

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

WHEELING, WEST VIRGINIA

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2003

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
DECEMBER 31, 2003**

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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, 2003 and 2002, 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, 2003 and 2002, 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
February 6, 2004

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS	2003	2002
Cash and cash equivalents:		
Cash and amounts due from banks	\$ 424,414	\$ 435,788
Interest-bearing deposits with banks	1,572,664	1,928,262
Total cash and cash equivalents	1,997,078	2,364,050
Interest-bearing time deposit	99,000	99,000
Investment securities:		
Securities available-for-sale, at fair value	4,886,924	7,410,648
Securities held-to-maturity (fair value \$13,258,908-2003 and \$14,183,006-2002)	13,222,758	13,976,824
Total investment securities	18,109,682	21,387,472
Loans held-for-sale	197,698	421,816
Loans	74,910,027	48,960,859
Allowance for loan losses	(1,100,000)	(700,000)
Net loans	73,810,027	48,260,859
Premises and equipment, net	840,305	802,598
Accrued interest receivable	443,023	411,822
Deferred tax asset	301,938	-
Federal Home Loan Bank stock	635,500	129,200
Other assets	36,208	530,672
TOTAL ASSETS	\$ 96,470,459	\$ 74,407,489
LIABILITIES		
Deposits:		
Noninterest bearing	\$ 6,821,965	\$ 4,164,704
Interest bearing	70,358,244	59,930,605
Total deposits	77,180,209	64,095,309
Repurchase agreements	3,699,822	4,147,226
Federal Home Loan Bank (FHLB) borrowings	7,500,000	-
Advances by borrowers for taxes and insurance	88,235	65,286
Accrued interest payable	122,495	91,618
Other liabilities	52,958	36,901
TOTAL LIABILITIES	88,643,719	68,436,340
SHAREHOLDERS' EQUITY		
Common stock of \$1 par value; 5,000,000 shares authorized, 780,000 shares issued; 780,000 shares outstanding at December 31, 2003, and 658,596 shares outstanding at December 31, 2002	780,000	658,596
Common stock subscribed; of \$1 par, -0- shares at December 31, 2003, and 41,404 at December 31, 2002	-	41,404
Additional paid-in capital	7,462,036	6,542,036
Retained deficit	(411,533)	(1,328,927)
Accumulated other comprehensive gain(loss)	(3,763)	58,040
TOTAL SHAREHOLDERS' EQUITY	7,826,740	5,971,149
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 96,470,459	\$ 74,407,489

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, 2003 AND 2002

	2003	2002
INTEREST AND DIVIDEND INCOME		
Loans, including fees	\$ 4,039,273	\$ 2,476,756
Debt securities:		
Taxable	823,382	638,689
Tax-exempt	24,653	-
Dividends	16,443	54,660
Deposits with banks	16,820	27,076
TOTAL INTEREST AND DIVIDEND INCOME	4,920,571	3,197,181
INTEREST EXPENSE		
Deposits and repurchase agreements	1,633,997	1,417,014
Other borrowings	39,227	18,825
TOTAL INTEREST EXPENSE	1,673,224	1,435,839
NET INTEREST INCOME	3,247,347	1,761,342
PROVISION FOR LOAN LOSSES	454,239	453,988
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,793,108	1,307,354
NON-INTEREST INCOME		
Service charges	52,304	30,099
Other income	23,615	14,312
TOTAL NON-INTEREST INCOME	75,919	44,411
NON-INTEREST EXPENSES		
Salaries and employee benefits	773,641	654,377
Net occupancy and equipment expenses	387,311	369,195
Consulting, audit, and legal fees	75,367	45,561
Advertising and public relations	156,416	100,544
Service bureau expense	216,521	153,444
Franchise, payroll, and other taxes	101,386	54,184
Other expenses	340,991	267,250
TOTAL NON-INTEREST EXPENSES	2,051,633	1,644,555
INCOME (LOSS) BEFORE FEDERAL INCOME TAX BENEFIT	817,394	(292,790)
FEDERAL INCOME TAX BENEFIT	(100,000)	-
NET INCOME (LOSS)	\$ 917,394	\$ (292,790)

