

**MAIN STREET FINANCIAL SERVICES CORP.
AND SUBSIDIARY**

WHEELING, WEST VIRGINIA

AUDIT REPORT

DECEMBER 31, 2004

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
DECEMBER 31, 2004**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Main Street Financial Services Corp.
Wheeling, West Virginia

We have audited the accompanying consolidated balance sheets of Main Street Financial Services Corp. and Subsidiary as of December 31, 2004 and 2003, and the related 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Main Street Financial Services Corp. and Subsidiary as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

 S. R. Snodgrass A.C.

Wheeling, West Virginia
January 18, 2005

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

ASSETS	<u>2004</u>	<u>2003</u>
Cash and cash equivalents:		
Cash and amounts due from banks	\$ 488,613	\$ 424,414
Interest-bearing deposits with banks	488,592	1,572,664
Total cash and cash equivalents	<u>977,205</u>	<u>1,997,078</u>
Interest-bearing time deposit	849,000	99,000
Investment securities:		
Securities available-for-sale, at fair value	7,638,359	4,886,924
Securities held-to-maturity (fair value \$10,600,289-2004 and \$13,258,908-2003)	10,645,444	13,222,758
Total investment securities	<u>18,283,803</u>	<u>18,109,682</u>
Loans held-for-sale	-	197,698
Loans	97,394,059	74,910,027
Allowance for loan losses	(1,303,399)	(1,100,000)
Net loans	<u>96,090,660</u>	<u>73,810,027</u>
Premises and equipment, net	809,335	840,305
Accrued interest receivable	525,297	443,023
Cash surrender value of life insurance	769,088	-
Deferred tax asset	250,000	301,938
Federal Home Loan Bank stock	1,311,200	635,500
Other assets	158,711	36,208
TOTAL ASSETS	<u>\$ 120,024,299</u>	<u>\$ 96,470,459</u>
LIABILITIES		
Deposits:		
Noninterest bearing	\$ 9,765,501	\$ 6,821,965
Interest bearing	74,821,930	70,358,244
Total deposits	<u>84,587,431</u>	<u>77,180,209</u>
Repurchase agreements	4,068,394	3,699,822
Borrowings	21,479,657	7,500,000
Advances by borrowers for taxes and insurance	118,739	88,235
Accrued interest payable	208,347	122,495
Accrued taxes payable	620,904	-
Other liabilities	45,325	52,958
TOTAL LIABILITIES	<u>111,128,797</u>	<u>88,643,719</u>
SHAREHOLDERS' EQUITY		
Common stock of \$1 par value; 5,000,000 shares authorized, 780,000 shares issued and outstanding	780,000	780,000
Additional paid-in capital	7,462,036	7,462,036
Retained earnings (deficit)	615,131	(411,533)
Accumulated other comprehensive gain (loss)	38,335	(3,763)
TOTAL SHAREHOLDERS' EQUITY	<u>8,895,502</u>	<u>7,826,740</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 120,024,299</u>	<u>\$ 96,470,459</u>

The accompanying notes are an integral part of the financial statements.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
INTEREST AND DIVIDEND INCOME		
Loans, including fees	\$ 5,185,622	\$ 4,039,273
Debt securities:		
Taxable	771,424	823,382
Tax-exempt	58,019	24,653
Dividends	17,340	16,443
Deposits with banks	19,418	16,820
TOTAL INTEREST AND DIVIDEND INCOME	6,051,823	4,920,571
INTEREST EXPENSE		
Deposits and repurchase agreements	1,595,465	1,633,997
Other borrowings	401,819	39,227
TOTAL INTEREST EXPENSE	1,997,284	1,673,224
NET INTEREST INCOME	4,054,539	3,247,347
PROVISION FOR LOAN LOSSES	220,000	454,239
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,834,539	2,793,108
NON-INTEREST INCOME		
Service charges	68,665	52,304
Other income	46,568	23,615
TOTAL NON-INTEREST INCOME	115,233	75,919
NON-INTEREST EXPENSES		
Salaries and employee benefits	1,023,695	773,641
Net occupancy and equipment expenses	383,883	387,311
Consulting, audit, and legal fees	65,852	75,367
Advertising and public relations	151,480	156,416
Service bureau expense	255,481	216,521
Franchise, payroll, and other taxes	112,215	101,386
Other expenses	400,502	340,991
TOTAL NON-INTEREST EXPENSES	2,393,108	2,051,633
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	1,556,664	817,394
INCOME TAX EXPENSE (BENEFIT)	530,000	(100,000)
NET INCOME	\$ 1,026,664	\$ 917,394

