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CLOVER COMMUNITY BANKSHARES, INC.

ANNUAL REPORT, 2004

CLOVER COMMUNITY BANKSHARES, INC.

2004 ANNUAL REPORT

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About the Company

Clover Community Bankshares, Inc. (the "Company"), headquartered in Clover, South Carolina, is a bank holding company organized as a South Carolina corporation with one wholly-owned banking subsidiary. Through its subsidiary, Clover Community Bank (the "Bank"), the Company provides a wide range of lending and deposit services and on-line banking. Substantially all lending and deposit acquisition activities occur within the Company's local market area in York County, South Carolina. The Company markets its products and services principally by offering attractive interest rates and fees along with a friendly, personal service approach which management believes can be best accomplished by a locally owned community bank. The Bank first commenced operation on October 1, 1987, and the Company was organized in 1998 to become the Bank's holding company under a plan approved by the Bank's shareholders. The Company opened a branch banking office in the Lake Wylie area of York County during late 2002.

Vision Statement

"Clover Community Bank is committed to making the communities we serve a better place to live and work."

Mission Statement

"Clover Community Bank is established to serve the financial needs of the community, its businesses and citizens. The Bank's goal is to provide quality products and services that produce a profit and provide value to the shareholder."

Locations

Clover Community Bankshares, Inc.
Clover Community Bank
124 North Main Street
Clover, South Carolina 29710
(803) 222-7660

Lake Wylie Office
5196 Charlotte Highway
Lake Wylie, South Carolina 29710
(803) 831-8933

Report to the Shareholders of Clover Community Bankshares, Inc.

Dear Shareholder:

On behalf of the Board of Directors, I am pleased to report 2004 results.

We realized a positive return on our investment in the Lake Wylie area in only the second year of operations at the Lake Wylie office. Additionally, as a result of our desire to offer our customers quality and competitive technology, we implemented image technology, giving our banking customers the ability to see check images online and also receive these images with their statements.

The Federal Reserve was continuing to re-energize the economy by keeping interest rates low, which allowed us to focus on growing loans and deposits while maintaining income producing margins and continue our effort to provide outstanding service to existing customers.

Your Board of Directors, Management Team and Staff continue to make extraordinary efforts to ensure the Company's success, as evidenced by our results from 2004. Net income for 2004 was \$1,040,963 compared to \$765,528 in 2003, an increase of 36%. The primary force behind this increase was the 27% growth in the loan portfolio from \$43.8 million to \$55.8 million. The Company's total assets grew 14% to \$80.9 million and total deposits grew to a new record of \$68.0 million during 2004.

We are focused on being a strong financial leader in the community in the future and are dedicated to fulfilling the Company's vision statement by being "committed to making the communities we serve a better place to live and work." With economic changes in the country, the constant regulatory changes and the competitive environment, we will face new challenges in the coming year. As always, we will approach these challenges with the attitude that if we take care of the people in the communities we serve, we will also be taking care of our shareholders. To sum up our vision in a single phrase... "we are here to serve."

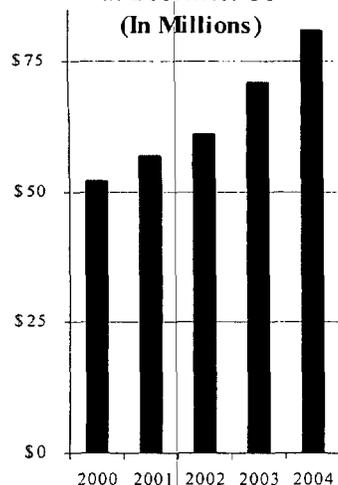
Thanks for your continued support.

Sincerely,

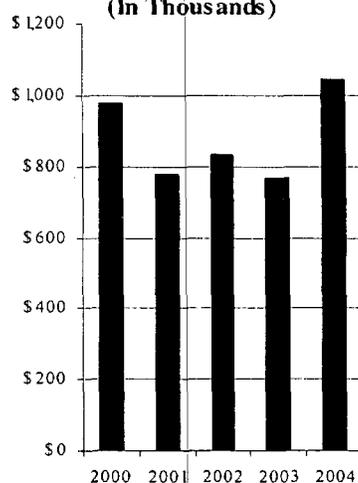


Gwen M. Thompson
President &
Chief Executive Officer

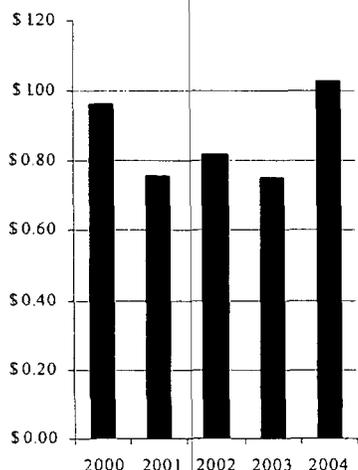
**Total Assets
at December 31
(In Millions)**



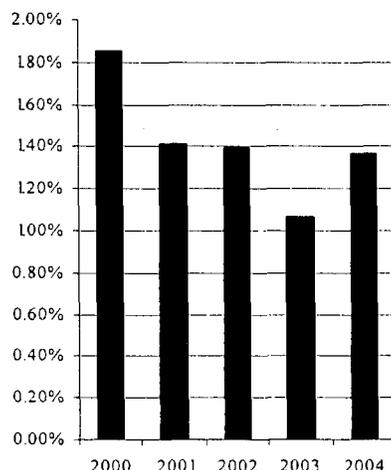
**Net Income
(In Thousands)**



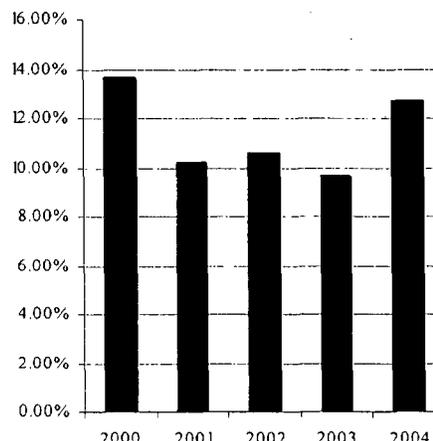
Net Income Per Share



Return On Average Assets



Return On Average Equity



Financial Highlights

(Dollars in thousands, except per share)

	2004	2003	Percent Change
Balance Sheet (at December 31)			
Total assets.....	\$ 80,927	\$ 70,925	14.10 %
Net loans.....	55,191	43,339	27.35
Securities available for sale.....	14,202	18,398	(22.81)
Deposits.....	67,973	62,672	8.46
Shareholders' equity.....	8,607	8,038	7.08
For the Year			
Net interest income.....	\$ 3,466	\$ 2,800	23.79 %
Provision for loan losses.....	206	96	114.58
Noninterest income.....	981	832	17.91
Noninterest expense.....	2,745	2,444	12.32
Income tax expense.....	455	326	39.57
Net income.....	1,041	766	35.90
Per Share			
Net income.....	\$ 1.03	\$ 0.75	37.33 %
Cash dividends paid.....	0.40	0.50	(20.00)
Book value at year end.....	8.51	7.94	7.18
Financial Performance Ratios			
Return on average assets.....	1.37 %	1.06 %	
Return on average equity.....	12.74	9.68	
Asset Quality Ratios			
Nonperforming loans to total loans.....	0.41 %	0.44 %	
Allowance for loan losses times nonperforming loans.....	2.76 x	2.32 x	
Net charge-offs to average total loans...	0.06 %	0.01 %	

Financial Summary

<i>(Dollars in thousands, except per share data)</i>	December 31,				
	2004	2003	2002	2001	2000
Financial Condition (at year end)					
Investment securities available for sale	\$14,202	\$18,398	\$16,534	\$16,924	\$17,893
Allowance for loan losses	625	450	360	274	254
Loans, Net	55,191	43,339	34,701	31,537	30,514
Premises, furniture and equipment, net	2,194	2,308	2,282	1,445	811
Total assets	80,927	70,925	60,784	57,192	51,928
Noninterest bearing deposits	8,845	9,349	4,922	4,288	3,126
Interest bearing deposits	59,128	53,323	43,769	40,665	36,290
Total deposits	67,973	62,672	48,691	44,953	39,416
Advances from Federal Home Loan Bank	4,000	-	4,000	4,000	4,000
Total liabilities	72,321	62,886	52,894	49,356	44,265
Total shareholders' equity	8,607	8,038	7,890	7,836	7,663
Results of Operations (for the year ended)					
Interest income	\$ 4,241	\$ 3,636	\$ 3,435	\$ 3,927	\$ 4,282
Interest expense	<u>775</u>	<u>836</u>	<u>1,011</u>	<u>1,563</u>	<u>1,597</u>
Net interest income	3,466	2,800	2,424	2,364	2,685
Provision for loan losses	<u>206</u>	<u>96</u>	<u>357</u>	<u>34</u>	<u>47</u>
Net interest income after provision for loan losses	3,260	2,704	2,067	2,330	2,638
Noninterest income	981	832	1,053	543	493
Noninterest expenses	<u>2,745</u>	<u>2,444</u>	<u>1,917</u>	<u>1,743</u>	<u>1,696</u>
Income before income taxes	1,496	1,092	1,203	1,130	1,435
Income tax expense	<u>455</u>	<u>326</u>	<u>371</u>	<u>353</u>	<u>457</u>
Net income	<u>\$ 1,041</u>	<u>\$ 766</u>	<u>\$ 832</u>	<u>\$ 777</u>	<u>\$ 978</u>
Per Share Data					
Net income	\$ 1.03	\$ 0.75	\$ 0.82	\$ 0.76	\$ 0.96
Cash dividends paid	0.40	0.50	0.75	0.75	0.70
Book value at year end	8.51	7.94	7.78	7.72	7.53

Market for Common Stock and Dividends

Although a limited number of shares of common stock of Clover Community Bankshares, Inc. are traded from time to time on an individual basis, no established trading market has developed and none is expected to develop in the near future. The common stock is not traded on the NASDAQ National Market System, nor are there any market makers known to management. During 2004, management was aware of a few transactions in which the Company's common stock traded at \$25.00 per share. However, management has not ascertained that these transactions are the result of arm's length negotiations between the parties, and because of the limited number of shares involved, these prices may not be indicative of the market value of the common stock.

Shareholders may purchase additional common shares in the Company by reinvesting their cash dividends under the Company's dividend reinvestment plan (the "Reinvestment Plan"). Under the Reinvestment Plan, 1,561 and 2,198 newly issued shares were purchased by shareholders in 2004 and 2003 at prices of \$29.41 and \$28.56 per share, respectively, in accordance with the Reinvestment Plan's pricing formula. In 2004 and 2003, 3,254 and 4,000, shares, respectively, of the Company's common stock were repurchased, primarily from eleemosynary organizations, and retired. The average prices for such share repurchases and retirements in 2004 and 2003 were \$23.53 and \$25.00 per share, respectively. These prices were set at the discretion of the Company's Board of Directors. Prices established for the issuance of shares under the Reinvestment Plan and for repurchases may not be indicative of the market value of the common stock.

As of March 15, 2005, there were approximately 725 holders of record of the Company's common stock, excluding individual participants in security position listings.

The Company has paid an annual cash dividend since 1991. In 2004 and 2003, the Company declared and paid cash dividends to shareholders of \$0.40 and \$0.50 per share, respectively.

The Board of Directors considers such factors as adequacy of capital to support future growth, regulatory capital requirements, maximum legal lending limits based on capital levels and profitability in making its decisions regarding cash dividends. The Company's ability to declare and pay cash dividends is largely dependent upon the successful operation of the Bank and its ability to pay cash dividends to the Company. South Carolina banking regulations restrict the amount of cash dividends that can be paid by the Bank to the Company. Any of the Bank's cash dividends to the Company in excess of the current year's earnings are subject to the prior approval of the South Carolina Commissioner of Banking. In addition, dividends paid by the Bank to the Company, or by the Company to its shareholders, would be prohibited if the effect thereof would cause the capital of the Bank or the Company to be reduced below minimum capital requirements.