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, 2003 AND 2002

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCES AT DECEMBER 31, 2001	\$ 525,000	\$ 4,648,250	\$ (1,036,137)	\$ (18,614)		\$ 4,118,499
Issuance of common stock	175,000	1,893,786	-	-		2,068,786
Comprehensive loss:						
Net loss	-	-	(292,790)	-	\$ (292,790)	(292,790)
Other comprehensive income, net of tax:						
Change in unrealized gain (loss) on securities available-for-sale, net of deferred income tax of \$-0-	-	-	-	76,654	76,654	76,654
Total comprehensive loss					<u>\$ (216,136)</u>	
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	<u>\$ 780,000</u>	<u>\$ 7,462,036</u>	<u>\$ (411,533)</u>	<u>\$ (3,763)</u>		<u>\$ 7,826,740</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, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 917,394	\$ (292,790)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	454,239	453,988
Depreciation	163,911	144,772
Investment securities amortization (accretion), net	14,103	1,882
Net change in:		
Accrued interest receivable	(31,201)	(283,457)
Accrued interest payable	30,877	62,942
Deferred tax asset	(300,000)	-
Other assets	(2,388)	(9,132)
Other liabilities	16,056	30,493
Net cash provided by operating activities	1,262,991	108,698
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Purchases	(8,209,322)	(19,404,613)
Maturities and calls	9,450,000	14,970,000
Principal collected on mortgage-backed securities	1,196,599	178,167
Activity in held-to-maturity securities:		
Purchases	(10,227,330)	(14,776,370)
Maturities and calls	10,990,000	4,225,000
Purchase of Federal Home Loan Bank stock	(506,300)	(95,300)
Net change in loans held-for-sale	224,118	(421,816)
Net increase in loans, net of charge offs	(26,003,407)	(31,748,762)
Purchases of premises and equipment	(201,618)	(114,300)
Net cash used in investing activities	(23,287,260)	(47,187,994)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from sale of common stock	1,496,852	1,571,934
Net increase in other borrowings	7,500,000	-
Net increase in deposits	13,084,900	44,944,750
Net increase (decrease) in repurchase agreements	(447,404)	1,732,668
Net change in advances by borrowers for taxes and insurance	22,949	55,535
Net cash provided by financing activities	21,657,297	48,304,887
CHANGE IN CASH AND CASH EQUIVALENTS	(366,972)	1,225,591
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,364,050	1,138,459
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,997,078	\$ 2,364,050
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 1,642,347	\$ 1,372,896
Cash paid during the year for income taxes	157,000	-

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

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

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.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

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 \$156,416 and \$100,544 for the periods ended December 31, 2003 and 2002, respectively.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

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, 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>

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Securities available-for-sale:				
U.S. agency securities	\$ 3,450,000	\$ 24,060	\$ -	\$ 3,474,060
Mortgage-backed securities	3,772,608	34,349	(369)	3,806,588
Mutual fund	130,000	-	-	130,000
Total available-for-sale	7,352,608	58,409	(369)	7,410,648
Securities held-to-maturity:				
U.S. agency securities	13,976,824	206,930	(748)	14,183,006
Total	<u>\$ 21,329,432</u>	<u>\$ 265,339</u>	<u>\$ (1,117)</u>	<u>\$ 21,593,654</u>

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE 2 - INVESTMENT SECURITIES (CONTINUED)

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

	December 31, 2003			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	\$ -	\$ -	\$ 185,572	\$ 185,936
After 1 year through 5 years	-	-	1,915,798	1,930,450
After 5 years through 10 years	250,000	254,618	4,421,058	4,448,238
After 10 years	500,000	502,500	6,700,330	6,694,284
Mutual funds	80,000	80,000	-	-
Mortgage-backed securities	4,062,624	4,049,806	-	-
Total	<u>\$ 4,892,624</u>	<u>\$ 4,886,924</u>	<u>\$ 13,222,758</u>	<u>\$ 13,258,908</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 \$3,248,730 and \$1,700,000 were pledged at December 31, 2003 and 2002, respectively, to secure certain deposits. Investment securities with a carrying value of \$1,899,161 and \$3,900,000 were pledged at December 31, 2003 and 2002, respectively, to secure repurchase agreements. Investment securities with a carrying value of \$9,693,353 and \$2,940,000 were pledged at December 31, 2003 and 2002, respectively, to secure the Federal Home Loan Bank borrowing.