The accompanying notes are an integral part of the financial statements.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
DECEMBER 31, 2004 AND 2003

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCES AT DECEMBER 31, 2002	\$ 700,000	\$ 6,542,036	\$ (1,328,927)	\$ 58,040		\$ 5,971,149
Issuance of common stock	80,000	920,000	-	-		1,000,000
Comprehensive income:						
Net income	-	-	917,394	-	\$ 917,394	917,394
Other comprehensive loss, net of tax:						
Change in unrealized gain (loss) on securities available-for-sale, net of deferred income tax benefit of \$1,938	-	-	-	(61,803)	(61,803)	(61,803)
Total comprehensive income					<u>\$ 855,591</u>	
BALANCES AT DECEMBER 31, 2003	780,000	7,462,036	(411,533)	(3,763)		7,826,740
Comprehensive income:						
Net income	-	-	1,026,664	-	\$ 1,026,664	1,026,664
Other comprehensive loss, net of tax:						
Change in unrealized gain (loss) on securities available-for-sale, net of deferred income tax of \$19,289	-	-	-	42,098	42,098	42,098
Total comprehensive income					<u>\$ 1,068,762</u>	
BALANCES AT DECEMBER 31, 2004	<u>\$ 780,000</u>	<u>\$ 7,462,036</u>	<u>\$ 615,131</u>	<u>\$ 38,335</u>		<u>\$ 8,895,502</u>

The accompanying notes are an integral part of the financial statements.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,026,664	\$ 917,394
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	220,000	454,239
Depreciation	169,517	163,911
Investment securities amortization (accretion), net	(2,638)	14,103
Net change in:		
Accrued interest receivable	(82,274)	(31,201)
Accrued interest payable	85,852	30,877
Deferred tax asset	50,000	(300,000)
Increase in cash value of life insurance	(19,088)	-
Accrued taxes payable	620,904	-
Other assets	(122,501)	(2,388)
Other liabilities	(7,633)	16,056
Net cash provided by operating activities	1,938,803	1,262,991
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Purchases	(4,493,580)	(8,209,322)
Maturities and calls	500,000	9,450,000
Principal collected on mortgage-backed securities	1,277,845	1,196,599
Activity in held-to-maturity securities:		
Purchases	(3,016,906)	(10,227,330)
Maturities and calls	5,605,192	10,990,000
Purchase of certificate of deposit	(750,000)	-
Purchase of life insurance	(750,000)	-
Purchase of Federal Home Loan Bank stock	(675,700)	(506,300)
Net change in loans held-for-sale	197,698	224,118
Net increase in loans, net of charge offs	(22,500,633)	(26,003,407)
Purchases of premises and equipment	(138,547)	(201,618)
Net cash used in investing activities	(24,744,631)	(23,287,260)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from sale of common stock	-	1,496,852
Net increase in other borrowings	13,979,657	7,500,000
Net increase in deposits	7,407,222	13,084,900
Net increase (decrease) in repurchase agreements	368,572	(447,404)
Net change in advances by borrowers for taxes and insurance	30,504	22,949
Net cash provided by financing activities	21,785,955	21,657,297
CHANGE IN CASH AND CASH EQUIVALENTS	(1,019,873)	(366,972)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,997,078	2,364,050
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 977,205	\$ 1,997,078
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 1,911,432	\$ 1,372,896
Cash paid during the year for income taxes	-	-

The accompanying notes are an integral part of the financial statements.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Main Street Financial Services Corp. (the "Company") is a West Virginia corporation formed on June 20, 2003. The Company is a financial services holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Main Street Bank Corp. (the "Bank"). The Bank is headquartered in Wheeling, West Virginia and operates as a community-oriented bank concentrating in consumer, residential, and installment loan products and deposit services, along with small business commercial banking from customers located primarily in Wheeling, West Virginia and surrounding areas. The Bank operates as a West Virginia state chartered commercial bank and provides full banking services. The Bank received its West Virginia State Banking Commission Charter on March 12, 2001, and opened for business to its customers on June 20, 2001.

