
Net Income	630,011	92,093	537,918	584.1
Total Equity	28,471,894	27,933,976	537,918	1.9
Total Liabilities & Equity	454,327,109	449,579,218	4,747,891	1.1

2009 CLOSED MORTGAGE LOANS
for the month of February

<u>(b) (6)</u>	<u>Name</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Origination Fee</u>	<u>YSP</u>	<u>U/W & Process</u>	<u>In-House Underwriter</u>	<u>Investor</u>	<u>Referred by</u>
	(b) (6)	\$ 417,000.00	Refinance	\$ 2,085.00	\$ 2,180.91			(b) (4)	(b) (6)
	(b) (6)	\$ 417,000.00	Refinance	\$ 2,085.00	\$ 1,793.10			(b) (4)	(b) (6)
	(b) (6)	\$ 139,000.00	Refinance	\$ 1,390.00	\$ 151.51			(b) (4)	(b) (6)
	(b) (6)	\$ 215,900.00	Refinance	\$ 1,759.58				(b) (4)	(b) (6)
	(b) (6)	\$ 186,900.00	Refinance	\$ 1,396.50	\$ 789.49			(b) (4)	(b) (6)
	(b) (6)	\$ 84,550.00	Refinance	\$ 859.87				(b) (4)	(b) (6)
	(b) (6)	\$ 232,000.00	Refinance	\$ 1,477.84				(b) (4)	(b) (6)
	(b) (6)	\$ 164,200.00	Refinance	\$ 821.00	\$ 285.71			(b) (4)	(b) (6)
	(b) (6)	\$ 233,600.00	Refinance	\$ 1,752.00	\$ 607.36			(b) (4)	(b) (6)
	(b) (6)	\$ 137,000.00	Refinance	\$ 1,370.00	\$ 167.14			(b) (4)	(b) (6)
	(b) (6)	\$ 107,500.00	Refinance	\$ 1,343.75	\$ 455.80			(b) (4)	(b) (6)
	(b) (6)	\$ 199,500.00	Refinance	\$ 1,991.01				(b) (4)	(b) (6)
	(b) (6)	\$ 74,500.00	Refinance	\$ 745.00	\$ 273.42			(b) (4)	(b) (6)
	(b) (6)	\$ 73,600.00	Refinance	\$ 736.00	\$ 220.06			(b) (4)	(b) (6)
	(b) (6)	\$ 122,000.00	Purchase	\$ 500.00	\$ 655.14			(b) (4)	(b) (6)
	(b) (6)	\$ 139,484.00	Construction	\$ 1,394.84		\$ 1,025.00		(b) (4)	(b) (6)
	TOTALS	\$ 2,943,734.00		\$ 21,707.39	\$ 7,579.64	\$ 1,025.00	TOTAL FEES		
	YEAR-TO-DATE	\$ 7,694,073.00		\$ 53,976.61	\$ 18,714.57	\$ 2,050.00	\$ 30,312.03		

(b) (6)

<u>Name</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Origination Fee</u>	<u>YSP</u>	<u>U/W & Process</u>	<u>In-House Underwriter</u>	<u>Investor</u>	<u>Referred by</u>
TOTALS	\$ -		\$ -	\$ -	\$ -			
YEAR-TO-DATE	\$ -		\$ -	\$ -	\$ -			
GRAND TOTALS	\$ 2,943,734.00		\$ 21,707.39	\$ 7,579.64	\$ 1,025.00	\$ 30,312.03		
YEAR-TO-DATE	\$ 7,694,073.00		\$ 53,976.61	\$ 18,714.57	\$ 2,050.00	\$ 74,741.18		
February 2008								
GRAND TOTALS	\$ 3,738,550.00		\$ 25,910.00	\$ 19,605.21	\$ 3,950.00	\$ 49,465.21		
YEAR-TO-DATE	\$ 5,274,650.00		\$ 35,556.00	\$ 25,873.22	\$ 5,050.00	\$ 66,479.22		

To our customers and friends in Greer:



Recently, you may have read an article in The Greer Citizen about Greer State Bank and its participation in the US Treasury's Capital Purchase Plan or TARP. Regrettably, this newspaper article used the word "bailout" frequently, and inappropriately in our case. As Greer's community bank, our intent is to be open and honest in our actions and mission. Therefore, I would like to explain why Greer State Bank chose to participate in the Treasury Capital Purchase Plan.