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, 2003.

	2003					
	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	\$ 3,282,345	\$ 66,272	\$ -	\$ -	\$ 3,282,345	\$ 66,272
Mortgage-backed	2,249,374	23,581	297,929	2,955	2,547,303	26,536
Corporate note	487,850	12,150	-	-	487,850	12,150
Total debt securities	<u>\$ 6,019,569</u>	<u>\$ 102,003</u>	<u>\$ 297,929</u>	<u>\$ 2,955</u>	<u>\$ 6,317,498</u>	<u>\$ 104,958</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 STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

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>2003</u>	<u>2002</u>
Construction, land development, and other land loans	\$ 3,084,000	\$ 1,479,000
Secured by 1-4 family residential properties	42,761,000	27,611,000
Secured by multifamily residential properties	743,000	111,000
Secured by nonfarm nonresidential properties	9,590,000	4,756,000
Commercial and industrial loans	14,494,000	12,367,000
Other loans	<u>4,267,053</u>	<u>2,819,600</u>
Total	74,939,053	49,143,600
Less:		
Allowance for loan losses	(1,100,000)	(700,000)
Unamortized deferred loan fees	<u>(29,026)</u>	<u>(182,741)</u>
Net loans	<u>\$ 73,810,027</u>	<u>\$ 48,260,859</u>

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

	<u>2003</u>	<u>2002</u>
Balance at beginning of period	\$ 700,000	\$ 250,000
Provision for loan losses	454,239	453,988
Charged off loans, net of recoveries	<u>(54,239)</u>	<u>(3,988)</u>
Balance at end of period	<u>\$ 1,100,000</u>	<u>\$ 700,000</u>

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

	<u>2003</u>	<u>2002</u>
Past due 30 through 89 days	\$ 580,000	\$ 886,000
Past due 90 days or more	554,000	62,000
Nonaccrual	-	-

Overdrawn demand deposits reclassified as loans totaled \$186,079 and \$29,795 at December 31, 2003 and 2002, respectively.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

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, <u>2003</u>	<u>2002</u>
Balance, beginning of period	\$ 2,511,412	\$ 1,414,000
New loans during the period	1,552,106	1,826,713
Repayments during the period	<u>(734,964)</u>	<u>(729,301)</u>
Balance, end of period	<u>\$ 3,328,554</u>	<u>\$ 2,511,412</u>

NOTE 4 - PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31 follows:

	<u>2003</u>	<u>2002</u>
Leasehold improvements	\$ 372,616	\$ 292,438
Furniture and equipment	<u>847,823</u>	<u>726,383</u>
Total	1,220,439	1,018,821
Accumulated depreciation	<u>380,134</u>	<u>216,223</u>
Net premises and equipment	<u>\$ 840,305</u>	<u>\$ 802,598</u>

NOTE 5 - DEPOSITS

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

	<u>2003</u>	<u>2002</u>
Non-interest bearing	\$ 6,821,965	\$ 4,164,704
Interest-bearing demand	2,789,180	1,675,191
Money market	15,610,215	10,878,461
Savings accounts	19,278,000	19,496,593
Certificates of deposit	<u>32,680,849</u>	<u>27,880,360</u>
Total	<u>\$ 77,180,209</u>	<u>\$ 64,095,309</u>

The aggregate amount of jumbo certificates of deposit with a minimum denomination of \$100,000 was approximately \$7,970,000 and \$6,715,000 at December 31, 2003 and 2002, respectively.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE 5 - DEPOSITS (CONTINUED)

At December 31, 2003, the scheduled maturity of certificates of deposits are as follows:

2004	\$ 18,973,070
2005	4,337,757
2006	514,945
2007	4,989,574
2008	<u>3,865,503</u>
Total	<u>\$ 32,680,849</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 4.0 percent

The Company originated a line of credit with a local bank on July 14, 2003, in the amount of \$2,000,000, subject to renewal on the anniversary date of the loan. The interest rate is the Wall Street Journal prime rate, currently 4.0 percent. No amount is outstanding as of December 31, 2003.

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 advances outstanding at December 31, 2003, from the FHLB in the amount of \$7,500,000 with a weighted-average interest rate of 1.73 percent. The Bank incurred \$39,227 in interest expense during the year ended December 31, 2003. The remaining maximum credit available from the FHLB as of December 31, 2003, is \$33,234,000.