Basis of Consolidation

The consolidated financial statements include the accounts of Main Street Financial Services Corp. and its wholly-owned subsidiary, Main Street Bank Corp., after elimination of all material intercompany transactions and balances.

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

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Investment Securities

The Company classifies investment securities, at purchase, as either held-to-maturity or available-for-sale. Debt securities acquired with the intent to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, and recognized as adjustments of interest income. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of shareholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Federal Home Loan Bank (FHLB) stock is classified as a restricted investment at cost and the value determined by the ultimate recoverability of par value.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans

Loans are reported at their principal amount net of the allowance for loan losses. Interest on all loans is recognized as income when earned on the accrual method. Accrual of interest is discontinued when, in the opinion of management, reasonable doubt exists as to the collectibility of additional interest.

Loans held-for-sale are comprised of mortgage loans that management has the intent to sell on the secondary market. Loans held-for-sale is stated at the lower of cost or fair value.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for potential losses in loans, loan commitments, and letters of credit. The Company uses the allowance method in providing for loan losses. Accordingly, all uncollectible loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses which is charged to operations. The provision is based upon the anticipated overall risk characteristics of the various portfolio segments, changes in the composition and volume of the portfolio, the impact of current economic conditions on anticipated borrowers, and other relevant factors. This evaluation is inherently subjective as it requires material estimates which may be susceptible to significant change in the near term.

Loan Origination Fees

Loan origination fees and certain direct loan origination costs are deferred and the net amount amortized as an adjustment of the related loan's yield. Deferral and amortization of these amounts is over the estimated contractual life of the related loans.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Company's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs related to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Marketing and Advertising Costs

Marketing and advertising costs are expensed as incurred. Such costs amounted to \$151,480 and \$156,416 for the periods ended December 31, 2004 and 2003, respectively.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income taxes are provided for the tax effects reported in the financial statements and consist of taxes currently due plus deferred taxes. The deferred tax assets and liabilities represent the future tax return consequences of those differences which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Statement of Cash Flows

The Company considers all cash, demand amounts due from depository institutions, interest-bearing deposits with other banks with an initial maturity of less than 90 days, and federal funds sold to be cash equivalents for purposes of the statement of cash flows.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost of securities and their approximate fair values are as follows:

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Securities available-for-sale:				
U.S. agency securities	\$ 2,124,776	\$ 14,929	\$ (3,885)	\$ 2,135,820
Mortgage-backed securities	4,954,705	54,088	(14,977)	4,993,816
Municipal securities	427,847	6,564	(5,688)	428,723
Mutual fund	80,000	-	-	80,000
Total available-for-sale	<u>7,587,328</u>	<u>75,581</u>	<u>(24,550)</u>	<u>7,638,359</u>
Securities held-to-maturity:				
U.S. agency securities	8,828,096	16,456	(71,729)	8,772,823
Municipal securities	1,317,348	23,677	(8,659)	1,332,366
Corporate note	500,000	-	(4,900)	495,100
Total held-to-maturity	<u>10,645,444</u>	<u>40,133</u>	<u>(85,288)</u>	<u>10,600,289</u>
Total	<u>\$ 18,232,772</u>	<u>\$ 115,714</u>	<u>\$ (109,838)</u>	<u>\$ 18,238,648</u>

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Securities available-for-sale:				
U.S. agency securities	\$ 750,000	\$ 7,118	\$ -	\$ 757,118
Mortgage-backed securities	4,062,624	13,718	(26,536)	4,049,806
Mutual fund	80,000	-	-	80,000
Total available-for-sale	<u>4,892,624</u>	<u>20,836</u>	<u>(26,536)</u>	<u>4,886,924</u>
Securities held-to-maturity:				
U.S. agency securities	11,594,541	87,256	(66,272)	11,615,525
Municipal securities	1,128,217	27,316	-	1,155,533
Corporate note	500,000	-	(12,150)	487,850
Total held-to-maturity	<u>13,222,758</u>	<u>114,572</u>	<u>(78,422)</u>	<u>13,258,908</u>
Total	<u>\$ 18,115,382</u>	<u>\$ 135,408</u>	<u>\$ (104,958)</u>	<u>\$ 18,145,832</u>