Management's Discussion and Analysis

This discussion is intended to assist in understanding the consolidated financial condition and results of operations of Clover Community Bankshares, Inc. and its wholly-owned subsidiary, Clover Community Bank. This information should be reviewed in conjunction with the consolidated financial statements and related notes contained elsewhere in this report.

Critical Accounting Policies

The Company has adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States of America in the preparation of the Company's consolidated financial statements. The significant accounting policies of the Company are described in the notes to the consolidated financial statements.

Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities. Management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and

estimates, which could have a material impact on the carrying values of assets and liabilities and the results of operations of the Company.

The Company believes the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of its consolidated financial statements. Refer to the section "Provision for Loan Losses" and "Allowance for Loan Losses" and Note 1 to the consolidated financial statements for a detailed description of the Company's estimation process and methodology related to the allowance for loan losses.

Forward Looking Statements

Statements included in this report which are not historical in nature are intended to be, and are hereby identified as "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Such forward-looking statements may be identified, without limitation, by the use of the words "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar expressions. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished. The Company cautions readers that forward looking statements, including without limitation, those relating to future business prospects, revenues, working capital, liquidity, capital needs, interest costs, adequacy of the allowance for loan losses, and income, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Company's reports filed with the Securities and Exchange Commission.

Earnings Performance

2004 Compared with 2003

The Company recorded net income of \$1,041,000 for the year ended December 31, 2004, an increase of \$275,000 or 35.90 %, from net income of \$766,000 for 2003. Net income per share for 2004 was \$1.03 compared with \$0.75 for 2003. Return on average assets and return on average equity were 1.37% and 12.74%, respectively for 2004 and 1.06% and 9.68%, respectively for 2003.

The Company's net income for 2004 increased from 2003. This increase is principally the result of increased interest income and noninterest income partially offset by increased non-interest expenses. The increase in interest income is primarily a result of a \$696,000 increase in interest income from loans and origination fees from \$2,919,000 in 2003 to \$3,615,000 in 2004 caused by the overall growth in the loan portfolio combined with a higher interest rate environment in 2004. Interest expense decreased \$61,000 to \$776,000 in 2004. The decrease in interest expense was primarily a result of repricing time deposits at lower rates. The increase in noninterest income is principally the result of \$909,000 in fee income from service charges on deposit accounts in 2004, an increase of \$138,000 from \$771,000 in 2003 related to the Automatic Overdraft product. The largest increase contributing to the higher level of noninterest expenses of was the result of a \$137,000 increase in salaries and employee benefits from the 2003 period caused by additional personnel combined with normal salary increases.

Net interest income was \$3,466,000 for 2004 compared to \$2,800,000 for 2003, an increase of \$666,000, or 23.79%. This increase is a result of an increase in average net interest earning assets of \$1,673,000 comprised of an increase in average earning assets of \$3,744,000 offset by an increase in average interest bearing liabilities of \$2,071,000. This increase in average net interest earning assets is further impacted by the increases in interest rates during 2004 due to action by the Board of Governors of the Federal Reserve System.

Comprehensive income for 2004 and 2003 was \$1,005,000 and \$693,000, respectively. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Comprehensive income for the Company is correlated directly to the effects that changing conditions have on the fair values of the Company's holdings of available for sale securities. The resulting changes in unrealized holding gains and losses on

such securities are reported as a separate component of shareholders' equity. Such items, along with net income, comprise comprehensive income.

The table, "Average Balances, Yields and Rates", provides a detailed analysis of the effective yields and rates on the categories of average interest earning assets and interest bearing liabilities for the years ended December 31, 2004 and 2003.

Average Balances, Yields and Rates

(Dollars in thousands)	2004			2003		
	Average Balances ⁽¹⁾	Income/ Expense	Yields/ Rates	Average Balances ⁽¹⁾	Income/ Expense	Yields/ Rates
Assets:						
Interest-earning deposits in other						
Banks	\$ 16	-	-%	\$ 15	1	6.66%
Securities						
Taxable	10,191	346	3.40	13,075	409	3.13
Tax-exempt ⁽²⁾	<u>5,334</u>	<u>300</u>	5.62	<u>5,502</u>	<u>323</u>	5.87
Total securities	15,525	646	4.16	18,577	732	3.94
Nonmarketable equity securities	258	9	3.49	250	10	4.00
Federal funds sold	4,237	62	1.46	6,345	84	1.32
Loans receivable ⁽³⁾	<u>51,404</u>	<u>3,615</u>	7.03	<u>42,509</u>	<u>2,919</u>	6.87
Total interest earning assets	71,440	4,332	6.06	67,696	3,746	5.53
Cash and due from banks	2,158			1,721		
Allowance for loan losses	(501)			(444)		
Premises, furniture and equipment	2,270			2,316		
Other assets	<u>510</u>			<u>628</u>		
Total assets	<u>\$ 75,877</u>			<u>\$ 71,917</u>		
Liabilities and shareholders' equity:						
Interest bearing deposits						
Interest bearing transaction accounts	\$ 23,394	105	0.45%	\$ 23,441	87	0.37%
Savings	7,891	18	0.23	3,613	18	0.50
Time deposits \$100M and over	11,079	216	1.95	9,321	197	2.11
Other time deposits	<u>15,923</u>	<u>408</u>	2.56	<u>16,214</u>	<u>485</u>	2.99
Total interest-bearing deposits	58,287	747	1.28	52,589	787	1.50
Federal funds purchased	7	-	-	-	-	-
Long-term debt	<u>1,180</u>	<u>29</u>	2.46	<u>3,627</u>	<u>49</u>	1.35
Total interest-bearing liabilities	59,474	776	1.30	56,216	836	1.49
Non-interest demand deposits	7,949			7,542		
Other liabilities	280			245		
Shareholders' equity	<u>8,174</u>			<u>7,914</u>		
Total liabilities and shareholders' equity	<u>\$ 75,877</u>			<u>\$ 71,917</u>		
Interest rate spread ⁽⁴⁾			4.76%			4.04%
Net interest income and net yield on earning assets ⁽⁵⁾		<u>\$ 3,556</u>	4.98%		<u>\$ 2,910</u>	4.29%
Interest free funds supporting earning assets ⁽⁶⁾	\$ 11,966			\$ 11,480		

(1) Average balances are computed on a daily basis.

(2) Computed on a fully taxable equivalent basis using a federal income tax rate of 34%.

(3) Nonaccruing loans are included in the average loan balances and income on such loans is recognized on a cash basis.

(4) Total interest-earning assets yield less the total interest bearing liabilities rate.

(5) Net interest income divided by total interest earning assets.

(6) Total interest earning assets less total interest bearing liabilities.

The table, "Volume and Rate Variance Analysis", provides a summary of changes in net interest income resulting from changes in volumes of interest-earning assets and interest-bearing liabilities, and changes in the rates earned and paid on such assets and liabilities.

Volume and Rate Variance Analysis

(Dollars in thousands)	<u>2004 Compared with 2003</u>			<u>2003 Compared with 2002</u>		
	<u>Volume⁽¹⁾</u>	<u>Rate⁽¹⁾</u>	<u>Total</u>	<u>Volume⁽¹⁾</u>	<u>Rate⁽¹⁾</u>	<u>Total</u>
Interest-bearing deposits due from other banks	\$ (1)	\$ -	\$ (1)	\$ -	\$ -	\$ -
Taxable securities	33	(96)	(63)	41	(217)	(176)
Tax-exempt securities ⁽²⁾	(12)	(11)	(23)	43	(47)	(4)
Nonmarketable equity securities	(1)	-	(1)	-	(3)	(3)
Federal funds sold	8	(30)	(22)	30	(12)	18
Loans	<u>69</u>	<u>627</u>	<u>696</u>	<u>623</u>	<u>(12)</u>	<u>366</u>
Total interest income (expense)	<u>96</u>	<u>490</u>	<u>586</u>	<u>737</u>	<u>(12)</u>	<u>201</u>
Interest-bearing deposits						
Interest-bearing transaction accounts	(18)	-	18	35	(29)	6
Savings	(2)	2	-	16	(19)	(3)
Time deposits \$100M and over	(16)	35	19	77	(83)	(6)
Other time deposits	(68)	(9)	(77)	(83)	(61)	(144)
Long-term debt	<u>(20)</u>	<u>-</u>	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total interest expense (income)	<u>(88)</u>	<u>28</u>	<u>(60)</u>	<u>45</u>	<u>(192)</u>	<u>(147)</u>
Net interest income (expense)	<u>\$ 184</u>	<u>\$ 462</u>	<u>\$ 646</u>	<u>\$ 720</u>	<u>\$ (344)</u>	<u>\$ 376</u>

⁽¹⁾ The rate/volume variance for each category has been allocated on a consistent basis between rate and volume variance based on the percentage of rate or volume variance to the sum of the two absolute variances, except in categories having balances in only one period. In such cases, the entire variance is attributed to volume differences.

⁽²⁾ Computed on a fully taxable equivalent basis using a federal income tax rate of 34%.

Management currently expects that interest rates may move slightly higher, but within a narrow range in 2005. Management has not presently identified any factors that would cause interest rates to increase or decrease sharply in a short time period. However, dramatic changes in interest rates that can significantly affect the Company, either positively or negatively, are possible. Any significant changes in net interest income for 2005 are currently expected to be the result of changes in the volumes of interest earning assets and liabilities. Management expects to continue to use its marketing strategies to attempt to increase the Company's market share for both deposits and quality loans within its service areas. These strategies include offering competitive interest rates, and continuing the Company's commitment to providing outstanding customer service.

Interest Rate Sensitivity

Interest rate sensitivity measures the timing and magnitude of the repricing of assets compared with the repricing of liabilities and is an important part of asset/liability management. The objective of interest rate sensitivity management is to generate stable growth in net interest income, and to control the risks associated with interest rate movements. Management constantly monitors interest rate risk exposures and the expected interest rate environment so that timely adjustments in interest rate sensitivity can be made. In an effort to improve asset/liability management and improve net interest income in future years, the Company has engaged an experienced consultant to advise management and the Board of Directors in this vital area. Throughout 2005, Management intends to closely monitor the Company's interest sensitivity position and intends to take appropriate and timely actions to promote stable growth in net interest income.

The table, "Interest Sensitivity Analysis", indicates that, on a cumulative basis through twelve months, rate sensitive liabilities exceeded rate sensitive assets, resulting in a liability sensitive position at the end of 2004 of \$18,214,000, and a cumulative gap ratio of 23.59%. From a long-term perspective, the interest sensitivity analysis indicates that on a cumulative basis over five years, the Company is in an asset sensitive position of \$14,086,000 or a cumulative gap of 18.24%. When interest sensitive assets exceed interest sensitive liabilities for a specific repricing "horizon", a positive interest sensitivity gap results. The gap is negative when interest sensitive liabilities exceed interest sensitive assets, as was the case at the end of 2004 with respect to the one-year time horizon. For a bank with a negative gap, falling interest rates ordinarily would be expected to have a positive effect on net interest income and rising rates ordinarily would be expected to have the opposite effect. However, in a rapidly falling interest rate environment, net interest income can decrease despite a negative interest sensitivity gap. This occurs because debtors can obtain lower interest rate financing by prepaying, refinancing or renegotiating their existing, higher fixed-rate mortgage and other loans. Similarly, issuers of federal and local government securities can exercise early call options to prepay or refinance their debt securities at lower rates. In a rising interest rate environment, a negative gap would have an adverse impact on net income. Interest earning assets would not reprice, through prepayment, refinancing or other options while the interest bearing liabilities would, resulting in a lower interest rate spread and ultimately a lower net income.

A mismatch in the size of the interest rate changes that are possible for certain interest sensitive assets and liabilities can also have a negative effect on net interest margins in a rapidly falling interest rate environment. For example, the Company is relatively constrained in its ability to reprice interest bearing transaction accounts and savings accounts. Although these deposits are interest sensitive in the earliest period shown in the table, the rates paid cannot decrease below zero. Yields on interest earning assets, however, are generally established at interest rates in excess of the Company's cost to acquire funds, and may therefore decrease further before they are similarly constrained.