The following table summarizes the FHLB maturities at December 31, 2003, based on contractual dates:

<u>Year</u>	<u>Scheduled Maturity</u>	<u>Weighted Average Rate</u>
2004	\$ 3,500,000	1.28%
2005	<u>4,000,000</u>	2.12
Total	<u>\$ 7,500,000</u>	1.73%

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE 7 - FEDERAL INCOME TAXES

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

	<u>2003</u>	<u>2002</u>
Depreciation	\$ (65,797)	\$ (28,507)
Deferred loan fees	11,150	62,132
Difference in bad debt deduction	331,276	188,449
Unearned interest recognition	7,907	-
Operating loss carryforward	-	229,714
Deferred state income tax	(8,536)	(13,554)
Deferred tax liability arising from market adjustments of securities available for sale	<u>1,938</u>	<u>-</u>
Total deferred tax asset - federal	277,938	438,234
Total deferred tax asset - state	<u>24,000</u>	<u>39,864</u>
Total deferred tax asset – federal and state	301,938	478,098
Valuation allowance	<u>-</u>	<u>(478,098)</u>
Net deferred tax assets	<u>\$ 301,938</u>	<u>\$ -</u>

The Company recorded a deferred tax asset of \$229,714 at December 31, 2002, reflecting the benefit of a loss carryforward, which will expire in 2021. Realization was dependent on generating sufficient taxable income prior to expiration of the loss carryforward. The Company provided a valuation allowance for the entire amount of its deferred tax asset because of uncertainty regarding its realization as of December 31, 2002.

No provision for income taxes had been established for the year ended December 31, 2002.

The federal income tax benefit for the year ended December 31, 2003, is comprised of the following components:

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

The federal income tax benefit differs from the provision for federal income tax computed at the statutory rate of 34 percent for the year ended December 31, 2003, as follows:

	<u>2003</u>
Tax at statutory rate	\$ 277,914
State income tax benefit net federal tax	<u>(2,264)</u>
	275,650
Increase (decrease) in taxes:	
Operating loss carryforward	(136,990)
Reversal of deferred tax asset valuation allowance	(235,000)
Nontaxable income	(5,022)
Others	<u>1,362</u>
Total federal income tax benefit	<u>\$ (100,000)</u>

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

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>2003</u>	<u>2002</u>
Home equity lines of credit	\$ 2,447,000	\$ 1,167,000
Commercial loans	8,258,000	6,358,000
Other unused commitments	<u>138,000</u>	<u>114,000</u>
Total	<u>\$ 10,843,000</u>	<u>\$ 7,639,000</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.

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.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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 \$42,650 and \$33,706 for the years ending December 31, 2003 and 2002, respectively.

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 affect 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, 2003, that the Bank meets all of the capital adequacy requirements to which it is subject.

As of December 31, 2003, 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, 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%

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

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, 2002:						
Total Risk-Based Capital (Total Risk Weighted Assets)	\$ 6,478	14.41%	\$ 3,596	8.0%	\$ 4,495	10.0%
Tier I Capital (To Risk Weighted Assets)	5,914	13.16%	1,798	4.0%	2,697	6.0%
Tier I Capital (To Average Assets)	5,914	8.18%	2,893	4.0%	3,617	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>2003</u>	<u>2002</u>
Before-tax amount	\$(63,741)	\$ 76,654
Tax effect	<u>(1,938)</u>	<u>-</u>
Net-of-tax amount	<u><u>\$(61,803)</u></u>	<u><u>\$ 76,654</u></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 STATEMENTS (CONTINUED)
DECEMBER 31, 2003 AND 2002

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, 2003 and 2002, totaled \$135,216 and \$135,216.

Minimum future rental payments under this operating lease as of December 31, 2003, for each of the next 5 years and in the aggregate are:

December 31,	
2004	\$ 135,216
2005	135,216
2006	135,216
2007	135,216
2008	135,216
Thereafter	<u>326,772</u>
Total	<u>\$ 1,002,852</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 2004 without the approval of the Commissioner of Banking of approximately \$1,265,000, plus an additional amount equal to the Bank's net profit for 2004 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.