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 2 - INVESTMENT SECURITIES (CONTINUED)

The amortized cost and estimated fair value of securities by contractual maturity are as follows:

	December 31, 2004			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	\$ -	\$ -	\$ 165,235	\$ 165,119
After 1 year through 5 years	-	-	574,780	577,041
After 5 years through 10 years	527,691	536,026	4,297,760	4,309,530
After 10 years	2,024,932	2,028,517	5,607,669	5,548,599
Mutual funds	80,000	80,000	-	-
Mortgage-backed securities	<u>4,954,705</u>	<u>4,993,816</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,587,328</u>	<u>\$ 7,638,359</u>	<u>\$ 10,645,444</u>	<u>\$ 10,600,289</u>

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

Investment securities with a carrying value of \$4,351,129 and \$3,248,730 were pledged at December 31, 2004 and 2003, respectively, to secure certain deposits. Investment securities with a carrying value of \$4,091,765 and \$1,899,161 were pledged at December 31, 2004 and 2003, respectively, to secure repurchase agreements.

The following table shows the gross unrealized losses and fair value, aggregated by investment category and length of time, that the individual securities have been in a continuous unrealized loss position, at December 31, 2004.

	2004					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agencies	\$ 2,181,185	\$ 23,142	\$ 2,297,314	\$ 52,473	\$ 4,478,499	\$ 75,615
Mortgage-backed	404,759	6,506	1,013,160	8,470	1,417,919	14,976
Municipal	1,124,433	14,347	-	-	1,124,433	14,347
Corporate note	<u>-</u>	<u>-</u>	<u>495,100</u>	<u>4,900</u>	<u>495,100</u>	<u>4,900</u>
Total debt securities	<u>\$ 3,710,377</u>	<u>\$ 43,995</u>	<u>\$ 3,805,574</u>	<u>\$ 65,843</u>	<u>\$ 7,515,951</u>	<u>\$ 109,838</u>

The investment securities portfolio contains unrealized losses of direct obligations of U.S. agency securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government or are generally viewed as having the implied guarantee of the U.S. government, and debt obligations of a U.S. state or political subdivision.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 2 - INVESTMENT SECURITIES (CONTINUED)

On a monthly basis, management evaluates the severity and duration of impairment for its investment securities portfolio unless the Company has the ability to hold the security to maturity without incurring a loss. Generally, impairment is considered other than temporary when an investment security has sustained a decline of 10 percent or more for 6 months.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary, but is the result of interest rate changes, sector credit rating changes, or company-specific rating changes that are not expected to result in the noncollection of principal and interest during the period.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans at December 31 are summarized as follows:

	<u>2004</u>	<u>2003</u>
Construction, land development, and other land loans	\$ 5,812,000	\$ 3,084,000
Secured by 1-4 family residential properties	53,507,000	42,761,000
Secured by multifamily residential properties	2,258,000	743,000
Secured by nonfarm nonresidential properties	15,852,000	9,590,000
Commercial and industrial loans	14,404,203	14,494,000
Other loans	<u>5,544,418</u>	<u>4,267,053</u>
Total	97,377,621	74,939,053
Less:		
Allowance for loan losses	(1,303,399)	(1,100,000)
Prepaid (deferred) loan fees	<u>16,438</u>	<u>(29,026)</u>
Net loans	<u>\$ 96,090,660</u>	<u>\$ 73,810,027</u>

The allowance for loan losses at December 31 is summarized as follows:

	<u>2004</u>	<u>2003</u>
Balance at beginning of period	\$ 1,100,000	\$ 700,000
Provision for loan losses	220,000	454,239
Charged off loans, net of recoveries	<u>(16,601)</u>	<u>(54,239)</u>
Balance at end of period	<u>\$ 1,303,399</u>	<u>\$ 1,100,000</u>

At December 31, the Company had the following past due loans:

	<u>2004</u>	<u>2003</u>
Past due 30 through 89 days	\$ 1,491,000	\$ 580,000
Past due 90 days or more	642,000	554,000
Nonaccrual	-	-

Overdrawn demand deposits reclassified as loans totaled \$120,474 and \$186,079 at December 31, 2004 and 2003, respectively.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The subsidiary bank has entered into transactions with certain directors, executive officers, significant shareholders, and their affiliates. Such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other customers, and did not, in the opinion of management, involve more than a normal credit risk or present any other unfavorable features.

