

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

WHEELING, WEST VIRGINIA

AUDIT REPORT

DECEMBER 31, 2007

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
DECEMBER 31, 2007**

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
Consolidated Balance Sheets	4
Consolidated Statements of Income	5
Consolidated Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Financial Statements	8 - 23



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheets of Main Street Financial Services Corp. and Subsidiary as of December 31, 2007 and 2006, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Main Street Financial Services Corp. and Subsidiary as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

S. R. Snodgrass, A.C.

Wheeling, West Virginia
March 21, 2008

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

ASSETS		
	2007	2006
Cash and cash equivalents:		
Cash and amounts due from banks	\$ 1,269,912	\$ 796,562
Interest-bearing deposits with banks	7,884,098	11,094,962
Total cash and cash equivalents	9,154,010	11,891,524
Investment securities:		
Securities available-for-sale, at fair value	9,084,084	5,874,707
Securities held-to-maturity, at amortized cost	13,837,551	14,609,280
Total investment securities	22,921,635	20,483,987
Loans		
Allowance for loan losses	142,049,452	135,841,065
Net loans	(1,940,818)	(1,745,556)
Net loans	140,108,634	134,095,509
Premises and equipment, net		
Accrued interest receivable	2,468,499	2,151,328
Cash surrender value of life insurance	851,889	884,547
Real estate owned	858,781	825,858
Deferred tax asset	80,000	65,196
Federal Home Loan Bank stock	795,949	617,597
Other assets	1,212,300	1,271,700
Other assets	42,351	250,773
TOTAL ASSETS	\$ 178,494,048	\$ 172,538,019
LIABILITIES		
Deposits:		
Noninterest bearing	\$ 18,822,121	\$ 19,714,559
Interest bearing	118,055,065	112,215,204
Total deposits	136,877,186	131,929,763
Repurchase agreements		
Borrowings	6,941,000	6,112,000
Advances by borrowers for taxes and insurance	22,415,550	23,069,254
Accrued interest payable	172,970	153,149
Other liabilities	624,580	619,046
Total liabilities	149,517	182,745
TOTAL LIABILITIES	167,180,803	162,065,957
SHAREHOLDERS' EQUITY		
Common stock at \$1 par value; 5,000,000 shares authorized, 780,000 shares issued and outstanding		
Additional paid-in capital	780,000	780,000
Retained earnings	7,462,036	7,462,036
Accumulated other comprehensive gain (loss)	3,029,193	2,260,292
Total shareholders' equity	42,016	(30,266)
TOTAL SHAREHOLDERS' EQUITY	11,313,245	10,472,062
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 178,494,048	\$ 172,538,019

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

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
INTEREST AND DIVIDEND INCOME		
Loans, including fees	\$ 9,676,726	\$ 8,607,578
Debt securities:		
Taxable	1,008,578	902,642
Tax-exempt	139,235	121,768
Dividends	74,883	79,434
Deposits with banks	173,193	137,959
TOTAL INTEREST AND DIVIDEND INCOME	11,072,615	9,849,381
 INTEREST EXPENSE		
Deposits and repurchase agreements	4,953,703	3,645,270
Other borrowings	1,074,297	1,452,886
TOTAL INTEREST EXPENSE	6,028,000	5,098,156
 NET INTEREST INCOME	5,044,615	4,751,225
 PROVISION FOR LOAN LOSSES	350,000	350,000
 NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,694,615	4,401,225
 NON-INTEREST INCOME		
Service charges	186,794	148,053
Other income	116,031	69,454
TOTAL NON-INTEREST INCOME	302,825	217,507
 NON-INTEREST EXPENSES		
Salaries and employee benefits	1,641,598	1,551,906
Net occupancy expenses of premises	500,925	525,579
Other operating expenses	1,745,016	1,485,042
TOTAL NON-INTEREST EXPENSES	3,887,539	3,562,527
 INCOME BEFORE INCOME TAX EXPENSE	1,109,901	1,056,205
 INCOME TAX EXPENSE	341,000	222,000
 NET INCOME	\$ 768,901	\$ 834,205
 EARNINGS PER SHARE - BASIC	\$ 0.99	\$ 1.07