The table reflects the balances of interest earning assets and interest bearing liabilities at the earlier of their repricing or maturity dates. Amounts of fixed rate loans are reflected at the loans' final maturity dates. Variable rate loans are reflected at the earlier of their contractual maturity date or the date at which the loans may be repriced contractually. Interest bearing deposits in other banks and debt securities are reflected at the earlier of each instrument's ultimate maturity or contractual repricing date. Interest bearing liabilities with no contractual maturity, such as interest bearing transaction accounts and savings deposits, are reflected in the earliest repricing interval due to contractual arrangements which give management the opportunity to vary the rates paid on these deposits within a thirty-day or shorter period. However, the Company is under no obligation to vary the rates paid on those deposits within any given period. Fixed rate time deposits, principally certificates of deposit, are reflected at their contractual maturity dates. Variable rate time deposits, principally individual retirement accounts, are reflected at the earlier of their next repricing or maturity dates.

Interest Sensitivity Analysis

December 31, 2004

(Dollars in thousands)	Within Three Months	After Three Through Twelve Months	Greater Than One Less Than Five Years	Over Five Years	Total
Assets					
Earning Assets:					
Interest-earning deposits with other banks	\$ 21	\$ -	\$ -	\$ -	\$ 21
Federal funds sold	6,750	-	-	-	6,750
Securities available for sale	311	-	3,792	10,099	14,202
Nonmarketable equity securities	372	-	-	-	372
Loans receivable ⁽¹⁾	<u>24,543</u>	<u>4,256</u>	<u>23,799</u>	<u>3,271</u>	<u>55,869</u>
Total earning assets	31,997	4,256	27,591	13,370	77,214
Liabilities					
Interest-bearing liabilities					
Interest-bearing transaction accounts	26,859	-	-	-	26,859
Savings deposits	4,214	-	-	-	4,214
Time deposits \$100,000 and over	4,240	5,633	1,332	195	11,400
Other time deposits	5,004	8,517	2,897	237	16,655
Borrowings	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>4,000</u>
Total interest bearing liabilities	40,317	14,150	8,229	432	63,128
Period gap	\$ (8,320)	\$ (9,984)	\$ 19,362	\$ 12,138	\$ 14,086
Cumulative gap	\$ (8,320)	\$ (18,214)	\$ 1,148	\$ 14,086	
Ratio of cumulative gap to total earning assets	(10.78%)	(23.59%)	1.49%	18.24%	

⁽¹⁾ Loans are net of deferred loan fees of \$53.

Provision for Loan Losses

The provision for loan losses is charged to earnings based on management's continuing review and evaluation of the loan portfolio and general economic conditions. Management provided \$206,000 and \$96,000 for loan losses in 2004 and 2003, respectively. The significant increase in the 2004 provision resulted primarily from the increase in loans in non-accrual status, an increase in past due loans and an increase in loan volume, resulting in a higher amount funded to the allowance during 2004. See "Allowance for Loan Losses" for a discussion of the methodology used and factors considered by management in its estimate of the allowance for loan losses.

Noninterest Income

Noninterest income for 2004 was \$981,000, an increase of \$149,000 or 17.91% over the 2003 amount of \$832,000. The increase in 2004 primarily was attributable to the Company's having implemented a new fee-based automatic overdraft privilege product in 2002 which accounted for the significant increase in service charges, from \$771,000 in 2003 to \$909,000 in 2004, an increase of \$138,000 or 17.90%.

Management will continue to review and adjust when appropriate the pricing of all fee based services. As they arise, opportunities to expand noninterest fee income on both new and existing services will also be explored.

Other Expenses

Noninterest expenses for 2004 increased by \$301,000 or 12.32%, to \$2,745,000. This increase is attributable to a number of factors. Salaries and employee benefits increased by \$137,000 or 10.02%, to \$1,504,000. This increase over the 2003 period was caused by the addition of more personnel combined with normal salary increases. Net occupancy, furniture and equipment and all other expenses for 2004 were \$20,000, \$35,000 and \$109,000 higher than in 2003, respectively. These increases were primarily attributable to renovations made in the main branch along with the addition of imaging technology.

Increases in noninterest expenses are closely monitored and cost control will continue to be emphasized by management where possible in order to achieve profitability objectives as well as attain the Company's goals of growth.

Income Taxes

For 2004, federal and state income tax expenses increased to \$455,000 from \$327,000 in 2003. The Company's effective tax rate was 30 percent in both 2004 and 2003.

Securities

The following table summarizes the carrying value amounts of securities held by the Company at December 31, 2004 and 2003:

Securities Portfolio Composition

(Dollars in thousands)

	<u>2004</u>	<u>2003</u>
Securities available for sale		
U. S. Government agencies	\$ 1,985	\$ 2,994
State, county, and municipal	5,347	5,504
Mortgage-backed securities	<u>6,870</u>	<u>9,900</u>
Total	<u>\$ 14,202</u>	<u>\$ 18,398</u>

On an ongoing basis, management assigns securities upon purchase into one of the categories designated by Statement of Financial Accounting Standards ("SFAS") No. 115 (trading, available for sale or held to maturity) based on intent, taking into consideration other factors, including expectations for changes in market rates of interest, liquidity needs, asset/liability management strategies, and capital requirements. The Company has never held securities for trading purposes. During 2004 and 2003, there were no transfers of available for sale or held to maturity securities to other categories.

At December 31, 2004, the Company held one U.S. Government agency security and two mortgage-backed securities that were in a continuous loss position for a period of twelve months. The Company believes that the deterioration in value is attributable to changes in market interest rates and not in credit quality and considers these losses to be temporary. The Company has the ability and intent to hold these securities until such time as the value recovers or the securities matures and thus believes there are no unrealized losses in its securities portfolio that are other-than-temporary.

At December 31, 2004, the Company had no concentrated investments representing 10% or more of equity capital in the debt securities of any individual state, county or municipal issuer.

The following table presents maturities and weighted average yields of securities based on the carrying value at December 31, 2004.

Securities Portfolio Maturities and Yields

(Dollars in thousands)	<u>Within One Year</u>		<u>After One But Within Five Years</u>		<u>After Five But Within Ten Years</u>		<u>After Ten Years</u>		<u>Total</u>	
	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>
Available for sale securities										
U. S. Government agencies	\$ -	-	\$ 1,488	2.90	\$ 497	3.13	\$ -	-	\$ 1,985	2.95
State, county and municipal ⁽¹⁾	291	6.34	2,111	5.71	1,822	5.10	1,123	6.05	5,347	5.60
Mortgage-backed ⁽²⁾	-	-	212	3.14	2,348	3.47	4,310	3.94	6,870	3.76
Total	<u>\$ 291</u>	<u>6.34</u>	<u>\$ 3,811</u>	<u>4.47</u>	<u>\$ 4,667</u>	<u>4.07</u>	<u>\$ 5,433</u>	<u>4.38</u>	<u>\$ 14,202</u>	<u>4.34</u>

⁽¹⁾ Computed on a fully taxable equivalent basis using a federal income tax rate of 34%.

⁽²⁾ Maturity categories based upon final stated maturity dates. Average maturity is substantially shorter because of the monthly return of principal on certain securities.

Loan Portfolio

Management believes the loan portfolio is adequately diversified. There are no significant concentrations of loans in any particular individuals or industry or group of related individuals or industries, and there are no foreign loans.

The amounts of loans outstanding at December 31, 2004 and 2003 are shown in the following table according to type of loan, and the percentage of each category to total loans:

Loan Portfolio Composition

(Dollars in thousands)	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real estate - Construction	\$ 8,883	15.9%	\$ 3,553	8.1%
Real estate - Mortgage				
Farmland	575	1.0	1,259	2.9
1 - 4 family residential	13,785	24.7	13,023	29.7
Nonfarm, nonresidential	8,298	14.9	9,401	21.5
Commercial and industrial	20,515	36.8	12,114	27.7
Consumer installment	3,760	6.8	4,438	10.1
Total loans	<u>\$ 55,816</u>	<u>100.0%</u>	<u>\$ 43,788</u>	<u>100.0%</u>

A certain degree of risk taking is inherent in the extension of credit. Management has established loan and credit policies designed to control both the types and amounts of risks assumed and to ultimately minimize losses. Such policies include limitations on loan-to-collateral values for various types of collateral, requirements for appraisals of real estate collateral, problem loan management practices and collection procedures, and nonaccrual and charge-off guidelines.

Commercial and industrial loans primarily represent loans made to businesses, and may be made on either a secured or an unsecured basis. When taken, collateral usually consists of liens on receivables, equipment, inventories, furniture and fixtures. Unsecured business loans are generally short-term with emphasis on repayment strengths and low debt-to-worth ratios. Commercial lending involves significant risk because repayment usually depends on the cash flows generated by a borrower's business, and the debt service capacity of a business can deteriorate because of

downturns in national and local economic conditions. To control risk, more in-depth initial and continuing financial analysis of a commercial borrower's cash flows and other financial information is generally required.

Real estate construction loans generally consist of financing the construction of 1-4 family dwellings and some nonfarm, nonresidential real estate. Usually, loan-to-value ratios are limited to 75% and permanent financing commitments are usually required prior to the advancement of loan proceeds. The volume of real estate construction loans can vary significantly in any given period depending on building activity in the local market.

Loans secured by real estate mortgages comprised approximately 57% of the Company's loan portfolio at December 31, 2004. Residential real estate loans consist mainly of first and second mortgages on single family homes. Loan-to-value ratios for these instruments are generally limited to 80%. Nonfarm, nonresidential loans are secured by business and commercial properties with loan-to-value ratios generally limited to 75%. The repayment of both residential and business real estate loans is dependent primarily on the income and cash flows of the borrowers, with the real estate serving as a secondary or liquidation source of repayment.

Maturity Distribution of Loans

The following table sets forth the maturity distribution of the Company's loans, by type, as of December 31, 2004, as well as the type of interest requirement on such loans.

(Dollars in thousands)	One Year or Less	One to Five Years	Over Five Years	Total
Real estate - Construction	\$ 5,661	\$ 3,136	\$ 86	\$ 8,883
Real estate - Mortgage	2,052	9,721	10,144	21,917
Commercial and Industrial	5,434	13,844	1,237	20,515
Consumer	<u>1,714</u>	<u>2,625</u>	<u>162</u>	<u>4,501</u>
Total loans	<u>\$ 14,861</u>	<u>\$ 29,326</u>	<u>\$ 11,629</u>	<u>\$ 55,816</u>
Predetermined rate, maturity greater than one year				\$ 27,070
Variable rate, maturity greater than one year				\$ 13,885

Nonperforming Loans

When a loan is 90 days or more past due as to interest or principal or there is serious doubt as to ultimate collectibility, the accrual of interest income is generally discontinued. Previously accrued interest on loans placed in nonaccrual status is reversed against current income, and subsequent interest income is recognized on a cash basis when received. When the collectibility of a significant amount of principal is in serious doubt, collections are credited first to the remaining principal balance on a cost recovery basis. A nonaccrual loan is not returned to accrual status unless principal and interest are current and the borrower has demonstrated the ability to continue making payments as agreed.

At December 31, 2004, nonaccruing loans consisted of three loans totaling \$226,000.

As of December 31, 2004, management believes that in the event of foreclosure on the three loans discussed in the preceding paragraph the Bank will not incur a significant loss on those loans because of the estimated market value of the related collateral. However, there can be no assurance that in the case of liquidation the collateral can be sold for its estimated fair market value or even for an amount at least equal to or greater than the amount owed to the Bank.

Following is a summary of the Company's nonperforming loans at December 31, 2004 and 2003:

(Dollars in thousands)	2004	2003
Nonaccrual loans	\$ 226	\$ 194
Accruing loans 90 days or more past due	-	-
Total	<u>\$ 226</u>	<u>\$ 194</u>
Percent of total loans	0.40%	0.44%

The effects of interest income accrued and collected on nonaccruing loans were immaterial to the consolidated financial statements for 2004 and 2003.

As of December 31, 2004, there were no commitments to lend additional funds to debtors owing amounts on impaired loans.