The following is an analysis of loan activity to directors, executive officers, significant shareholders, and their affiliates.

	December 31, 2004	2003
Balance, beginning of period	\$ 3,328,554	\$ 2,511,412
New loans during the period	5,403,984	1,552,106
Repayments during the period	<u>(2,295,189)</u>	<u>(734,964)</u>
Balance, end of period	<u>\$ 6,437,349</u>	<u>\$ 3,328,554</u>

NOTE 4 - PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31 follows:

	2004	2003
Leasehold improvements	\$ 376,589	\$ 372,616
Furniture and equipment	<u>982,397</u>	<u>847,823</u>
Total	1,358,986	1,220,439
Accumulated depreciation	<u>549,651</u>	<u>380,134</u>
Net premises and equipment	<u>\$ 809,335</u>	<u>\$ 840,305</u>

NOTE 5 - DEPOSITS

Deposit account balances at December 31 were comprised of the following:

	2004	2003
Non-interest bearing	\$ 9,765,501	\$ 6,821,965
Interest-bearing demand	2,364,065	2,789,180
Money market	15,632,709	15,610,215
Savings accounts	18,641,949	19,278,000
Certificates of deposit	<u>38,183,207</u>	<u>32,680,849</u>
Total	<u>\$ 84,587,431</u>	<u>\$ 77,180,209</u>

The aggregate amount of jumbo certificates of deposit with a minimum denomination of \$100,000 was approximately \$10,693,000 and \$7,970,000 at December 31, 2004 and 2002, respectively.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 5 - DEPOSITS (CONTINUED)

At December 31, 2004, the scheduled maturity of certificates of deposits is as follows:

2005	\$ 17,631,208
2006	4,305,898
2007	2,321,989
2008	9,208,436
2009	<u>4,715,676</u>
Total	<u>\$ 38,183,207</u>

NOTE 6 - BORROWINGS

The subsidiary bank originated a line of credit on November 8, 2001, with First Tennessee Bank, of which no amount has ever been drawn. The maximum credit available under this line of credit is \$1,000,000, and the agreement renews annually. The interest rate, if the line is used, is the Wall Street Journal prime rate, currently 5.25 percent.

The Company originated a line of credit with a local bank on July 14, 2003, in the amount of \$2,000,000. The agreement renews annually. The interest rate is the Wall Street Journal prime rate, currently 5.25 percent. No amount is outstanding as of December 31, 2004.

The subsidiary bank is a member of the Federal Home Loan Bank of Pittsburgh (the "FHLB"). FHLB borrowings are secured by a blanket lien by the FHLB on certain residential mortgage loans or securities with a fair value at least equal to the outstanding loan balances. The Bank had a line of credit of \$2,000,000 originating on November 8, 2001, and maturing January 1, 2006, with an interest rate of 2.24 percent. No amount is outstanding as of December 31, 2004. The Bank had advances outstanding at December 31, 2004, from the FHLB in the amount of \$21,406,407. The Bank incurred \$401,819 in interest expense during the year ended December 31, 2004. The remaining maximum credit available from the FHLB as of December 31, 2004, is \$40,504,000.

The following is a schedule of outstanding borrowings from the FHLB at December 31, 2004:

<u>Date Issued</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>Type</u>
08/18/04	\$ 1,000,000	02/18/05	1.950%	Fixed-monthly interest
08/20/04	1,000,000	02/22/05	1.960%	Fixed-monthly interest
09/29/04	1,000,000	06/29/05	2.370%	Fixed-monthly interest
07/23/04	1,000,000	07/25/05	2.400%	Fixed-monthly interest
05/07/04	1,500,000	11/07/05	2.500%	Fixed-monthly interest
11/14/03	4,000,000	11/14/05	2.120%	Fixed-monthly interest
09/29/04	2,000,000	03/29/06	2.735%	Fixed-monthly interest
04/30/04	1,000,000	05/01/06	2.720%	Fixed-monthly interest
05/07/04	1,500,000	05/08/06	2.990%	Fixed-monthly interest
01/30/04	1,000,000	01/30/07	2.810%	Fixed-monthly interest
04/29/04	1,000,000	04/30/07	3.270%	Fixed-monthly interest
07/23/04	1,000,000	07/23/07	3.590%	Fixed-monthly interest
07/09/04	2,600,123	07/09/07	3.160%	Fixed-monthly principal & interest
05/07/04	893,015	05/07/09	3.860%	Fixed-monthly principal & interest
05/07/04	<u>913,269</u>	05/07/10	4.130%	Fixed-monthly principal & interest
Total	<u>\$ 21,406,407</u>			