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

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
DECEMBER 31, 2007 AND 2006

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total Shareholders' Equity
BALANCES AT DECEMBER 31, 2004	\$ 780,000	\$ 7,462,036	\$ 615,131	\$ 38,335		\$ 8,895,502
Comprehensive income:						
Net income	-	-	810,956	-	\$ 810,956	810,956
Other comprehensive loss, net of tax:						
Change in unrealized gain (loss) on securities available-for-sale, net of deferred income tax benefit of \$44,827	-	-	-	(91,673)	(91,673)	(91,673)
Total comprehensive income				<u>(91,673)</u>	<u>\$ 719,283</u>	<u>(91,673)</u>
BALANCES AT DECEMBER 31, 2005	780,000	7,462,036	1,426,087	(53,338)		9,614,785
Comprehensive income:						
Net income	-	-	834,205	-	\$ 834,205	834,205
Other comprehensive gain, net of tax:						
Change in unrealized gain (loss) on securities available-for-sale, net of deferred income tax of \$22,786	-	-	-	23,072	23,072	23,072
Total comprehensive income				<u>23,072</u>	<u>\$ 857,277</u>	<u>23,072</u>
BALANCES AT DECEMBER 31, 2006	780,000	7,462,036	2,260,292	(30,266)		10,472,062
Comprehensive income:						
Net income	-	-	768,901	-	\$ 768,901	768,901
Other comprehensive gain, net of tax:						
Change in unrealized gain (loss) on securities available-for-sale, net of deferred income tax of \$38,979	-	-	-	72,282	72,282	72,282
Total comprehensive income				<u>72,282</u>	<u>\$ 841,183</u>	<u>72,282</u>
BALANCES AT DECEMBER 31, 2007	<u>\$ 780,000</u>	<u>\$ 7,462,036</u>	<u>\$ 3,029,193</u>	<u>\$ 42,016</u>		<u>\$ 11,313,245</u>

The accompanying notes are an integral part of the financial statements

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 768,901	\$ 834,205
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	350,000	350,000
Depreciation	224,747	255,184
Investment securities accretion, net	(8,887)	(9,495)
Loss on sale of other real estate owned	(5,721)	1,849
Net change in:		
Accrued interest receivable	32,658	(178,433)
Accrued interest payable	5,534	230,407
Deferred tax asset	(215,588)	(240,863)
Increase in cash value of life insurance	(32,923)	(28,944)
Other assets/liabilities, net	175,194	(446,029)
Net cash provided by operating activities	1,293,915	767,881
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Purchases	(4,149,263)	(679,870)
Principal collected on mortgage-backed securities	1,054,299	1,221,022
Activity in held-to-maturity securities:		
Purchases	(1,624,279)	(500,000)
Maturities and calls	2,400,000	300,000
Proceeds from maturity of time deposit	-	99,000
Proceeds from sale of Federal Home Loan Bank stock	59,400	339,400
Net change in loans held-for-sale	-	85,950
Net increase in loans, net of charge offs	(6,449,857)	(17,121,951)
Proceeds from sale of other real estate owned	77,649	190,479
Purchases of premises and equipment	(541,918)	(33,907)
Net cash used in investing activities	(9,173,969)	(16,099,877)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in other borrowings	(653,704)	(11,540,017)
Net increase in deposits	4,947,423	30,546,335
Net increase in repurchase agreements	829,000	1,487,712
Net increase in advances by borrowers for taxes and insurance	19,821	20,113
Net cash provided by financing activities	5,142,540	20,514,143
CHANGE IN CASH AND CASH EQUIVALENTS	(2,737,514)	5,182,147
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,891,524	6,709,377
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,154,010	\$ 11,891,524
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 6,022,466	\$ 4,864,238
Cash paid during the year for income taxes	339,300	539,662

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

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Investment Securities

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

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

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans

Loans receivable are stated at their unpaid principal balance, net of the allowance for loan losses. Interest on loans is credited to income as earned and is accrued only if it is considered collectible. An allowance for uncollected interest on mortgage loans is provided for all accrued interest on loans which are delinquent 90 days or more, resulting in interest previously accrued on these loans being reversed from income and, thereafter, interest is recognized only to the extent of payments received. Loans are returned to accrual status when less than 90 days delinquent and when, in management's judgment, collection is probable.