Impaired Loans

A loan will be considered to be impaired when, in management's judgment based on current information and events, it is probable that the loan's principal or interest will not be collectible in accordance with the terms of the original loan agreement. Impaired loans, when not material, will be carried in the balance sheet at a value not to exceed their observable market price or the fair value of the collateral if the repayment of the loan is expected to be provided solely by the underlying collateral. The carrying values of any material impaired loans will be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, which is the contractual interest rate adjusted for any deferred loan fees or costs, premium or discount existing at the inception or acquisition of the loan.

Loans which management identifies as impaired generally will be nonperforming loans. Nonperforming loans include nonaccrual loans or loans which are 90 days or more delinquent as to principal or interest payments. At December 31, 2004 and 2003, the Bank had nonaccrual loans of \$226,000 and \$194,000, respectively. There were no loans 90 days or more past due and still accruing interest and no restructured loans at December 31, 2004 and 2003.

Generally, the accrual of interest will be discontinued on impaired loans and any previously accrued interest on such loans will be reversed against current income. Any subsequent interest income will be recognized on a cash basis when received unless collectibility of a significant amount of principal is in serious doubt. In such cases, collections are credited first to the remaining principal balance on a cost recovery basis. An impaired loan will not be returned to accrual status unless principal and interest are current and the borrower has demonstrated the ability to continue making payments as agreed.

Potential Problem Loans

Management reviews and identifies a list of potential problem loans. These are loans that are not included in nonaccrual status or loans that are past due 90 days or more and still accruing interest. A loan is added to the potential problem list when management becomes aware of information about possible credit problems of borrowers that causes doubts as to the ability of such borrowers to comply with the current loan repayment terms. At December 31, 2004, there were no loans identified as potential problem loans.

Allowance for Loan Losses

The allowance for loan losses is increased by direct charges to operating expense. Losses on loans are charged against the allowance in the period in which management has determined it is more likely than not that such loans have become uncollectible. Recoveries of previously charged off loans are credited to the allowance. The table, "Summary of Loan Loss Experience", summarizes loan balances at the end of each period indicated, averages for each period, changes in the allowance arising from charge-offs and recoveries by loan category, and additions to the allowance which have been charged to expense.

In reviewing the adequacy of the allowance for loan losses at each year end, management considered the historical loan losses experienced by the Company, current economic conditions affecting the borrowers' ability to repay, the volume of loans, the trends in delinquent, nonaccruing, and potential problem loans, and the quality of collateral securing nonperforming and problem loans. After charging off all known losses, management considers the allowance for loan losses adequate to cover its estimate of loan losses inherent in the loan portfolio at December 31, 2004. The increase in the allowance for loan losses as a percent of loans can be attributed to continued growth of the Bank and change in portfolio mix.

In calculating the amount required in the allowance for loan losses, management applies a consistent methodology that is updated quarterly. The methodology utilizes a loan risk grading system and detailed loan reviews to assess credit risks and the overall quality of the loan portfolio. Also, the calculation provides for management's assessment of trends in national and local economic conditions that might affect the general quality of the loan portfolio. See "Allowance for Loan Losses" in Note 1 to the consolidated financial statements for further information about the allowance for loan losses.

Summary of Loan Loss Experience

(Dollars in thousands)	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Total loans outstanding at end of period	<u>\$ 55,816</u>	<u>\$ 43,788</u>	<u>\$ 35,061</u>	<u>\$ 31,811</u>	<u>\$ 30,768</u>
Average loans outstanding	<u>\$ 51,404</u>	<u>\$ 42,509</u>	<u>\$ 33,677</u>	<u>\$ 30,997</u>	<u>\$ 29,590</u>
Balance of allowance for loan losses – beginning	<u>\$ 450</u>	<u>\$ 360</u>	<u>\$ 274</u>	<u>\$ 254</u>	<u>\$ 259</u>
Loans charged off:					
Commercial and industrial	\$ -	\$ -	\$ 225	\$ -	\$ 46
Consumer installment	<u>36</u>	<u>11</u>	<u>48</u>	<u>15</u>	<u>7</u>
Total charge offs	<u>36</u>	<u>11</u>	<u>273</u>	<u>15</u>	<u>53</u>
Recoveries of previous charge offs:					
Consumer installment	<u>5</u>	<u>5</u>	<u>2</u>	<u>1</u>	<u>1</u>
Total recoveries	<u>5</u>	<u>5</u>	<u>2</u>	<u>1</u>	<u>1</u>
Net charge offs	<u>31</u>	<u>6</u>	<u>271</u>	<u>14</u>	<u>52</u>
Additions to allowance charged to expense	<u>206</u>	<u>96</u>	<u>357</u>	<u>34</u>	<u>47</u>
Balance of allowance for loan losses – ending	<u>\$ 625</u>	<u>\$ 450</u>	<u>\$ 360</u>	<u>\$ 274</u>	<u>\$ 254</u>
Net charge offs to average loans	0.06%	0.01%	0.80%	0.05%	0.18%
Net charge offs to loans at end of period	0.06%	0.01%	0.77%	0.04%	0.17%
Allowance for loan losses to average loans	1.22%	1.06%	1.07%	0.88%	0.86%
Allowance for loan losses to loans at end of period	1.12%	1.03%	1.03%	0.86%	0.83%
Net charge offs to allowance for loan losses	4.96%	1.33%	75.28%	5.11%	20.47%
Net charge offs to provision for loan losses	15.05%	6.25%	75.91%	41.18%	110.64%

The following table presents the allocation of the allowance for loan losses at the end of each of the last two years, compared with the percent of loans in the applicable categories to total loans. The allowance is, however, available to support losses in all categories.

Allocation of Allowance for Loan Losses

(Dollars in thousands)	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Commercial and industrial	\$ 230	36.8%	\$ 125	27.8%
Real estate - construction	99	15.8	36	8.0
Real estate - mortgage	253	40.5	243	54.0
Consumer installment	<u>43</u>	<u>6.9</u>	<u>46</u>	<u>10.2</u>
Total allowance	<u>\$ 625</u>	<u>100.0%</u>	<u>\$ 450</u>	<u>100.0%</u>

Deposits

The average amounts and percentage composition of deposits held by the Company for each of the past two years are summarized below:

Average Deposits

(Dollars in thousands)	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Noninterest bearing demand	\$ 8,510	12.74%	\$ 8,155	12.67%
Interest bearing transaction accounts	23,394	35.02	23,441	36.42
Savings accounts	7,891	11.81	7,240	11.25
Time deposits of \$100,000 or over	11,079	16.59	9,321	14.48
Other time	<u>15,923</u>	<u>23.84</u>	<u>16,214</u>	<u>25.18</u>
Total deposits	<u>\$ 66,797</u>	<u>100.00%</u>	<u>\$ 64,371</u>	<u>100.00%</u>

As of December 31, 2004, there were approximately \$11,400,000 in time deposits of \$100,000 or more with approximately \$4,240,000 maturing within three months, \$3,541,000 maturing over three through six months, \$2,092,000 maturing over six through twelve months, and \$1,527,000 maturing after one year. Average time deposits \$100,000 and over comprised approximately 16.59% of total average deposits during 2004 and approximately 14.48% of total average deposits during 2003. The majority of time deposits \$100,000 and over is acquired from customers within the Company's local market area. Such deposits generally are acquired in the normal course of business. The Company does not purchase brokered deposits. While most of the large time deposits are acquired from customers with standing banking relationships, it is a common industry practice not to consider these types of deposits as core deposits because their retention can be expected to be heavily influenced by rates offered, and therefore such deposits have the characteristics of shorter-term purchased funds. Time deposits \$100,000 and over involve the maintenance of an appropriate matching of maturity distribution and a diversification of sources to achieve an appropriate level of liquidity.

Total deposits as of December 31, 2004 were approximately \$67,973,000, a \$5,301,000 or 8.46% increase from December 31, 2003. Management believes that the majority of the increase in deposits was attributable to its ability to compete successfully for deposits in the local service areas through its marketing efforts, offers of attractive interest rates for deposit accounts and its reputation for excellent customer service.

Return on Equity and Assets

The following table shows the return on assets (net income divided by average total assets), return on equity (net income divided by average equity), dividend payout ratio (dividends declared per share divided by net income per share), and equity to assets ratio (average equity divided by average total assets) for the years ended December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Return on assets	1.37%	1.06%
Return on equity	12.74%	9.68%
Dividend payout ratio	38.83%	66.78%
Equity to assets ratio	10.77%	10.15%

Liquidity

Liquidity is the ability to meet current and future obligations through liquidation or maturity of existing assets or the acquisition of additional liabilities. Adequate liquidity is necessary to meet the requirements of customers for loans and deposit withdrawals in the most timely and economical manner. Some liquidity is ensured by maintaining assets which may be immediately converted into cash at minimal cost (amounts due from banks and federal funds sold). However, the most manageable sources of liquidity are composed of liabilities, with the primary focus of liquidity management being on the ability to obtain deposits within the Company's market area. Core deposits (total deposits, less time deposits of \$100,000 and over) provide a relatively stable funding base, and the average of these deposits represented 73.4% of average total assets during 2004 compared with 76.5% during 2003.

The banking subsidiary had available at the end of 2004 unused short-term lines of credit to purchase up to \$2,400,000 of federal funds from unrelated correspondent institutions. Additionally, the Bank has undrawn long-term debt availability from the FHLB of approximately \$28,000,000. Asset liquidity is provided from several sources, including amounts due from banks and federal funds sold. Available for sale securities, particularly those maturing within one year, provide a secondary source of liquidity. In addition, funds from maturing loans are a source of liquidity.

The Company's ability to meet its cash obligations or to pay any possible future cash dividends to shareholders is dependent primarily on the successful operation of the Bank and its ability to pay cash dividends to the Company. Any of the Bank's cash dividends in an amount exceeding current year-to-date earnings are subject to the prior approval of the South Carolina Commissioner of Banking. In addition, dividends paid by the Bank to the Company would be prohibited if such payment would cause the Bank's capital to be reduced below applicable minimum regulatory requirements. Under Federal Reserve Board regulations, the amounts of loans or advances from the banking subsidiary to the Company are also restricted.

Management believes that the overall liquidity sources of both the Company and the Bank are adequate to meet their operating needs in the ordinary course of business.

Off-Balance Sheet Risk

The Company's off-balance sheet arrangements presently include only contractual commitments of the Bank to extend credit in the ordinary course of its business activities. These commitments are legally binding agreements to lend money to customers of the Bank at predetermined interest rates for a specified period of time as long as there is no violation of any condition in the contract. These commitments have elements of credit risk in excess of the amount recognized in the balance sheet. Generally, the same credit policies used for on-balance sheet arrangements, such as loans, are used in extending such commitments. At December 31, 2004, the Bank had issued commitments to extend credit of \$14,667,000 through various types of lending. A significant portion of these commitments will expire within one year. Past experience indicates that many of these commitments to extend credit will expire unused; therefore, the total amount of loan commitments does not necessarily represent future cash requirements.

However, as described in "Liquidity," the Company believes that it has adequate sources of liquidity to fund commitments that are drawn upon by the borrower.

The Company had standby letters of credit totaling \$37,000 outstanding at December 31, 2004. There were no standby letters of credit outstanding at December 31, 2003.

Neither the Company nor the Bank are involved in other off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments or significantly impact earnings.

Capital Resources

Shareholders' equity increased by \$569,000 and \$149,000 during 2004 and 2003, respectively.

The Company in 1999 established a dividend reinvestment program to provide shareholders with the opportunity to reinvest automatically all or a portion of their cash dividends into additional shares of the Company's common stock. Reinvestment of dividends in 2004 resulted in an increase of \$46,000 in shareholders' equity. Also during 1999, the Company initiated a limited program to redeem shares of its stock held by not-for-profit organizations. During 2004, repurchases and retirements of common stock reduced shareholders' equity by \$77,000.

During 2004, net income increased shareholders' equity by \$1,041,000, cash dividends decreased shareholders' equity by \$405,000 and unrealized losses on available for sale securities decreased shareholders' equity by \$36,000.