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 6 – BORROWINGS (CONTINUED)

The following table summarizes the contractual repayments at December 31, 2004:

<u>Year</u>	<u>Amount</u>
2005	\$ 10,824,149
2006	5,869,511
2007	3,976,859
2008	386,116
2009	272,054
Thereafter	<u>77,718</u>
Total	<u>\$ 21,406,407</u>

Borrowings are comprised of the following at December 31, 2004:

	<u>2004</u>	<u>2003</u>
FHLB borrowings	\$ 21,406,407	\$ 7,500,000
Treasury, tax, and loan note option	<u>73,250</u>	<u>-</u>
Total	<u>\$ 21,479,657</u>	<u>\$ 7,500,000</u>

NOTE 7 - FEDERAL INCOME TAXES

The following temporary differences gave rise to the deferred tax asset at December 31:

	<u>2004</u>	<u>2003</u>
Depreciation	\$ (59,050)	\$ (65,797)
Deferred loan fees	(4,258)	11,150
Difference in bad debt deduction	284,275	331,276
Unearned interest recognition	8,897	7,907
Deferred compensation	3,123	-
Deferred state income tax	(8,737)	(8,536)
Deferred tax liability arising from market adjustments of securities available for sale	<u>-</u>	<u>1,938</u>
Total deferred tax asset - federal	224,250	277,938
Total deferred tax asset - state	<u>25,750</u>	<u>24,000</u>
Net deferred tax assets	<u>\$ 250,000</u>	<u>\$ 301,938</u>

The federal income tax expense (benefit) for the years ended December 31, 2004 and 2003, is comprised of the following components:

	<u>2004</u>	<u>2003</u>
Current	\$ 480,000	\$ (400,000)
Deferred	<u>50,000</u>	<u>300,000</u>
Total federal income tax expense (benefit)	<u>\$ 530,000</u>	<u>\$ (100,000)</u>

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 7 - FEDERAL INCOME TAXES (CONTINUED)

The federal income tax expense (benefit) differs from the provision for federal income tax computed at the statutory rate of 34 percent for the years ended December 31, 2004 and 2003, as follows:

	<u>2004</u>	<u>2003</u>
Tax at statutory rate	\$ 529,266	\$ 277,914
State income tax (benefit) net federal tax	<u>37,338</u>	<u>(2,264)</u>
	566,604	275,650
Increase (decrease) in taxes:		
Operating loss carryforward	-	(136,990)
Reversal of deferred tax asset valuation allowance	-	(235,000)
Nontaxable municipal bond interest	(33,159)	(5,022)
Nontaxable earnings on cash surrender value of life insurance	(10,909)	-
Others	<u>7,464</u>	<u>1,362</u>
Total federal income tax expense (benefit)	<u>\$ 530,000</u>	<u>\$ (100,000)</u>

NOTE 8 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company has outstanding commitments, such as commitments to extend credit, which are not included in the accompanying financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheets.

Financial instruments whose contractual amount represents credit risk at December 31 are as follows:

	<u>2004</u>	<u>2003</u>
Home equity lines of credit	\$ 3,257,000	\$ 2,447,000
Commercial loans	10,737,000	8,258,000
Other unused commitments	<u>47,000</u>	<u>138,000</u>
Total	<u>\$ 14,041,000</u>	<u>\$ 10,843,000</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since 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 and type of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 8 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)

Most of the Company's loans and commitments have been granted to customers in the primary market area of Ohio County, West Virginia. The Company's loans are generally secured by specific items of collateral, including real property, vehicles, and business assets. Although the Company has a diversified loan portfolio, repayment of these loans is dependent, in part, upon the economic conditions of this region.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Company has a 401(k) Profit Sharing Plan ("the Plan") with all employees eligible as of the Plan's commencement date of August 1, 2001. Employees with hire dates after August 1, 2001, are eligible on the first January 1, April 1, July 1, or October 1, coinciding with or immediately following the date the employee completes 6 months of service and has reached the age of 21.