Loans are considered past due based on contractual terms. Charge-offs consist of amounts determined to be uncollectible on unsecured loans 90 days past due and secured loans 120 days past due.

Impaired loans, by definition, exclude certain consumer loans and residential real estate loans. Loan impairment is measured based on the present value of expected cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. The Bank has no loans which management has determined to be impaired.

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

Allowance for Loan Losses

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

Loan Origination Fees

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

Premises and Equipment

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

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Real Estate Owned

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

Marketing and Advertising Costs

Non-direct response marketing and advertising costs are expensed as incurred. Such costs amounted to \$174,434 and \$213,103 for the periods ended December 31, 2007 and 2006, respectively.

Income Taxes

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

Statement of Cash Flows

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2007 presentation. The reclassifications had no effect on net income.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 2 - INVESTMENT SECURITIES (CONTINUED)

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

Investment securities with a carrying value of \$2,491,003 and \$3,688,967 were pledged at December 31, 2007 and 2006, respectively, to secure certain deposits. Investment securities with a carrying value of \$6,941,000 and \$6,112,000 were pledged at December 31, 2007 and 2006, respectively, to secure repurchase agreements. In addition, a Letter of Credit was obtained to collateralize a deposit the State of West Virginia has with the Bank. The Letter of Credit was issued on September 12, 2007 and matures on March 13, 2008.

The following tables show the gross unrealized losses and fair value, aggregated by investment category and length of time, that the individual securities have been in a continuous unrealized loss position.

	2007					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agencies	\$ -	\$ -	\$ 1,112,272	\$ 2,728	\$ 1,112,272	\$ 2,728
Mortgage-backed	-	-	387,941	1,923	387,941	1,923
Municipal	-	-	246,795	1,596	246,795	1,596
Corporate note	-	-	499,045	955	499,045	955
Total debt securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,246,053</u>	<u>\$ 7,202</u>	<u>\$ 2,246,053</u>	<u>\$ 7,202</u>

	2006					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agencies	\$ 696,529	\$ 3,409	\$ 12,366,284	\$ 216,464	\$ 13,062,813	\$ 219,573
Mortgage-backed	478,287	1,646	2,423,327	33,408	2,900,614	35,054
Municipal	74,869	5	244,486	3,718	319,355	3,723
Corporate note	-	-	491,235	18,765	491,235	8,765
Total debt securities	<u>\$ 1,249,685</u>	<u>\$ 5,060</u>	<u>\$ 15,524,332</u>	<u>\$ 262,355</u>	<u>\$ 16,774,017</u>	<u>\$ 267,115</u>

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

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

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary, but is the result of interest rate changes or sector credit rating changes that are not expected to result in the noncollection of principal and interest during the period. There are seven positions that are temporarily impaired at December 31, 2007.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans at December 31 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Construction, land development, and other land loans	\$ 9,596,000	\$ 8,635,000
Secured by 1-4 family residential properties	70,589,000	69,562,000
Secured by multifamily residential properties	3,448,000	3,031,000
Secured by nonfarm nonresidential properties	26,605,000	22,769,000
Commercial and industrial loans	23,430,350	22,867,607
Other loans	<u>8,275,000</u>	<u>8,880,068</u>
Total	141,943,350	135,744,675
Allowance for loan losses	(1,940,818)	(1,745,556)
Prepaid loan fees	<u>106,102</u>	<u>96,390</u>
Net loans	<u>\$ 140,108,634</u>	<u>\$ 134,095,509</u>

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

	<u>2007</u>	<u>2006</u>
Balance at beginning of period	\$ 1,745,556	\$ 1,575,994
Provision for loan losses	350,000	350,000
Charged off loans, net of recoveries	<u>(154,738)</u>	<u>(180,438)</u>
Balance at end of period	<u>\$ 1,940,818</u>	<u>\$ 1,745,556</u>

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

	<u>2007</u>	<u>2006</u>
Past due 30 through 89 days	\$ 2,641,000	\$ 3,197,000
Past due 90 days or more	2,857,000	1,961,000
Nonaccrual	907,000	1,304,000

Overdrawn demand deposits reclassified as loans totaled \$282,278 and \$65,528 at December 31, 2007 and 2006, respectively.