The Company and the Bank are each subject to regulatory risk-based capital adequacy standards. Under these standards, bank holding companies and banks are required to maintain certain minimum ratios of capital to risk-weighted assets and average total assets. Under the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), federal bank regulatory authorities are required to implement prescribed "prompt corrective actions" upon the deterioration of the capital position of a bank or bank holding company. If the capital position of an affected institution were to fall below certain levels, increasingly stringent regulatory corrective actions are mandated. Unrealized holding gains and losses on available for sale securities are generally excluded for purposes of calculating regulatory capital ratios. However, the extent of any unrealized appreciation or depreciation on securities will continue to be a factor that regulatory examiners consider in their overall assessment of capital adequacy.

Quantitative measures established by regulation to ensure capital adequacy require both the Company and the Bank to maintain minimum amounts and ratios set forth in the table below of Total and Tier 1 Capital, as defined in the regulation, to risk weighted assets, as defined, and of Tier 1 Capital, as defined, to average assets, as defined. Management believes, as of December 31, 2004 and 2003, that the Company and the Bank exceeded all capital adequacy minimum requirements to which they were subject.

To be categorized as well capitalized, the Company and the Bank must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. The federal regulators may also categorize the Company or the Bank as less than well capitalized based on subjective criteria. Management knows of no conditions or events that would cause the Company or the Bank to be categorized as less than well capitalized.

Risk-Based Capital Ratio

(Dollars in thousands)	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To be Well-Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2004						
The Company						
Total capital to risk-weighted assets	\$ 9,146	14.31%	\$ 5,113	8.0%	\$ 6,391	10.0%
Tier 1 capital to risk-weighted assets	8,521	13.33	2,556	4.0	3,834	6.0
Tier 1 capital to average assets	8,521	10.45	2,447	3.0	4,078	5.0
Clover Community Bank						
Total capital to risk-weighted assets	\$ 8,585	13.43%	\$ 5,113	8.0%	\$ 6,391	10.0%
Tier 1 capital to risk-weighted assets	7,960	12.46	2,556	4.0	3,834	6.0
Tier 1 capital to average assets	7,960	9.76	2,447	3.0	4,078	5.0
December 31, 2003						
The Company						
Total capital to risk-weighted assets	\$ 7,772	15.76%	\$ 3,945	8.0%	\$ 4,931	10.0%
Tier 1 capital to risk-weighted assets	7,322	14.85	1,974	4.0	2,961	6.0
Tier 1 capital to average assets	7,322	10.25	2,144	3.0	3,573	5.0
Clover Community Bank						
Total capital to risk-weighted assets	\$ 7,772	15.76%	\$ 3,945	8.0%	\$ 4,931	10.0%
Tier 1 capital to risk-weighted assets	7,322	14.85	1,974	4.0	2,961	6.0
Tier 1 capital to average assets	7,322	10.25	2,144	3.0	3,573	5.0

Inflation

Since the assets and liabilities of a bank are primarily monetary in nature (payable in fixed, determinable amounts), the performance of a bank is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in rates may not be the same. While the effect of inflation on banks is normally not as significant as is its influence on those businesses which have large investments in plant and inventories, it does have an effect. During periods of high inflation, there are normally corresponding increases in the money supply, and banks will normally experience above-average growth in assets, loans and deposits. Also, general increases in the prices of goods and services will result in increased operating expenses.

Impact of Recent Accounting Changes

The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 was generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on the financial condition or operating results of the Company.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. FIN No. 46 also requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. FIN No. 46 provides guidance for determining whether an entity qualifies as a variable interest entity by considering, among other considerations, whether the entity lacks sufficient equity or its equity holders lack adequate decision-making ability. The consolidation requirements of FIN No. 46 applied immediately to variable interest entities created after January 31, 2003. The consolidation requirements applied to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements applied to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN No. 46 did not have a material effect on the Company's financial position or results of operations.

In November 2003, the Emerging Issues Task Force ("EITF") reached a consensus that certain quantitative and qualitative disclosures should be required for debt and marketable equity securities classified as available for sale or held to maturity under SFAS No. 115 and SFAS No. 124 that are impaired at the balance sheet date but for which other-than-temporary impairment has not been recognized. Accordingly the EITF issued EITF No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This issue addresses the meaning of other-than-temporary impairment and its application to investments classified as either available for sale or held to maturity under SFAS No. 115 and provides guidance on quantitative and qualitative disclosures. The disclosure requirements of EITF No. 03-1 are effective for annual financial statements for fiscal years ending after June 15, 2004. The effective date for the measurement and recognition guidance of EITF No. 03-1 has been delayed. The FASB staff has issued a proposed Board-directed FASB Staff Position ("FSP"), FSP EITF 03-1-a, *Implementation Guidance for the Application of Paragraph 16 of Issue No. 03-1*. The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under the measurement and recognition requirements of EITF No. 03-1. The delay of the effective date for the measurement and recognition requirements of EITF No. 03-1 will be superseded concurrent with the final issuance of FSP EITF 03-1-a. Adopting the disclosure provisions of EITF No. 03-1 did not have any impact on the Company's financial position or results of operations.

In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 105, *Application of Accounting Principles to Loan Commitments*, to inform registrants of the Staff's view that the fair value of the recorded loan commitments should not consider the expected future cash flows related to the associated servicing of the future loan. The provisions of SAB No. 105 must be applied to loan commitments accounted for as derivatives that are entered into after March 31, 2004. The Staff will not object to the application of existing accounting practices to loan commitments accounted for as derivatives that are entered into on or before March 31, 2004, with appropriate disclosures. The Company adopted the provisions of SAB No. 105 on April 1, 2004. The adoption of SAB No. 105 did not have a material impact on the Company's financial condition or results of operations.

Other accounting standards that have been issued or proposed by the Public Company Accounting Oversight Board ("PCAOB") or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Clover Community Bankshares, Inc. and Subsidiary
Clover, South Carolina

We have audited the accompanying consolidated balance sheets of *Clover Community Bankshares, Inc. and Subsidiary* (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of *Clover Community Bankshares, Inc. and Subsidiary* as of December 31, 2004 and 2003 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Greenville, South Carolina
February 11, 2005

CLOVER COMMUNITY BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 1,383,919	\$ 2,561,973
Interest-earning deposits in other banks	20,763	14,851
Federal funds sold	6,750,000	3,371,000
Total cash and cash equivalents	8,154,682	5,947,824
Investment securities:		
Securities available for sale	14,201,616	18,398,485
Nonmarketable equity securities	371,900	250,000
Total investment securities	14,573,516	18,648,485
Loans receivable	55,816,104	43,788,077
Less allowance for loan losses	(624,965)	(449,541)
Loans, net	55,191,139	43,338,536
Premises, furniture and equipment, net	2,193,674	2,307,793
Accrued interest receivable	341,435	321,943
Other assets	472,696	428,527
Total assets	\$ 80,927,142	\$ 70,993,108
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 8,845,397	\$ 9,348,902
Interest-bearing	59,127,972	53,323,266
Total deposits	67,973,369	62,672,168
Advances from Federal Home Loan Bank	4,000,000	-
Accrued interest payable	256,210	202,073
Other liabilities	90,938	80,384
Total liabilities	72,320,517	62,954,625
COMMITMENTS AND CONTINGENCIES - NOTE 12	-	-
SHAREHOLDERS' EQUITY		
Common stock, par value \$.01 per share, 10,000,000 shares authorized and outstanding - 1,011,056 and 1,012,779 shares for 2004 and 2003, respectively	10,111	10,128
Capital surplus	3,385,909	3,417,261
Retained earnings	5,124,541	4,488,686
Accumulated other comprehensive income	86,064	122,408
Total shareholders' equity	8,606,625	8,038,483
Total liabilities and shareholders' equity	\$ 80,927,142	\$ 70,993,108

The accompanying notes are an integral part of these consolidated financial statements.

CLOVER COMMUNITY BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31,	
	2004	2003
Interest income:		
Loans, including fees	\$ 3,614,956	\$ 2,918,743
Interest-earning deposits in other banks	360	1,326
Investment securities:		
Taxable	346,086	409,035
Tax-exempt	209,721	213,067
Nonmarketable equity securities	8,717	9,818
Federal funds sold	61,551	84,292
Total interest income	4,241,391	3,636,281
Interest expense:		
Time deposits \$100,000 and over	215,931	197,276
Other deposits	530,260	589,836
Federal funds purchased	95	-
Advances from Federal Home Loan Bank	29,441	49,201
Total interest expense	775,727	836,313
Net interest income	3,465,664	2,799,968
Provision for loan losses	206,000	96,000
Net interest income after provision for loan losses	3,259,664	2,703,968
Noninterest income:		
Service charges on deposit accounts	908,551	770,763
Credit life insurance commissions	7,755	3,077
Gain on sale of securities available for sale	740	-
Other	64,123	58,367
Total noninterest income	981,169	832,207
Noninterest expense:		
Salaries and employee benefits	1,503,745	1,366,756
Net occupancy	146,128	126,389
Furniture and equipment	314,432	279,338
Printing, postage and stationery	133,710	148,882
Professional services	99,037	103,574
Data processing	99,058	82,105
ATM/Debit card	82,843	67,844
Directors fees	42,500	46,000
Other operating	323,417	222,934
Total noninterest expense	2,744,870	2,443,822
Income before income taxes	1,495,963	1,092,353
Income tax expense	455,000	326,825
Net income	\$ 1,040,963	\$ 765,528
Earnings per share		
Weighted average number of common shares outstanding	1,012,216	1,014,665
Basic earnings per share	\$ 1.03	\$ 0.75

The accompanying notes are an integral part of these consolidated financial statements.

CLOVER COMMUNITY BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
For the years ended December 31, 2004 and 2003

	Common stock		Capital	Retained	Accumulated	Total
	Shares	Amount	surplus	earnings	other comprehensive income (loss)	
Balance, December 31, 2002	1,014,581	\$ 10,146	\$ 3,454,709	\$ 4,230,403	\$ 194,500	\$ 7,889,758
Net income	-	-	-	765,528	-	765,528
Other comprehensive loss:						
Net unrealized holding losses on securities available for sale, net of income tax benefit of \$(40,374)	-	-	-	-	(72,092)	(72,092)
Comprehensive income						693,436
Cash dividends declared - \$0.50 per share	-	-	-	(507,245)	-	(507,245)
Sale of common stock under dividend reinvestment plan	2,198	22	62,552	-	-	62,574
Repurchase and retirement of common stock	(4,000)	(40)	(100,000)	-	-	(100,040)
Balance, December 31, 2003	1,012,779	10,128	3,417,261	4,488,686	122,408	8,038,483
Net income	-	-	-	1,040,963	-	1,040,963
Other comprehensive loss:						
Net unrealized holding losses on securities available for sale, net of income tax benefit of \$(20,355)	-	-	-	-	(36,344)	(36,344)
Comprehensive income						1,004,619
Cash dividends declared - \$0.40 per share	-	-	-	(405,108)	-	(405,108)
Sale of common stock under dividend reinvestment plan	1,561	16	45,889	-	-	45,905
Repurchase and retirement of common stock	(3,284)	(33)	(77,241)	-	-	(77,274)
Balance, December 31, 2004	1,011,056	\$ 10,111	\$ 3,385,909	\$ 5,124,541	\$ 86,064	\$ 8,606,625

The accompanying notes are an integral part of these consolidated financial statements.