Participants may make contributions of up to 20 percent of their compensation. The employer's matching contribution equals a discretionary percentage, determined by the employer, of the participant's salary reduction. These matching contributions are made and allocated per pay period. The plan also provides for an additional year-end matching contribution equal to a discretionary percentage, to be determined by the employer, of the participant's salary. The matching contributions charged to operations were \$56,803 and \$42,650 for the years ending December 31, 2004 and 2003, respectively.

On April 30, 2004, the Bank entered into supplemental retirement agreements with its executive officers under which the Bank has agreed to provide additional retirement benefits. The Bank has recognized expense in the amount of \$12,056 for the year ending December 31, 2004, for the accrual of benefits payable under these agreements. Coincident with the adoption of the supplemental retirement agreements, the Bank purchased life insurance policies on each of the executive officers. The Bank is the beneficiary of the policies. The amount of income recognized on the growth in value of the policies was \$19,088 for the year ending December 31, 2004.

At December 31, 2004, \$12,056 was recorded as a liability under these contracts and \$4,099 was recognized as a related deferred tax asset. The life insurance policies were purchased for \$750,000 in 2004 and had an aggregate cash surrender value of \$769,088 at December 31, 2004.

On September 9, 2004, the Bank established the Directors' Deferred Plan which becomes effective on January 1, 2005. The plan was established to allow eligible directors to defer all or a portion of their fees. Deferrals are to be invested in company stock twice each year on June 30th and December 31st. The Bank shall make matching contributions of 50 percent of the individual's percentage of fees to be deferred. The individual is immediately 100 percent vested in their deferral and Bank contributions. Deferred compensation is to be paid to the individual or beneficiary upon the end of the individual's term of office.

Coincidentally, with the establishment of the Directors' Deferral Plan, the Bank entered into a Trust Agreement effective November 1, 2004, with a corporate trustee in order to establish a trust fund (Rabbi Trust). Each director's account within the Rabbi Trust will be credited with their deferred fees, Bank contribution, and earnings or losses attributable to the account. The trust established under the agreement is a grantor trust. The assets and the income of the trust will be treated as assets and income of the Bank.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 10 - REGULATORY MATTERS

The subsidiary bank is subject to various regulatory capital requirements administered by its primary regulator, the State of West Virginia, and its insurer, the Federal Deposit Insurance Corporation (FDIC). Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Qualitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), and Tier I capital to average assets (as defined). Management believes, as of December 31, 2004, that the Bank meets all of the capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent notification from the FDIC, the Bank was categorized as "well capitalized" under the FDIC regulatory framework. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's standing.

The Bank's actual and required capital amounts and ratios are as follows:

	(Dollars in thousands)					
	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Actual</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2004:						
Total Risk-Based Capital (Total Risk Weighted Assets)	\$ 9,883	11.89%	\$ 6,650	8.0%	\$ 8,313	10.0%
Tier I Capital (To Risk Weighted Assets)	8,841	10.64%	3,325	4.0%	4,988	6.0%
Tier I Capital (To Average Assets)	8,841	7.45%	4,750	4.0%	5,937	5.0%

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 10 - REGULATORY MATTERS (CONTINUED)

	(Dollars in thousands)					
	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Actual</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2003:						
Total Risk-Based Capital (Total Risk Weighted Assets)	\$ 8,640	13.40%	\$ 5,157	8.0%	\$ 6,447	10.0%
Tier I Capital (To Risk Weighted Assets)	7,831	12.15%	2,579	4.0%	3,868	6.0%
Tier I Capital (To Average Assets)	7,831	8.27%	3,787	4.0%	4,734	5.0%

The Company is also subject to regulation by the Federal Reserve Bank of Cleveland. Capital ratios of the Company do not differ significantly from those of the Bank.

NOTE 11 - COMPREHENSIVE INCOME

The Company is required to present comprehensive income in a full set of general-purpose financial statements for all periods presented. Other comprehensive income comprises unrealized holding gains (losses) on the available-for-sale securities portfolio. The Company has elected to report the effects of other comprehensive income as part of the Consolidated Statement of Changes in Stockholders' Equity. The following represents other comprehensive income before tax and net of tax.