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

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

	<u>December 31,</u> <u>2007</u>	<u>2006</u>
Balance, beginning of period	\$ 6,077,712	\$ 6,840,810
New loans during the period	1,067,959	1,263,065
Repayments during the period	<u>(1,999,976)</u>	<u>(2,026,163)</u>
Balance, end of period	<u>\$ 5,145,695</u>	<u>\$ 6,077,712</u>

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 4 - PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31 follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 284,716	\$ 284,716
Building	1,035,436	1,035,436
Projects in development	501,467	-
Leasehold improvements	382,933	382,933
Furniture and equipment	<u>1,494,181</u>	<u>1,451,516</u>
Total	3,698,733	3,154,601
Accumulated depreciation	<u>1,230,234</u>	<u>1,003,273</u>
Net premises and equipment	<u>\$ 2,468,499</u>	<u>\$ 2,151,328</u>

NOTE 5 - DEPOSITS

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

	<u>2007</u>	<u>2006</u>
Non-interest bearing	\$ 18,822,121	\$ 19,714,559
Interest-bearing demand	2,042,533	2,628,116
Money market	6,038,206	6,566,934
Savings accounts	17,094,682	18,202,536
Certificates of deposit	<u>92,879,644</u>	<u>84,817,618</u>
Total	<u>\$ 136,877,186</u>	<u>\$ 131,929,763</u>

The aggregate amount of jumbo certificates of deposit with a minimum denomination of \$100,000 was approximately \$41,428,000 and \$36,500,000 at December 31, 2007 and 2006, respectively.

At December 31, 2007, the scheduled maturity of certificates of deposits is as follows:

2008	\$ 72,595,472
2009	8,647,735
2010	6,132,797
2011	3,144,283
2012	<u>2,375,284</u>
Total	<u>\$ 92,895,571</u>

NOTE 6 - BORROWINGS

The subsidiary bank is a member of the Federal Home Loan Bank of Pittsburgh (the "FHLB") and the First Tennessee Bank National Association (the FTN). FTN borrowings are to be secured in full by collateral acceptable to and in safekeeping of FTN. The Bank had a line of credit of \$3,000,000 originating on June 29, 2007, and maturing on June 30, 2008. No amount is outstanding as of December 31, 2007. FHLB borrowings are secured by a blanket lien by the FHLB on certain residential mortgage loans or securities with a fair value at least equal to the outstanding loan balances. The Bank had a line of credit of \$2,230,000 originating on September 13, 2007, and maturing March 13, 2008. No amount is outstanding as of December 31, 2007.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 6 - BORROWINGS (CONTINUED)

The Bank had advances outstanding at December 31, 2007, from the FHLB in the amount of \$19,235,888.