In the third quarter of 2008, our Bank took a loss resulting from actions taken by the US Treasury to support Fannie Mae and Freddie Mac, two government-sponsored mortgage-lending companies. These actions by the Treasury caused our investment in Fannie Mae Preferred Stock to drop precipitously in value. At the time of our purchase, Fannie Mae Preferred Stock was rated as "investment grade" (high quality, low risk). Because of the perceived safety of this investment, many (but certainly not all) banks and insurance companies also held this security in their investment portfolios. As a result of the Treasury's actions, we recorded a loss of over \$7 Million relating to the Fannie Mae Preferred Stock. It is difficult to take a loss of this size, but it is a testimony to our strength to be able to withstand it! We were able to do so and to continue serving our customers and community as before.

Soon thereafter, the US Congress approved the TARP program, whereby Greer State Bank could apply for a new source of capital of up to 3% of risk-weighted assets, which for Greer State Bank amounted to approximately \$10 Million. Because the Bank had achieved a strong level of growth over the past four years, the Bank's directors had contemplated raising additional capital in 2010 anyway. Therefore, the TARP capital opportunity came at a good time for several positive reasons. First, it comes at a reasonable cost, with an initial interest rate of 5%. Secondly, we could benefit from this Treasury program to help overcome the investment loss caused by the Treasury's actions in the third quarter of 2008. Thirdly, this capital allows us to continue to serve the needs of the Greer community.

This capital is not a handout. It is capital extended in the form of a preferred stock investment in Greer Bancshares. The investment bears a cost in the form of preferred stock dividends payable to the government, and is meant to be repaid. We will repay it.

A final note on TARP..the US Treasury is only granting capital funding approval to those institutions that it deems healthy. Not all applications for funding have been or will be approved. We were therefore pleased to be included on the roster of financial institutions in the US Treasury's February 3, 2009 press release entitled: "Treasury Provides Funding to Bolster 42 Healthy, Local Banks Nationwide." See <http://www.treas.gov/press/releases/tg13.htm>

I must also make a distinction between Greer, SC and Wall Street, especially as it relates to Greer State Bank. We do not engage in high risk business practices. We do not originate, service, wholesale or securitize sub-prime mortgages. We do not engage in excessive compensation practices

We are still in the lending business. The Bank continues to make loans to creditworthy borrowers. We are still in the caring business. Our employees volunteer and give back to the community in a manner and magnitude that makes me very proud. We want the same things that you do...for our community to continue to grow intelligently, to improve the lives of those we serve and employ, and to be remembered for doing it the right way.

Please do not hesitate to contact me if I can answer any questions or provide you with more information, or just to chat.

Thank you for your time and your support.

GREER STATE BANK

A handwritten signature in black ink, appearing to read "Kenneth M. Harper".

Kenneth M. Harper
President and Chief Executive Officer



News Release

February 9, 2009

Greer Bancshares Incorporated

1111 West Poinsett Street

Greer, SC 29650

For Immediate Release

For Additional Information

Contact: Ken Harper

Phone: (864) 848-5104

Greer Bancshares Incorporated Reports Fourth Quarter 2008 Earnings

GREER, SC --Greer Bancshares Incorporated, the parent company of Greer State Bank, today reported net income of \$677,000, or \$0.27 cents per diluted share for the quarter ended December 31, 2008, compared to net income of \$858,000 or \$0.34 cents per diluted share for the fourth quarter of 2007. Quarterly income results were positively impacted by the tax benefit of approximately \$2,500,000 associated with the third quarter non-cash other than temporary impairment charge of \$7,935,000. This charge was almost exclusively due to a significant decrease in market value of a Fannie Mae preferred stock investment which resulted from the Department of the US Treasury's conservatorship action with respect to Fannie Mae. For the year, the Bank will recognize a net loss of \$5,440,000 or \$(2.19) per diluted share, which compares to net income in 2007 of \$2,606,000, or \$1.04 per diluted share. During the fourth quarter, the Bank also increased its loan loss reserve to \$5,127,304, which compares to \$2,232,703 as of December 31, 2007, in an effort to appropriately recognize and support portfolio weaknesses resulting from softer economic conditions.

Greer State Bank's asset base has increased by 12.2% over the past year to \$437.1 million as of December 31, 2008, in comparison to total assets of \$389.7 million at December 31, 2007. Loans outstanding as of December 31, 2008 amounted to \$311.4 million, up 18.4% over loan totals as of December 31, 2007, while total deposits increased by 15.3% to \$282.1 million.

It should be noted that prior to year end, Greer Bancshares was informed that its application for capital funding under the US Treasury's Capital Purchase Plan was approved. This equity capital transaction was successfully closed and consummated on January 30, 2009, which served to increase the company's risk-based capital ratio to 11.73 %, which compares to the 10% threshold necessary to be considered "well-capitalized."