**CLOVER COMMUNITY BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the years ended December 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 1,040,963	\$ 765,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	206,000	96,000
Depreciation	213,029	172,361
Increase in deferred loan fees and costs	6,629	5,489
Discount accretion and premium amortization	25,599	41,956
Deferred income tax expense (benefit)	13,257	(9,512)
Gain on sale of securities available for sale	(740)	-
Increase in accrued interest receivable	(19,492)	(49,883)
Increase (decrease) in accrued interest payable	54,137	(1,025)
Increase in other assets	(57,426)	(88,861)
Increase in other liabilities	30,909	10,430
Net cash provided by operating activities	<u>1,512,865</u>	<u>942,483</u>
Cash flows from investing activities:		
Purchases of securities available for sale	(2,006,536)	(11,073,596)
Maturities of securities available for sale	4,683,521	9,054,271
Proceeds from sales of securities available for sale	1,438,326	-
Purchase of nonmarketable equity securities	(121,900)	-
Net increase in loans made to customers	(12,065,232)	(8,739,151)
Purchase of premises, furniture and equipment	(98,910)	(198,616)
Net cash used for investing activities	<u>(8,170,731)</u>	<u>(10,957,092)</u>
Cash flows from financing activities:		
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	2,661,071	11,202,882
Net increase in certificates of deposit and other time deposits	2,640,130	2,778,488
Borrowings (repayments) of advances from Federal Home Loan Bank	4,000,000	(4,000,000)
Cash dividends paid	(405,108)	(507,245)
Sales of common stock under dividend reinvestment plan	45,905	62,574
Repurchase and retirement of common stock	(77,274)	(100,040)
Net cash provided by financing activities	<u>8,864,724</u>	<u>9,436,659</u>
Net increase (decrease) in cash and cash equivalents	2,206,858	(577,950)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,947,824</u>	<u>6,525,774</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,154,682</u>	<u>\$ 5,947,824</u>

The accompanying notes are an integral part of these consolidated financial statements.

CLOVER COMMUNITY BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Clover Community Bankshares, Inc. (the "Company"), a bank holding company, and its wholly-owned subsidiary, Clover Community Bank (the "Bank"), are engaged in providing domestic commercial banking services from their headquarters office in Clover, South Carolina and from a branch office in Lake Wylie, South Carolina. The Company is a South Carolina corporation and the Bank is a state chartered commercial bank with its deposits insured by the Federal Deposit Insurance Corporation (the "FDIC"). Therefore, the Company and its bank subsidiary operate under the supervision, rules and regulations of the Federal Reserve Board, FDIC and South Carolina State Board of Financial Institutions. The Company was incorporated on March 4, 1998 and the Bank was organized in 1986 and first commenced commercial operations on October 1, 1987.

Clover Community Bank is a community-oriented institution offering a full range of traditional banking services, with the exception of trust services. Substantially all of its loans are made to individuals and businesses within the Clover and Lake Wylie areas of York County, South Carolina. The Bank has a diversified loan portfolio and borrowers' abilities to repay are not dependent upon any specific economic sector. Also, substantially all of its deposits are acquired within its local market area and no brokered deposits are accepted.

Principles of Consolidation and Basis of Presentation - The consolidated financial statements include the accounts of the Company and the Bank after elimination of all significant intercompany balances and transactions.

Use of Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as well as amounts of income and expenses during the reporting period. Actual results could differ significantly from those estimates.

Investment Securities - Equity securities that have readily determinable fair values and all debt securities are classified generally at the time of purchase into one of three categories: held to maturity, trading or available for sale. Debt securities which the Company has the positive intent and ability to hold to ultimate maturity are classified as held to maturity and accounted for at amortized cost. Debt and equity securities that are bought and held primarily for sale in the near term are classified as trading and are accounted for on an estimated fair value basis, with unrealized gains and losses included in other income. However, the Company has never held any securities for trading purposes. Securities not classified as either held to maturity or trading are classified as available for sale and are accounted for at estimated fair value. Unrealized holding gains and losses on available for sale securities are excluded from earnings and recorded as other comprehensive income, net of applicable income tax effects. Dividend and interest income, including amortization of any premium or accretion of discount arising at acquisition, is included in earnings for all three categories of securities. Realized gains and losses on all categories of securities are included in other operating income, based on the amortized cost of the specific security on a trade date basis.

Nonmarketable Equity Securities - Nonmarketable equity securities consist of restricted securities, which are carried at cost. Management periodically evaluates these securities for impairment, with any appropriate downward valuation adjustments being made when necessary.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Loans Receivable and Interest Income - Loans are carried at principal amounts outstanding, increased or reduced by deferred net loan costs or fees. Interest income on loans is recognized using the interest method based upon the principal amounts outstanding. Loan origination and commitment fees and certain direct loan origination costs (principally salaries and employee benefits) are deferred and amortized as an adjustment of the related loan's yield. Generally, these amounts are amortized over the contractual life of the related loans or commitments. A loan is considered to be impaired when, in management's judgment based on current information and events, it is probable that the obligation's principal or interest will not be collectible in accordance with the terms of the original loan agreement. Impaired loans, when not material, are carried in the balance sheet at a value not to exceed their observable market price or the fair value of the collateral if the repayment of the loan is expected to be provided solely by the underlying collateral. The carrying value of any material impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, which is the contractual interest rate adjusted for any deferred loan fees or costs, premium or discount existing at the inception or acquisition of the loan. Generally, the accrual of interest is discontinued on impaired loans and any previously accrued interest on such loans is reversed against current income. Any subsequent interest income is recognized on a cash basis when received unless collectibility of a significant amount of principal is in serious doubt. In such cases, collections are credited first to the remaining principal balance on a cost recovery basis. An impaired loan is not returned to accrual status unless principal and interest are current and the borrower has demonstrated the ability to continue making payments as agreed.

Allowance for Loan Losses - An allowance for possible loan losses is maintained at a level deemed appropriate by management to adequately provide for known and estimated losses inherent in the loan portfolio. When management determines that a loan will not perform substantially as agreed, a review of the loan is initiated to ascertain whether it is more likely than not that a loss has occurred. If it is determined that a loan is uncollectible, the estimated amount of the loss is charged off and deducted from the allowance. The provision for possible loan losses and recoveries on loans previously charged off are added to the allowance. Determining the amount and adequacy of the allowance for loan losses involves estimating uncertain future events and their effects based on judgment applied to currently known facts and circumstances. Changes in the estimated allowance for loan losses necessitated as new events occur or more information is obtained are accounted for as changes in accounting estimates in the accounting period in which the change occurs.

Management considers the Company's historical loan loss experience, current national and local economic conditions affecting the borrowers' ability to repay, the volume of loans, the trends in delinquent, impaired and potential problem loans, and the amount and quality of collateral securing such loans in reviewing the adequacy of the allowance for loan losses. In calculating its estimate, management applies a consistent methodology that is updated quarterly. The calculation involves applying various estimated percentage factors to the loan portfolio categorized by purpose and type of underlying collateral and utilizing assessed risk grades from the Company's ongoing system of detailed loan reviews. For some loans, particularly those identified as impaired or a potential problem, specific allocations are made in the calculation.

Premises, Furniture and Equipment - Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed predominantly using the straight-line method. Rates of depreciation are generally based on the following estimated useful lives: building - 31.5 years; furniture and equipment - 5 to 7 years. The cost of assets sold or otherwise disposed of, and the related allowance for depreciation is eliminated from the accounts and the resulting gains or losses are reflected in the consolidated statements of income. Maintenance and repairs are charged to current expense as incurred and the costs of major renewals and improvements are capitalized.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Advertising - The Company expenses advertising and promotion costs as incurred.

Income Taxes - The Company uses an asset and liability approach for financial accounting and reporting of deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and income tax bases of assets and liabilities as measured by the current tax rates which are assumed in effect when these differences reverse. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized. Deferred income tax expense or credit is the result of changes in deferred tax assets and liabilities.

Earnings Per Share - Earnings per share is calculated by dividing net income by the weighted average number of shares of the Company's common stock outstanding during the period. The Company has no potential dilutive common shares, stock options or warrants outstanding and therefore has not presented diluted earnings per share.

Comprehensive Income - Comprehensive income consists of net income for the current period and other comprehensive income, defined as income, expenses, gains and losses that bypass the consolidated statement of income and are reported directly in a separate component of shareholders' equity. The Company classifies and reports items of other comprehensive income or loss by their nature, reports total comprehensive income or loss in the consolidated statement of changes in shareholders' equity and comprehensive income, and displays the accumulated balance of other comprehensive income or loss separately in the shareholders' equity section of the consolidated balance sheet. The components of other comprehensive income or loss and related tax effects are as follows:

	For the years ended December 31,	
	2004	2003
Unrealized losses on securities available for sale	\$ (55,959)	\$ (112,466)
Reclassification adjustment for gains realized in net income	(740)	-
Net unrealized losses on securities available for sale	(56,699)	(112,466)
Tax effect	20,355	40,374
Net-of-tax amount	\$ (36,344)	\$ (72,092)

Consolidated Statement of Cash Flows - The consolidated statement of cash flows reports net cash provided or used by operating, investing and financing activities and the net effect of those cash flows on cash and cash equivalents. Cash equivalents include amounts due from banks and federal funds sold and generally have an original maturity of three months or less.

The following summarizes supplemental cash flow information for the years ended December 31, 2004 and 2003:

	For the years ended December 31,	
	2004	2003
Cash paid for:		
Interest	\$ 721,590	\$ 836,313
Income taxes	404,300	389,244
Supplemental noncash investing and financing activities:		
Change in unrealized gain or loss on securities available for sale, net of tax	\$ (36,344)	\$ (72,092)

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fair Value Of Financial Instruments - Statement of Financial Accounting Standards (“SFAS”) No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information, whether or not recognized in the balance sheets, when it is practical to estimate the fair value. SFAS No. 107 defines a financial instrument as cash, evidence of an ownership interest in an entity or contractual obligations, which require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including the Company's common stock, premises, furniture and equipment and other assets and liabilities.

Estimates of the fair value of financial instruments are made at a specific point in time based on relevant market information about the instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no active trading market exists for a significant portion of the Company's financial instruments, fair value estimates are based on management's judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value approximates carrying value for the following financial instruments due to the short-term nature of the instrument: cash and due from banks, interest-bearing deposits in other banks and federal funds sold.

Investment securities are valued using quoted market prices. Fair value for the Company's off-balance sheet financial instruments is based on the discounted present value of the estimated future cash flows. The carrying value of nonmarketable equity securities is considered a reasonable estimate of fair value since no ready market exists for these securities and it has no quoted market value; however, redemption of this stock has historically been at par value.

Fair value for variable rate loans that reprice frequently, credit card receivables and lines of credit is based on the carrying value. Fair value for fixed rate mortgage loans, personal loans, and all other loans (primarily commercial) is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate the rates currently offered for similar loans of comparable terms and credit quality.

Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying value. The fair value of certificate of deposit accounts is estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

Fair value for advances from the Federal Home Loan Bank (“FHLB”) is estimated at the carrying amount for variable rate advance as the rates approximate rates currently offered for similar borrowings of comparable terms and credit quality. For fixed rate advances, fair value is estimated by discounting cash flows from maturities using current interest rates on similar instruments.

Fair value of off balance sheet investments is based on fees currently charged to enter into similar agreements; taking into account the remaining terms of the agreements and the counterparties' credit standing.

Reclassifications - Certain captions and amounts in the 2003 consolidated financial statements were reclassified to conform with the 2004 presentation. These reclassifications had no impact on previously reported net income or retained earnings.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Recently Issued Accounting Standards - The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 was generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have any impact on the financial condition or operating results of the Company.

In January 2003, the FASB issued FASB Interpretation ("FIN") No. 46, *Consolidation of Variable Interest Entities*. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. FIN No. 46 also requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. FIN No. 46 provides guidance for determining whether an entity qualifies as a variable interest entity by considering, among other considerations, whether the entity lacks sufficient equity or its equity holders lack adequate decision-making ability. The consolidation requirements of FIN No. 46 applied immediately to variable interest entities created after January 31, 2003. The consolidation requirements applied to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements applied to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN No. 46 did not have any impact on the Company's financial position or results of operations.