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

<u>Date Issued</u>	<u>2007</u>	<u>2006</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>Type</u>
01/30/04	\$ -	\$ 1,000,000	01/30/07	2.81%	Fixed-monthly interest
04/29/04	-	1,000,000	04/30/07	3.27%	Fixed-monthly interest
05/07/04	432,732	599,559	05/07/10	4.13%	Fixed-monthly interest & principal
05/07/04	303,156	507,400	05/07/09	3.86%	Fixed-monthly interest & principal
07/12/04	-	605,789	07/09/07	3.16%	Fixed-monthly interest & principal
07/23/04	-	1,000,000	07/23/07	3.59%	Fixed-monthly interest
02/18/05	1,000,000	1,000,000	05/19/08	4.61%	Adjustable-monthly interest
02/22/05	1,000,000	1,000,000	05/22/08	4.61%	Adjustable-monthly interest
12/13/05	1,500,000	1,500,000	12/15/08	4.91%	Fixed-monthly interest
04/24/06	-	1,000,000	04/24/07	5.45%	Adjustable-monthly interest
04/27/06	-	2,000,000	04/27/07	5.48%	Adjustable-monthly interest
05/03/06	-	3,000,000	05/03/07	5.45%	Adjustable-monthly interest
06/09/06	-	1,500,000	06/11/07	5.46%	Fixed-monthly interest
09/19/06	-	1,000,000	09/19/07	5.49%	Adjustable-monthly interest
09/20/06	-	2,000,000	09/20/07	5.49%	Adjustable-monthly interest
12/29/06	-	1,250,000	01/05/07	5.39%	Fixed-monthly interest
05/03/07	1,500,000	-	05/03/10	4.97%	Fixed-monthly interest
05/03/07	1,500,000	-	05/05/08	4.42%	Adjustable-monthly interest
05/30/07	1,000,000	-	05/30/08	5.31%	Fixed-monthly interest
06/11/07	2,000,000	-	12/11/08	5.39%	Fixed-monthly interest
06/20/07	2,000,000	-	06/20/08	5.39%	Fixed-monthly interest
07/26/07	1,000,000	-	07/27/09	5.16%	Fixed-monthly interest
11/16/07	3,000,000	-	11/21/12	3.83%	Fixed-monthly interest
12/27/07	<u>3,000,000</u>	<u>-</u>	01/07/08	4.55%	Fixed-monthly interest
Total	<u>\$ 19,235,888</u>	<u>\$ 19,962,748</u>			

In April 2005, the Company established a subsidiary trust, Main Street (WV) Statutory Trust I (the "Trust") in which the Company owns 100 percent of the common equity. The Trust issued preferred securities to outside investors and used the proceeds of the issuance to purchase from the Company junior subordinated debentures in the amount of \$3,093,000. The Company's junior subordinated debentures are the sole asset of the Trust. Pursuant to FIN 46(R), the Company did not consolidate the Trust. However, the \$3,093,000 of mandatorily redeemable preferred securities issued by the Trust are includible for regulatory purposes as a component of the Company's Tier 1 capital. These trust-preferred securities must be redeemed upon the maturity of the debentures.

The Company's junior subordinated debentures are due June 15, 2035, with interest payments due March 15, June 15, September 15, and December 15 of each year. Interest is payable at an initial rate of 5.26 percent adjusted at the interest due date by the 3 month LIBOR plus 2.05 percent. The Company reflects borrowed funds in the amount of \$3,093,000 as of December 31, 2007 and 2006, and interest expense in the amount of \$249,481 and \$222,092 for the years ended December 31, 2007 and 2006, respectively.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 6 – BORROWINGS (CONTINUED)

The following table summarizes the contractual repayments at December 31, 2007:

<u>Year</u>	<u>Amount</u>
2008	\$ 18,972,778
2009	272,054
2010	77,718
2011	-
2012	-
Thereafter	<u>3,093,000</u>
Total	<u>\$ 22,415,550</u>

Borrowings are comprised of the following at December 31:

	<u>2007</u>	<u>2006</u>
FHLB borrowings	\$ 19,235,888	\$ 19,962,748
Junior subordinated debt	3,093,000	3,093,000
Treasury, tax, and loan note option	<u>86,662</u>	<u>13,506</u>
Total	<u>\$ 22,415,550</u>	<u>\$ 23,069,254</u>

NOTE 7 - INCOME TAXES

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

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Deferred loan fees	\$ 11,871	\$ 15,707
Allowance for loan losses	624,449	536,701
Unearned interest recognition	82,940	57,784
Deferred compensation	67,069	47,070
Deferred state income tax	94,888	34,315
Unrealized loss on available-for-sale securities	-	15,592
Other	<u>5,777</u>	<u>-</u>
Total deferred tax assets	<u>886,994</u>	<u>707,169</u>
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	21,645	-
Depreciation	<u>69,400</u>	<u>89,572</u>
Total deferred tax liabilities	<u>91,045</u>	<u>89,572</u>
Net deferred tax assets	<u>\$ 795,949</u>	<u>\$ 617,597</u>

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 7 - INCOME TAXES (CONTINUED)

Income tax expense for the years ended December 31, 2007 and 2006, is comprised of the following components:

	<u>2007</u>	<u>2006</u>
Current	\$ 556,589	\$ 462,863
Deferred	<u>(215,589)</u>	<u>(240,863)</u>
Total income tax expense	<u>\$ 341,000</u>	<u>\$ 222,000</u>

Income tax expense differs from the provision for federal income tax computed at the statutory rate of 34 percent for the years ended December 31, 2007 and 2006, as follows:

	<u>2007</u>	<u>2006</u>
Tax at federal statutory rate	\$ 377,366	\$ 359,110
State income tax net of federal	<u>46,200</u>	<u>17,820</u>
	423,566	376,930
Increase (decrease) in taxes:		
Tax-exempt interest	(47,340)	(35,833)
Bank owned life insurance	(11,194)	(9,841)
Other	<u>(24,032)</u>	<u>(109,256)</u>
Total income tax expense	<u>\$ 341,000</u>	<u>\$ 222,000</u>

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

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

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

	<u>2007</u>	<u>2006</u>
Home equity lines of credit	\$ 4,590,000	\$ 4,787,000
Commercial loans	4,594,000	5,304,000
Other unused commitments	<u>106,000</u>	<u>60,000</u>
Total	<u>\$ 9,290,000</u>	<u>\$ 10,151,000</u>

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

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

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

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

NOTE 9 - EMPLOYEE BENEFIT PLANS

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

Participants may make contributions of up to 20 percent of their compensation. The employer's matching contribution equals a discretionary percentage, determined by the employer, of the participant's salary reduction. These matching contributions are made and allocated per pay period. The plan also provides for an additional year-end matching contribution equal to a discretionary percentage, to be determined by the employer, of the participant's salary. The matching contributions charged to operations were \$85,336 and \$78,083 for the years ending December 31, 2007 and 2006, respectively.

On April 30, 2004, the Bank entered into supplemental retirement agreements with its executive officers under which the Bank has agreed to provide additional retirement benefits. The Bank has recognized expense in the amount of \$24,829 and \$21,025 for the years ending December 31, 2007 and 2006, respectively, for the accrual of benefits payable under these agreements. Coincident with the adoption of the supplemental retirement agreements, the Bank purchased life insurance policies on each of the executive officers. The Bank is the beneficiary of the policies. The amount of income recognized on the growth in value of the policies was \$32,923 and \$28,944 for the year ending December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, \$77,896 and \$53,067, respectively, were recorded as a liability under these contracts and \$26,485 and \$18,043, respectively, were recognized as a related deferred tax asset. The life insurance policies had an aggregate cash surrender value of \$858,781 and \$825,858 at December 31, 2007 and 2006, respectively.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

On September 9, 2004, the Bank established the Directors' Deferred Plan, which became effective on January 1, 2005. The plan was established to allow eligible directors to defer all, or a portion of, their fees. Deferrals are to be invested in Company stock twice each year on June 30th and December 31st. The Bank shall make matching contributions of 50 percent of the individual's percentage of fees with a maximum match of \$1,000 to be deferred. The individual is immediately 100 percent vested in their deferral and Bank contributions. Deferred compensation is to be paid to the individual or beneficiary upon the end of the individual's term of office. At December 31, 2007 and 2006, director's deferred compensation payable was \$119,367 and \$84,625, respectively, and \$40,585 and \$28,772 were recognized as a related deferred tax asset.

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

NOTE 10 - REGULATORY MATTERS

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

Qualitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), and Tier I capital to average assets (as defined). Management believes, as of December 31, 2007, that the Bank meets all of the capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the FDIC, the Bank was categorized as "well capitalized" under the FDIC regulatory framework. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's standing.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 10 – REGULATORY MATTERS (CONTINUED)

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

(Dollars in thousands)

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Actual</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2007:						
Total Risk-Based Capital (Total Risk Weighted Assets)	\$15,721	12.40%	\$10,141	8.00%	\$12,676	10.00%
Tier I Capital (To Risk Weighted Assets)	14,132	11.15%	5,070	4.00%	7,606	6.00%
Tier I Capital (To Average Assets)	14,132	8.15%	6,936	4.00%	8,670	5.00%

(Dollars in thousands)