Ken Harper, President and Chief Executive Officer reports: "In 2008, we along with many other financial institutions experienced somewhat of a perfect storm in terms of economic adversity. From the unprecedented rate and degree of reduction in the Fed Funds target rate, to the US Treasury's actions and negative effect on Fannie Mae preferred stock valuations, and the overall turmoil in the national and global economies, the Bank certainly faced its share of adversity. We are pleased to have a team that is understanding and aware of the challenges that we will continue to face in the coming months and quarters, and are committed and focused on meeting our challenges head on.

We have trimmed controllable expenses where appropriate, and continue to take necessary measures to appropriately manage credit risk and operate profitably in 2009, while continuing to diligently protect and grow deposit market share in Greer and surrounding areas.”

Greer State Bank is now in its twentieth year of operations and serves the greater Greer community with three branch offices and one loan production office, and a fourth branch office in the Taylors community. Greer Bancshares Incorporated is quoted on the Over-the-Counter Bulletin Board under the symbol GRBS.

* * * * *

Forward-looking and Cautionary Statements

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

- significant increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment;
- the level of allowance for loan losses;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;

- changes in technology;
- changes in monetary and tax policies;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

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

Questions and Answers

Regarding the February 6, 2009 SIG TARP Letter

Use of funds

Q: The letter from the SIGTARP requests that we provide a narrative explaining our actual or anticipated use of CPP funds. Is it acceptable to respond by saying that we are using the CPP funds as a cushion against losses?

A: Yes, if that is in fact what you are doing or plan to do with the CPP funds. The goal of the requests contained in the SIGTARP letter is to collect data on how banks participating in the CPP program made use of the CPP funds. SIGTARP is collecting this information from banks to present to Congress and the American public a fair, balanced and objective report concerning the use of CPP funds. The SIGTARP recognizes that the level and type of reply will vary depending upon the size of the responding institution. What SIGTARP is looking for here is a good faith effort on the part of respondents to tell their institution's story regarding the anticipated and actual use of CPP funds, and plans for addressing executive compensation requirements. It is important to recognize that the SIGTARP is *not* the entity tasked with ongoing monitoring of whether an individual bank is compliance with TARP requirements – that task has been assigned to the Treasury Department. Nevertheless, SIGTARP does have a legislatively mandated role in reviewing the management of the program.

Supporting documentation

Q: The letter states that SIGTARP “encourages” banks to make reference to specific sources for statements regarding the use of CPP funds, such as statements to the media or shareholders, as well as internal e-mail, budgets, or memoranda describing your anticipated used of funds. Does that mean we should provide SIGTARP with (1) just a narrative, (2) the background documents as well as the narrative, or (3) *all* potentially relevant documents, whether referenced in the narrative or not, in our submission? The letter also asks the bank to “segregate and preserve all documents” that reference our use or anticipated use of CPP funds, such as internal e-mail, budgets, or memoranda regarding our anticipated or actual use of CPP funds. What documents do I have to preserve, and how long do I have to keep them?

A: The amount and type of documentation that a bank should provide to the SIGTARP in terms of support for their narrative is left up to the individual institution. The onus, however, is on the institution to provide sufficient background and support to be able to tell their story persuasively. Respondents should retain whatever documentation is relevant to their use or planned use of CPP funds, in case there is a need for follow-up by SIGTARP or even the Treasury, at some point.

Executive compensation

Q: The letter asks about our institution's specific plans for addressing executive compensation requirements associated with the funding. Is the letter referring to, the October 14, 2008, interim final rule, the interim final rule issued on January 16, 2009, (but never published in the Federal Register), the February 4, 2009, announcement outlining forthcoming restrictions on executive compensation, or those in Title VII of the American Recovery and Reinstatement Act of 2009?

A: Absent more current guidance from Treasury, responses to the letter from the SIGTARP regarding executive compensation should be submitted in accordance with the guidelines that are currently available on the Treasury Department website.

Confidentiality

Q: We are very concerned that materials and information that we deem to be confidential will be disclosed during this process. What can banks expect regarding the preservation of confidential treatment for sensitive materials?

A: The SIGTARP is very aware of the need for sensitive bank records to be afforded confidential treatment. SIGTARP will maintain the confidentiality of bank documents and information, consistent with its mission and applicable law. For example, banks will be notified if their information is responsive to a Freedom of Information Act request and controlling precedent requires notification. Banks, thus, may consider clearly identifying any information and materials that they deem to be confidential.

Certification

Q. The letter requires that the response be signed by "a duly authorized senior executive officer of your company, including a statement certifying the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001." What language is required? Are we certifying that we are in compliance with TARP?

A. The SIGTARP is *not* asking the institution official to certify that the institution is in compliance with TARP. Rather, it is asking the official to certify as to the accuracy of the statements, representations, and supporting information provided by the institution in its response. We would accept certification language such as: I [identify the certifying individual] certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.