In November 2003, the Emerging Issues Task Force ("EITF") reached a consensus that certain quantitative and qualitative disclosures should be required for debt and marketable equity securities classified as available for sale or held to maturity under SFAS No. 115 and SFAS No. 124 that are impaired at the balance sheet date but for which other-than-temporary impairment has not been recognized. Accordingly the EITF issued EITF No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This issue addresses the meaning of other-than-temporary impairment and its application to investments classified as either available for sale or held to maturity under SFAS No. 115 and provides guidance on quantitative and qualitative disclosures. The disclosure requirements of EITF No. 03-1 are effective for annual financial statements for fiscal years ending after June 15, 2004. The effective date for the measurement and recognition guidance of EITF No. 03-1 has been delayed. The FASB staff has issued a proposed Board-directed FASB Staff Position ("FSP"), FSP EITF 03-1-a, *Implementation Guidance for the Application of Paragraph 16 of Issue No. 03-1*. The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under the measurement and recognition requirements of EITF No. 03-1. The delay of the effective date for the measurement and recognition requirements of EITF No. 03-1 will be superseded concurrent with the final issuance of FSP EITF 03-1-a. Adopting the disclosure provisions of EITF No. 03-1 did not have any impact on the Company's financial position or results of operations.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 105, *Application of Accounting Principles to Loan Commitments*, to inform registrants of the Staff's view that the fair value of the recorded loan commitments should not consider the expected future cash flows related to the associated servicing of the future loan. The provisions of SAB No. 105 must be applied to loan commitments accounted for as derivatives that are entered into after March 31, 2004. The Staff will not object to the application of existing accounting practices to loan commitments accounted for as derivatives that are entered into on or before March 31, 2004, with appropriate disclosures. The Company adopted the provisions of SAB No. 105 on April 1, 2004. The adoption of SAB No. 105 did not have any impact on the Company's financial condition or results of operations.

Other accounting standards that have been issued or proposed by the Public Company Accounting Oversight Board ("PCAOB") or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Risks and Uncertainties - In the normal course of its business the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different times, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan and investments securities portfolios that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

NOTE 2 - CASH AND DUE FROM BANKS

Banks are generally required by regulation to maintain an average cash reserve balance based on a percentage of deposits. The average amounts of the cash reserve balances at December 31, 2004 and 2003 were approximately \$406,000 and \$332,000, respectively.

NOTE 3 - SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair values of securities available for sale at December 31, 2004 and 2003 were as follows:

December 31, 2004	Amortized Cost	Gross unrealized		Estimated fair value
		gains	losses	
U.S. Government agencies	\$ 2,000,000	\$ -	\$ 14,531	\$ 1,985,469
State, county and municipal	5,192,301	164,927	10,680	5,346,548
Mortgage-backed securities	6,875,049	16,473	21,923	6,869,599
Total	\$ 14,067,350	\$ 181,400	\$ 47,134	\$ 14,201,616

(Continued)

NOTE 3 - SECURITIES AVAILABLE FOR SALE, Continued

December 31, 2003	Amortized Cost	Gross unrealized		Estimated fair value
		gains	losses	
U.S. Government agencies	\$ 3,002,579	\$ 10,704	\$ 18,906	\$ 2,994,377
State, county and municipal	5,288,050	225,230	9,416	5,503,864
Mortgage-backed securities	9,916,890	35,972	52,618	9,900,244
Total	\$ 18,207,519	\$ 271,906	\$ 80,940	\$ 18,398,485

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

	Less than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized Losses	Fair value	Unrealized losses
U.S. Government agencies	\$ 1,488,438	\$ 11,562	\$ 497,031	\$ 2,969	\$ 1,985,469	\$ 14,531
State, county and municipal	863,178	10,680	-	-	863,178	10,680
Mortgage-backed securities	4,546,105	17,926	473,592	3,997	5,019,697	21,923
Total	\$ 6,897,721	\$ 40,168	\$ 970,623	\$ 6,966	\$ 7,868,344	\$ 47,134

Securities classified as available for sale are recorded at fair market value. At December 31, 2004, the amounts included in the category "twelve months or more" in the above table consisted of one U.S. Government agency and two mortgage-backed securities in a continuous loss position for twelve months. The Company believes that the deterioration in value is attributable to changes in market interest rates and not in credit quality and considers these losses to be temporary. The Company has the ability and intent to hold these securities until such time as the value recovers.

The following is a summary of maturities of securities available for sale as of December 31, 2004 and 2003. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	December 31,			
	2004		2003	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in less than one year	\$ 290,171	\$ 290,485	\$ 338,776	\$ 350,222
Due after one through five years	3,554,454	3,599,519	2,627,673	2,709,129
Due after five through ten years	2,279,623	2,318,659	4,661,068	4,725,533
Due after ten years	1,068,053	1,123,354	663,112	713,357
	7,192,301	7,332,017	8,290,629	8,498,241
Mortgage-backed securities	6,875,049	6,869,599	9,916,890	9,900,244
Total	\$ 14,067,350	\$ 14,201,616	\$ 18,207,519	\$ 18,398,485

At December 31, 2004 and 2003, securities with a carrying amount of \$1,467,631 and \$1,033,898, respectively, were pledged as collateral to secure public deposits.

NOTE 4 - NONMARKETABLE EQUITY SECURITIES

Nonmarketable equity securities at December 31, 2004 and 2003 consist of:

	<u>2004</u>	<u>2003</u>
FHLB stock	\$ 321,900	\$ 200,000
Bankers' Bank stock	50,000	50,000
Total	<u>\$ 371,900</u>	<u>\$ 250,000</u>

The Bank, as a member institution, is required to own certain stock investments in the FHLB and the Bankers' Bank. The FHLB stock is generally pledged against any borrowings from the FHLB (See Note 8). No ready market exists for the FHLB stock and it has no quoted market value; however, redemption of this stock has historically been at par value.

NOTE 5 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans receivable at December 31, 2004 and 2003 are summarized as follows:

	<u>2004</u>	<u>2003</u>
Commercial and industrial	\$ 20,515,048	\$ 12,114,249
Real estate – construction	8,882,968	3,552,795
Real estate – mortgage	21,916,960	23,682,712
Consumer and other	4,501,128	4,438,321
Total	55,816,104	43,788,077
Less allowance for possible loan losses	(624,965)	(449,541)
Loans, net	<u>\$ 55,191,139</u>	<u>\$ 43,338,536</u>

Nonperforming loans include nonaccrual loans or loans which are 90 days or more delinquent as to principal or interest payments. Nonperforming loans amounted to \$226,200 and \$193,742 at December 31, 2004 and 2003, respectively. The Company had no impaired loans at December 31, 2004 or 2003.

Transactions in the allowance for loan losses for the years ended December 31, 2004 and 2003 are summarized below:

	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 449,541	\$ 359,906
Provision charged to operations	206,000	96,000
Recoveries on loans previously charged-off	5,334	4,878
Loans charged-off	(35,910)	(11,243)
Balance, end of year	<u>\$ 624,965</u>	<u>\$ 449,541</u>

Certain officers and directors of the Company and its subsidiary, their immediate families and business interests were loan customers of, and had other transactions with the Bank in the normal course of business. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk of collectibility. The aggregate dollar amount of these loans was \$1,046,446 and \$2,268,173 at December 31, 2004 and 2003, respectively. During 2004, new loans were \$794,915 and repayments totaled \$2,016,642.

NOTE 6 - PREMISES, FURNITURE AND EQUIPMENT

Premises, furniture and equipment consisted of the following at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Land	\$ 979,273	\$ 979,273
Buildings and land improvements	1,168,185	1,140,393
Furniture and equipment	1,647,022	1,575,904
Total	3,794,480	3,695,570
Less, accumulated depreciation	(1,600,806)	(1,387,777)
Premises, furniture and equipment, net	<u>\$ 2,193,674</u>	<u>\$ 2,307,793</u>

Depreciation expense for the years ended December 31, 2004 and 2003 was \$213,029 and \$172,361, respectively.

NOTE 7 - DEPOSITS

A summary of deposits at December 31, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Non-interest bearing demand	\$ 8,845,397	\$ 9,348,902
Interest bearing transaction accounts	26,859,142	23,957,824
Savings	4,213,585	3,950,327
Time, \$100,000 and over	11,400,416	10,047,467
Other time deposits	16,654,829	15,367,648
Total deposits	<u>\$ 67,973,369</u>	<u>\$ 62,672,168</u>

At December 31, 2004 the scheduled maturities of certificates of deposit are as follows:

2005	\$ 9,244,307
2006	14,150,248
2007	4,228,889
2008	431,801
Total	<u>\$ 28,055,245</u>

NOTE 8 - ADVANCES FROM FEDERAL HOME LOAN BANK

At December 31, 2004, the Company had advances from the FHLB as follows:

<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Terms</u>
\$ 2,000,000	2.48%	09/14/2006	Variable rate
2,000,000	3.28	09/14/2007	Fixed rate
<u>\$ 4,000,000</u>			

At December 31, 2003, the Company had no borrowings from the FHLB.

Collateral pledged for these advances are 1-4 family residential mortgages.

The Company also has a credit availability agreement with the FHLB totaling 40 percent of the Bank's assets as of any quarter end. As of December 31, 2004, the available credit totaled approximately \$28,000,000.

NOTE 9 - SHAREHOLDERS' EQUITY

Restrictions on Subsidiary Dividends, Loans or Advances - South Carolina banking regulations restrict the amount of dividends that banks can pay to shareholders. Any of the Bank's dividends to the Company in an amount exceeding the amount of the current year's earnings are subject to the prior approval of the South Carolina Commissioner of Banking. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. Under Federal Reserve Board regulations, the amounts of loans or advances from the banking subsidiary to the parent company are also restricted.

Accumulated Other Comprehensive Income - As of December 31, 2004 and 2003, accumulated other comprehensive income included in shareholders' equity in the accompanying consolidated balance sheets consisted of the accumulated changes in the unrealized holding gains and losses on available for sale securities, net of income tax effects.

Dividend Reinvestment Plan - As of February 4, 1999, the Company registered and reserved 50,000 shares of its authorized but unissued common stock for sale through its Dividend Reinvestment Plan (the "Plan"). Under the Plan, which is available only to residents of South Carolina, shareholders may purchase additional shares by foregoing the payment in cash of cash dividends declared by the Company and instead accepting additional shares of common stock. Such shares of additional stock are issued at a price determined in accordance with the Plan's pricing formula. There are no provisions for other periodic stock purchases under the Plan. Shares issued under the Plan are newly issued shares. As of December 31, 2004, a total of 23,541 shares had been issued, with 26,459 of the reserved shares available for future issuance.

Regulatory Capital - All bank holding companies and banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, bank holding companies and banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its banking subsidiary to maintain minimum amounts and ratios set forth in the table below of Total and Tier 1 Capital, as defined in the regulations, to risk weighted assets, as defined, and of Tier 1 Capital, as defined, to average assets, as defined. Management believes, as of December 31, 2004 and 2003, that the Company and the Bank exceeded all capital adequacy minimum requirements.

As of December 31, 2004, the most recent notification from the FDIC categorized Clover Community Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Company's and the Bank's actual capital amounts and ratios are also presented in the table.