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Actual</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2006:						
Total Risk-Based Capital (Total Risk Weighted Assets)	\$14,946	12.51%	\$ 9,555	8.00%	\$11,944	10.00%
Tier I Capital (To Risk Weighted Assets)	13,450	11.26%	4,778	4.00%	7,166	6.00%
Tier I Capital (To Average Assets)	13,450	8.14%	6,610	4.00%	8,262	5.00%

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

NOTE 11 - COMPREHENSIVE INCOME

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

	<u>2007</u>	<u>2006</u>
Before-tax amount	\$ 108,297	\$ 45,858
Tax effect	<u>(36,015)</u>	<u>(22,786)</u>
Net-of-tax amount	<u>\$ 72,282</u>	<u>\$ 23,072</u>

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

NOTE 12 - OPERATING LEASE

The Company extended an operating lease to lease its main office building in June 2006. The operating lease expires in May 2011 with an option to extend the lease for three 5-year renewal terms commencing in June 2011, June 2016, and June 2021. The exercising of all three renewal terms will cause the lease to expire on May 31, 2026.

The base rent payment is \$144,372 per year, or \$12,031 per month. Commencing on June 1, 2011, and continuing for 5 years thereafter, the rent due is increased by 60 percent of the increase in the Consumer Price Index ("CPI") over the CPI on June 1, 2001, but not to exceed an increase of 12.5 percent, or \$22.04 per square foot, unless the parties agree otherwise.

The Company also rents 500 square feet of storage space in the main office building for a base rent payment of \$2,256 per year through May 31, 2011. On June 1, 2011, through May 31, 2016, the rent for the storage space will increase by 12.5 percent. The rent will increase by 12.5 percent for each exercised renewal term thereafter.

Rent expense recognized for the period ended December 31, 2007 and 2006, totaled \$146,628 and \$138,873, respectively.

Minimum future rental payments under these operating leases as of December 31, 2007, for each of the next 4 years and in the aggregate are:

December 31,	
2008	\$ 146,628
2009	146,628
2010	146,628
2011	<u>73,314</u>
Total	<u>\$ 513,198</u>

NOTE 13 - LIMITATIONS ON DIVIDENDS

West Virginia State Law precludes the Bank from paying dividends without the prior approval of the Commissioner of Banking, if such dividends exceed the total of the Bank's net profits as defined for the year, combined with its net profits of the previous 2 years. Under this formula, the Bank can declare dividends in 2008 without the approval of the Commissioner of Banking of approximately \$2,017,815, plus an additional amount equal to the Bank's net profit for 2007 up to the date of any such dividend declaration, subject to minimum regulatory capital requirements. The subsidiary Bank is the primary source of funds to pay dividends to the stockholders of Main Street Financial Services Corp.

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

	December 31, 2007	
	Carrying Amount	Estimated Fair Value
Financial Assets:		
Cash and cash equivalents	\$ 9,154,000	\$ 9,154,000
Securities available-for-sale	9,084,000	9,084,000
Securities held-to-maturity	13,837,000	13,906,000
Loans, net	140,109,000	140,474,000
Accrued interest receivable	852,000	852,000
Cash surrender value of life insurance	859,000	859,000
Federal Home Loan Bank stock	1,212,000	1,212,000
Financial Liabilities:		
Deposits and repurchase agreements	143,818,000	144,944,000
Advances by borrowers for taxes and insurance	173,000	173,000
Accrued interest payable	625,000	625,000
Borrowings	22,416,000	22,444,000
	December 31, 2006	
	Carrying Amount	Estimated Fair Value
Financial Assets:		
Cash and cash equivalents	\$ 11,891,000	\$ 11,891,000
Securities available-for-sale	5,875,000	5,875,000
Securities held-to-maturity	14,609,000	14,475,000
Loans, net	134,096,000	131,424,000
Accrued interest receivable	885,000	885,000
Cash surrender value of life insurance	826,000	826,000
Federal Home Loan Bank stock	1,271,000	1,271,000
Financial Liabilities:		
Deposits and repurchase agreements	138,042,000	138,382,000
Advances by borrowers for taxes and insurance	153,000	153,000
Accrued interest payable	619,000	619,000
Borrowings	22,976,000	21,640,000