	<u>2004</u>	<u>2003</u>
Before-tax amount	\$ 56,732	\$ (63,741)
Tax effect	<u>(14,634)</u>	<u>1,938</u>
Net-of-tax amount	<u>\$ 42,098</u>	<u>\$ (61,803)</u>

NOTE 12 - OPERATING LEASE

The Company entered into an operating lease in June 2001 to lease its office building. The operating lease expires in May 2011, with an option to extend the lease for three 5-year renewal terms commencing in June 2011, June 2016, and June 2021. The exercising of all three renewal terms will cause the lease to expire on May 31, 2026.

The base rent payment is \$133,212 per year, or \$11,101 per month. Commencing on June 1, 2006, and continuing for 5 years thereafter, the rent due is increased by 60 percent of the increase in the Consumer Price Index ("CPI") over the CPI on June 1, 2001, but not to exceed an increase of 12.5 percent, or \$22.04 per square foot, unless the parties agree otherwise.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 12 – OPERATING LEASE (CONTINUED)

The Company also rents 500 square feet of storage space in the office building for a base rent payment of \$2,004 per year through May 31, 2006. On June 1, 2006, through May 31, 2011, the rent for the storage space will increase by 12.5 percent. The rent will increase by 12.5 percent for each exercised renewal term thereafter.

Rent expense recognized for the period ended December 31, 2004 and 2003, totaled \$135,223 and \$135,216, respectively.

Minimum future rental payments under this operating lease as of December 31, 2004, for each of the next 5 years and in the aggregate are:

December 31,	
2005	\$ 135,216
2006	135,216
2007	135,216
2008	135,216
2009	135,216
Thereafter	<u>191,556</u>
Total	<u>\$ 867,636</u>

NOTE 13 - LIMITATIONS ON DIVIDENDS

West Virginia State Law precludes the Bank from paying dividends without the prior approval of the Commissioner of Banking, if such dividends exceed the total of the Bank's net profits as defined for the year, combined with its net profits of the previous 2 years. Under this formula, the Bank can declare dividends in 2005 without the approval of the Commissioner of Banking of approximately \$2,445,958, plus an additional amount equal to the Bank's net profit for 2005 up to the date of any such dividend declaration, subject to minimum regulatory capital requirements. The subsidiary Bank is the primary source of funds to pay dividends to the stockholders of Main Street Financial Services Corp.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlements of the instruments. Statement 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

In addition, the value of long-term relationships with depositors and other customers are not reflected. The value of these items is significant. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following methods and assumptions were used in estimating fair values of financial instruments as disclosed herein:

Cash and Cash Equivalents: For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Interest-Bearing Time Deposits: The fair value is estimated using rates currently offered for deposits of similar remaining maturities.

Securities: For debt securities and marketable equity securities held for investment purposes and for sale, fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Loans: For certain homogeneous categories of loans, such as some residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Deposit Liabilities and Repurchase Agreements: The fair value of NOW accounts, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit and repurchase agreements is estimated using the rates currently offered for deposits of similar remaining maturities.

Cash Surrender Value of Life Insurance and Advances by Borrowers for Taxes and Insurance: The fair value is equal to the current carrying value.

Borrowings: The fair value is estimated using a discounted cash flow and applying contractual costs currently being offered in the existing advances to current market rates offered for notes of similar remaining maturities.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL CONSOLIDATED STATEMENTS (CONTINUED)
DECEMBER 31, 2004 AND 2003

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of the Bank's financial instruments are as follows:

	<u>December 31, 2004</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Financial Assets:		
Cash and cash equivalents	\$ 977,000	\$ 977,000
Interest-bearing time deposits	849,000	851,000
Securities available-for-sale	7,638,000	7,638,000
Securities held-to-maturity	10,645,000	10,600,000
Loans, net	96,091,000	96,048,000
Accrued interest receivable	525,000	525,000
Cash surrender value of life insurance	769,000	769,000
Federal Home Loan Bank stock	1,311,000	1,311,000
Financial Liabilities:		
Deposits and repurchase agreements	88,655,000	88,886,000
Advances by borrowers for taxes and insurance	119,000	119,000
Accrued interest payable	208,000	208,000
Borrowings	21,480,000	21,574,000