NOTE 9 - SHAREHOLDERS' EQUITY, Continued

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
December 31, 2004						
The Company						
Total Capital (to risk weighted assets)	\$ 9,146	14.31%	\$ 5,113	8.0%	\$ 6,391	10.0%
Tier 1 Capital (to risk weighted assets)	8,521	13.33	2,556	4.0	3,834	6.0
Tier 1 Capital (to average assets)	8,521	10.45	2,447	3.0	4,078	5.0
The Bank						
Total Capital (to risk weighted assets)	\$ 8,585	13.43%	\$ 5,113	8.0%	\$ 6,391	10.0%
Tier 1 Capital (to risk weighted assets)	7,960	12.46	2,556	4.0	3,834	6.0
Tier 1 Capital (to average assets)	7,960	9.76	2,447	3.0	4,078	5.0
December 31, 2003						
The Company						
Total Capital (to risk weighted assets)	\$ 7,772	15.76%	\$ 3,945	8.0%	\$ 4,931	10.0%
Tier 1 Capital (to risk weighted assets)	7,322	14.85	1,974	4.0	2,961	6.0
Tier 1 Capital (to average assets)	7,322	10.25	2,144	3.0	3,573	5.0
The Bank						
Total Capital (to risk weighted assets)	\$ 7,772	15.76%	\$ 3,945	8.0%	\$ 4,931	10.0%
Tier 1 Capital (to risk weighted assets)	7,322	14.85	1,974	4.0	2,961	6.0
Tier 1 Capital (to average assets)	7,322	10.25	2,144	3.0	3,573	5.0

NOTE 10 - INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2004 and 2003 is summarized as follows:

	<u>2004</u>	<u>2003</u>
Currently payable:		
Federal	\$ 394,805	\$ 301,212
State	46,938	35,125
Total current	<u>441,743</u>	<u>336,337</u>
Total deferred	13,257	(9,512)
Income tax expense	<u>\$ 455,000</u>	<u>\$ 326,825</u>

(Continued)

NOTE 10 - INCOME TAXES, Continued

The gross amounts of deferred tax assets (liabilities) as of December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Deferred tax assets:		
Allowance for loan losses	\$ 184,757	\$ 130,507
Net deferred loan fees	13,487	15,741
Accrual to cash adjustment	49,648	67,638
Gross deferred tax assets	<u>247,892</u>	<u>213,886</u>
Deferred tax liabilities:		
Unrealized holding gains on securities available for sale	(48,202)	(68,558)
Depreciation	(107,555)	(60,292)
Gross deferred tax liability	<u>(155,757)</u>	<u>(128,850)</u>
Net deferred tax asset	<u>\$ 92,135</u>	<u>\$ 85,036</u>

The net deferred tax asset is included in other assets at December 31, 2004 and 2003. A portion of the change in net deferred taxes relates to the change in unrealized net gains and losses on securities available for sale. The related 2004 deferred tax benefit of \$20,356 and the 2003 deferred tax benefit of \$40,374 have been recorded directly to shareholders' equity. The balance of the change in net deferred taxes results from the current period deferred tax benefit.

Reconciliation between the income tax expense and the amount computed by applying the federal statutory rate of 34% to income before income taxes for the years ended December 31, 2004 and 2003 follows:

	<u>2004</u>		<u>2003</u>	
Tax expense at statutory rate	\$ 509,339	34.0%	\$ 373,171	34.0%
State income tax, net of federal income tax benefit	30,979	2.1	23,183	2.1
Tax-exempt interest income	(71,305)	(4.8)	(70,868)	(6.2)
Non-deductible interest expense	5,884	-	4,211	-
Other, net	<u>(19,897)</u>	<u>(0.1)</u>	<u>(2,872)</u>	<u>-</u>
Total	<u>\$ 455,000</u>	<u>31.2%</u>	<u>\$ 326,825</u>	<u>29.9%</u>

NOTE 11 - RETIREMENT PLAN

In 1993, the Company established the Clover Community Bank Employees' Retirement Savings Plan (the "Savings Plan") for the exclusive benefit of all eligible employees and their beneficiaries. Employees are eligible to participate in the Savings Plan after attaining age 21 and completing twelve months of service, and are credited with at least 1000 hours of service during the eligibility computation period. Employees are allowed to defer their salary up to the maximum dollar amount determined by federal laws and regulations each year. The Company matches \$0.50 for each dollar contributed by the employees up to 6% of each employee's total pay. The Board of Directors can also elect to make discretionary contributions. Employees are fully vested in both the matching and any discretionary contributions after six years of service. The employer matching contributions to the Savings Plan for the years ended December 31, 2004 and 2003 totaled \$22,878 and \$17,254, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Commitments to Extend Credit - In the normal course of business, the Bank is party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit and standby letters of credit, and have elements of credit risk in excess of the amount recognized in the balance sheet. The exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. Generally, the same credit policies used for on-balance-sheet instruments, such as loans, are used in extending loan commitments and standby letters of credit.

Following are the off-balance-sheet financial instruments whose contract amounts represent credit risk at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Loan commitments	\$ 14,667,368	\$ 12,937,940
Standby letters of credit	37,496	-

Loan commitments involve 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 some involve payment of a fee. Many of the commitments are expected to expire without being fully drawn; therefore, the total amount of loan commitments does not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if any, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include commercial and residential real properties, accounts receivable, inventory and equipment.

Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is the same as that involved in making loan commitments to customers.

Short-term Borrowing Availability - At December 31, 2004, the banking subsidiary had an unused short-term line of credit to purchase up to \$2,400,000 in federal funds from a correspondent financial institution. This line expires October 1, 2005; however, the lender reserves the right to withdraw the accommodations at any time.

Litigation - The Company and the Bank were not involved as defendants in any litigation at December 31, 2004. Management is not aware of any pending or threatened litigation, or unasserted claims or assessments that are expected to result in losses, if any, that would be material to the consolidated financial statements.

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has used management's best estimate of fair value based on the above assumptions described in Note 1. Thus, the fair values presented may not be the amounts which could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses which would be incurred in an actual sale or settlement are not taken into consideration in the fair value presented.

(Continued)

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

The estimated fair values of the Company's financial instruments as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial Assets:				
Cash and due from banks	\$ 1,383,919	\$ 1,383,919	\$ 2,561,973	\$ 2,561,973
Interest-earning deposits in other banks	20,763	20,763	14,851	14,851
Federal funds sold	6,750,000	6,750,000	3,371,000	3,371,000
Securities available for sale	14,201,616	14,201,616	18,398,485	18,398,485
Nonmarketable equity securities	371,900	371,900	250,000	250,000
Loans, net	55,191,139	56,090,149	43,338,536	45,335,936
Accrued interest receivable	341,435	341,435	321,943	321,943
Financial Liabilities:				
Deposits	67,973,369	67,978,759	62,672,168	62,750,529
Advances from Federal Home Loan Bank	4,000,000	4,040,008	-	-
Accrued interest payable	256,210	256,210	202,073	202,073
	Notional amount		Notional amount	
Off-Balance Sheet Financial Instruments:				
Loan commitments	14,667,368		12,937,940	
Standby letters of credit	37,496		-	

NOTE 14 - CLOVER COMMUNITY BANKSHARES, INC. (PARENT COMPANY ONLY)

Presented below are the condensed financial statements for Clover Community Bankshares, Inc. (Parent Company Only).

***CLOVER COMMUNITY BANKSHARES, INC. (PARENT COMPANY ONLY)
CONDENSED BALANCE SHEETS***

	December 31,	
	2004	2003
Assets:		
Cash	\$ 560,569	\$ 594,033
Investment in banking subsidiary	8,046,056	7,444,450
	\$ 8,606,625	\$ 8,038,483
Shareholders' equity:	\$ 8,606,625	\$ 8,038,483

NOTE 14 - CLOVER COMMUNITY BANKSHARES, INC. (PARENT COMPANY ONLY), Continued

**CLOVER COMMUNITY BANKSHARES, INC. (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF INCOME**

	For the years ended December 31,	
	2004	2003
Income		
Dividends received from banking subsidiary	\$ 405,108	\$ 507,244
Interest income	3,020	4,066
Total income	<u>408,128</u>	<u>511,310</u>
Expenses	<u>5,115</u>	<u>19,100</u>
Income before equity in undistributed earnings of banking subsidiary	403,013	492,210
Equity in undistributed earnings of banking subsidiary	<u>637,950</u>	<u>273,318</u>
Net income	<u>\$ 1,040,963</u>	<u>\$ 765,528</u>

**CLOVER COMMUNITY BANKSHARES, INC. (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF CASH FLOWS**

	For the years ended December 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 1,040,963	\$ 765,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of banking subsidiary	(637,950)	(273,318)
Decrease in other assets	-	9,825
Net cash provided by operating activities	<u>403,013</u>	<u>502,035</u>
Cash flows from financing activities:		
Sales of common stock under dividend reinvestment plan	45,905	62,574
Repurchase and retirement of common stock	(77,274)	(100,040)
Cash dividends paid	<u>(405,108)</u>	<u>(507,245)</u>
Net cash used for financing activities	<u>(436,477)</u>	<u>(544,711)</u>
Net decrease in cash and cash equivalents	(33,464)	(42,676)
CASH, BEGINNING OF YEAR	<u>594,033</u>	<u>636,709</u>
CASH, END OF YEAR	<u>\$ 560,569</u>	<u>\$ 594,033</u>

**Board of Directors, Clover Community Bankshares, Inc.
and Clover Community Bank**

Charles R. Burrell..... Retired Vice President and General Manager,
Boyd Tire and Appliance, Inc.

David A. Cyphers..... Vice President, Sifford Stine Insurance Agency

Nancy C. Daves..... Vice President, Daves' Land Development Corporation

Herbert Kirsh..... Member, S.C. State House of Representatives

James H. Owen, Jr..... Attorney, Haselden, Owen and Boloyan

Gwen M. Thompson..... President and Chief Executive Officer,
Clover Community Bankshares, Inc. and
Clover Community Bank

James C. Young..... Director of Operations, Maiden, N.C. and Clover S.C.
Manufacturing Plants of North Safety Products, Inc.

Officers, Clover Community Bankshares, Inc.

Gwen M. Thompson..... President and Chief Executive Officer

Gerald L. Bolin..... Executive Vice President and Chief Operating Officer,
Cashier, Assistant Corporate Secretary

Nancy C. Daves..... Corporate Secretary

Officers and Employees, Clover Community Bank

Gwen M. Thompson..... President & Chief Executive Officer
Gerald L. Bolin..... Executive Vice President & Chief Operating Officer
Paige B. McCarter Senior Vice President & Lake Wylie Banking Center Manager
Earnest A. Robertson..... Senior Vice President & Chief Lending Officer
Frank McC. Gadsden..... Vice President & Chief Information Officer
James D. Westmoreland, III Vice President, Commercial Lending Officer
Lori M. Hudson Assistant Vice President, Finance Manager
Elizabeth B. Jackson..... Assistant Vice President, Operations Manager
Judy M. Lark Assistant Vice President, Executive Assistant and CSR
Elizabeth T. Lechner Assistant Vice President, Compliance and Loan Administration
Donna M. McSwain Assistant Vice President, Consumer Lending Officer
Beverly J. Good..... Assistant Vice President, Mortgage Lending Officer
Sheila M. Goss Banking Officer, Customer Service Representative, Lake Wylie
Mary D. Stewart Banking Officer, Customer Service Representative, Deposit Services Manager
Misty D. Adams Customer Service Representative
Beverly W. Alsobrooks Teller Operations
Mary Locke Bigger Teller Operations, Lake Wylie
Amy G. Bradley Teller Operations, Lake Wylie
Brandy W. Bumgardner Teller Operations
Lori F. Childers Deposit Operations
Kathy L. Colclasure..... Teller Operations
Julia A. Colon..... Teller Operations Supervisor, Lake Wylie
Michelle H. Cooper Teller Operations
Martha N. Hutchison Teller Operations, Lake Wylie
Brenda C. Jackson Loan Administration
Sarah B. Jackson Loan Administration
Kim A. Killian..... Deposit Operations
Gina M. Lane..... Teller Operations
Julie A. Miskelly Deposit Operations
Gina W. Rawdon Loan Administration
Latonya M. Sanders..... Deposit Operations
Laura C. Seamster Teller Operations
Amanda Turner Deposit Operations
Susie Whitesides Teller Operations

Stock Transfer Agent

Clover Community Bank
Attn: Judy M. Lark, Assistant Vice President
124 North Main Street
Clover, South Carolina 29710
(803) 222-7660

*This Annual Report serves as the **ANNUAL FINANCIAL DISCLOSURE STATEMENT** furnished pursuant to Part 350 of the Federal Deposit Insurance Corporation's Rules and Regulations. **THIS STATEMENT HAS NOT BEEN REVIEWED, OR CONFIRMED FOR ACCURACY OR RELEVANCE, BY THE FEDERAL DEPOSIT INSURANCE CORPORATION.** Clover Community Bankshares, Inc. will furnish free of charge a copy of the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission upon written request to Gerald L. Bolin, Executive Vice President and Chief Operating Officer, Clover Community Bankshares, Inc., Post Office Box 69, Clover, South Carolina 29710. Copies of the Form 10-KSB are also available on the Securities and Exchange Commission's website at www.sec.gov.*

CLOVER COMMUNITY BANKSHARES, INC.
124 NORTH MAIN STREET
CLOVER, SOUTH CAROLINA 29710
